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## NOTES FROM THE BOARD

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*The State Economy continues its solid performance. Leading regional economists recommend more state tax revenue and greater investment in education and infrastructure.*

The Massachusetts economy continues to perform well. State employment is growing faster than at the national level. The Commonwealth's unemployment rate is at the lowest level seen since the dot-com boom at the turn of the century. Except for an apparently weak "bonus season," state wage and salary withholding tax receipts suggest a steady expansion consistent with the current pace of employment growth. Even areas of the state that historically lag behind the economic progress of metropolitan Boston are exhibiting solid improvement, even as a stubborn gap between their and the state's performance persists. While consumer spending growth has slowed in recent months, that slowdown may be temporary as it appears to reflect a return to normal spending on automobiles after last year's record pace and the weak performance of the stock market last year.

Risks to the Commonwealth's economic outlook continue to include sluggish national and global growth, slowing productivity growth, and the changing demographic structure of the state population, as relatively few young people enter and a large group of older workers leave (or are poised to leave) the workforce. While there is nothing on the horizon to suggest that these factors will slow or stall the Massachusetts economy in the near term, they certainly bear watching as they each weigh heavily on the state's long-run economic growth prospects.

A considerable portion of the Board's meeting was dedicated to a discussion of the long-term challenges faced by the state's public sector, and the inability of the state government's current revenue streams to support the level of public investment required to overcome these challenges. This conversation was in part inspired by House Speaker Robert DeLeo's recent request for the views and recommendations of economists on the question of whether the Commonwealth's current tax revenues are adequate to support a healthy and competitive state economy.<sup>1</sup> In the Board's ensuing dialogue three major areas of concern emerged: the condition of the Bay State's public infrastructure; the adequacy of funding for pre-kindergarten through 12th grade educational offerings; and the level of investment in public higher education.


Every four years the American Society of Civil Engineers releases a report card depicting the condition of the nation's infrastructure. The latest report (released in 2013) details a number of troubling deficiencies in the state's physical infrastructure. For example, while the percentage of structurally deficient bridges in the state is below the national average (9.5 percent vs. 11.1 percent), the report documents 487 structurally deficient bridges in Massachusetts. The report also estimates that the state will need to invest over \$7 billion in drinking water infrastructure over the next 20 years and over \$4 billion dollars in school facilities. And this is in addition to the substantial capital investment that will be required if the MBTA and other transit systems across the state are going to run reliably and on schedule.

In the area of pre-K through 12th grade education funding, late last year the Foundation Budget Review Commission found that the Chapter 70 funding formula used to distribute state school aid to local school districts is failing to provide for rising local costs associated with special education services, health insurance, and the needs of English language learners (ELL) and low-income student populations.<sup>2</sup>

Additionally, according to MassBudget, funding for pre-K programs has decreased significantly in inflation-adjusted terms since FY 2009. Research shows that students from low-income families who participate in effective early education programs are 40 percent less likely to require special education services during their K-12 years than similar peers who do not participate; they are also 30 percent more likely to graduate from high school and twice as likely to go to college. Failing to fund these programs adequately is shortsighted and represents a sizable lost opportunity for Bay State families at a time when the state economy needs more skilled workers.

At the same time, funding for public higher education has fallen by 9.7 percent in inflation-adjusted terms since just prior to the recession in 2007. In 2012, Massachusetts ranked 28th in appropriations per full-time student, behind such states as Louisiana, Tennessee, and Alabama, and ranked 48th in the percent of state personal income (0.30%) spent on public higher education. Moreover, Massachusetts falls short on some of the college and career readiness policies that have proven effective in other states. Meaningful enhancements to these programs would require more funding for the Commonwealth's community college system.

In the year 2000, voters passed a ballot initiative that was scheduled to lower the state income tax rate from 5.85 percent to 5.0 percent over several years. While some of the reductions were postponed, the personal income tax rate currently stands at 5.1 percent.<sup>3</sup> The state income tax provides roughly half of the revenues that support state government expenditures and these rate reductions represent billions of dollars in lost revenue.<sup>4</sup> It is clear that reductions in the Commonwealth's revenue generating capacity have stymied efforts to meet pressing educational and infrastructure needs that present ongoing threats to the state economy.

Accordingly, the *MassBenchmarks* Board of Editors strongly recommends that the legislature and governor take steps necessary to increase tax revenues available to meet the state's urgent unmet educational and infrastructure needs. By continuing to ensure that Massachusetts has the skilled labor and infrastructure demanded by the contemporary global economy, wise investments in the capacity of our people and institutions represent genuine opportunities to position the Commonwealth for continued success and prosperity for the foreseeable future. 

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*This summary, prepared by Executive Editor Robert Nakosteen, reflects the discussion of the members of the Editorial Board of *MassBenchmarks* at its meeting on September 30, 2016.*

#### Endnotes

- 1.) Source for DeLeo request: <http://commonwealthmagazine.org/politics/deleo-to-consult-economists-on-taxes/>
- 2.) Foundation Budget Commission Report: <http://www.mass.gov/legis/journal/desktop/2015/fbrc.pdf>
- 3.) Current state income tax rate: <http://www.mass.gov/dor/all-taxes/income/>
- 4.) Estimate of revenue losses associated with income tax rate reductions to date: [http://www.massbudget.org/report\\_window.php?loc=tax\\_cuts\\_factsheet.html](http://www.massbudget.org/report_window.php?loc=tax_cuts_factsheet.html)

### *In Memoriam*

**Karl Edwin “Chip” Case**, a member of *MassBenchmark*'s original Editorial Advisory Board, died on July 15 at age 69 following an illness. For 34 years, Dr. Case was professor of economics at Wellesley College, where he held the Coman and Hepburn Chair in Economics. Dr. Case was a senior fellow at the Joint Center of Housing Studies at Harvard University and a founding partner in Fiserv Case Shiller Weiss Inc., the real estate research firm that created the S&P Case Shiller Index of Home Prices. His research, in the areas of real estate, housing, and public finance, yielded numerous articles and studies on boom and bust real estate cycles. The author of five books, he earned his Ph.D. in Economics from Harvard University in 1977 and his B.A. from Miami University in 1968.