

May 26, 2020

Dear Governor Baker, Speaker DeLeo and President Spilka:

Massachusetts is facing enormous health and economic challenges fighting the COVID-19 pandemic. The state has risen to the occasion. This has caused an unexpected increase in state and local spending at exactly the same time that revenues, especially income and sales taxes, are falling, making balancing next years' operating budget exceptionally difficult.

Now is an appropriate time for the federal government to provide relief to states, an important measure Congress took during the Great Recession. There is also \$3.5 billion in the Commonwealth's rainy-day fund. But we are concerned that the state will also pursue counterproductive budget cuts. Large cuts would erode the health and social infrastructure needed to continue combatting COVID-19, increase an already high level of inequality, and exacerbate the economic downturn. Instead of budget cuts, the state should look to raise revenues to balance its budget.

Economic theory and historical experience show that spending cuts are more harmful than tax increases during recessions. States and localities spend most of their budgets on health, education, public safety, public transformation, and safety net programs. Cutting from housing, public transportation, and healthcare removes spending from the economy when it is most needed and from the people who need it the most and now have been disproportionately affected by COVID-19. Cutting local aid to cities and towns for police and fire protection, parks, and public works erodes public safety and infrastructure. While reducing funding for early education, K-12 and higher education reverses our long-standing investment in human capital—including recent new commitments—with long-run consequences for worker productivity and economic growth.

States must run balanced budgets. In a recession, balancing the budget by cutting spending has a more negative impact on economic growth than balancing the budget by raising taxes. Both the personal income tax and the corporate tax are fair ways to do this, since they fall only on persons with incomes and businesses with profits. A one percentage point increase in the income tax could raise \$2.5 billion per year while a one percentage point increase in the corporate tax rate could raise \$180 million per year, even if the income tax base falls by 25% and the corporate tax base falls by 50% during this recession. These tax rates could be phased back as the economy returns to its pre-recession level.

As the leaders of our state government you have the responsibility for setting priorities and making the difficult choices that lie ahead. We the undersigned encourage you to raise revenue rather than cut the social and physical infrastructure that will be necessary to protect the health and economic well-being of our people, our communities, and our Commonwealth.

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