

NOAH BERGER

Tax cuts that continue to haunt Mass.

By Noah Berger | FEBRUARY 12, 2013

TAX POLICY debates are about how we pay for the things we do together for our communities, our families, and our economy. Working together through government allows us to accomplish things that are vital to us as a Commonwealth and that we can't do alone. This includes the roads, subways, and buses that help us get around and allow our economy to function; the schools that educate our children and strengthen our future workforce; the police and fire protection that keep our neighborhoods safe; the environmental safeguards that maintain our clean air and water; and the safety net that protects us when we fall on hard times.

About 15 years ago, at the height of the dot-com bubble, our state made tax policy choices that have shaped state policy ever since. At the time, our economy was so strong that it seemed we could cut taxes dramatically with no consequences. The state enacted a series of cuts to the income tax that are now costing us close to \$3 billion a year. We cut the tax rate on most income from 5.95 percent to 5.3 percent, costing over \$1.5 billion. We cut the tax rate on dividends and interest from 12 percent to 5.3 percent, costing about \$850 million. We increased the personal deduction to \$4,400, costing \$550 million.

Of course, the dot-com bubble eventually came to an end. And when it did, we still had to pay for those tax cuts. During recessions we have made deep budget cuts, and during recoveries we have barely been able to balance the budget. We can see some of the long-term effects by looking at the severe budget cuts since 2001 (adjusting for inflation) in a few important areas:

Higher education down 31 percent: Tuition and fees have roughly doubled, making it hard for young people from moderate-income families to gain access to higher education and limiting the state's ability to build a high-wage economy

propelled by well-educated workers.

Local aid down 45 percent: With less state support, cities and towns have been forced to cut back on local services or shift costs to the property tax.

Public health down 25 percent: Budget cuts have threatened the ability of our public health agency to perform its core activities or fund even its most successful programs. For instance, our anti-smoking programs, which significantly reduced teen smoking rates during the '90s, have been cut 90 percent.

Early education and care down 28 percent: Research increasingly demonstrates that early education helps prepare kids to succeed in school and life, yet these programs have been cut deeply. These cuts not only harm children, but also make it harder for low-income parents to work and support their families.

Since 1998 we have also seen a number of other tax changes along with rising health care costs, but the deep tax cuts adopted between 1998 and 2002 remain at the core of our state's fiscal problems.

In the next several months our Commonwealth will make decisions that will, in important ways, shape our economy and directly affect life in our communities. We know that a modern economy needs a quality transportation system to function, and ours is at risk. We also know that the ability of a state to create and attract jobs that pay good wages depends on having a well-educated workforce.

These are difficult economic times for many families in Massachusetts and across the country. Investments that put people to work directly — rebuilding roads and train lines and providing care and education for children and young adults — can strengthen our economy in the near-term, likely outweighing the short-term economic effects of tax increases. More significantly, these investments would allow our people and our economy to be more productive in the long run.

The tax we have cut the most in the past 15 years — the income tax — is one that best responds to family circumstances. When one of us loses a job or sees our income decline, we pay less. When we do better, we pay a little more. Restoring income tax revenue would improve the fairness of our tax system. Perhaps more importantly, it would also allow our Commonwealth to fund effective investments in our children, our communities, and the future of our economy.

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