Massachusetts governor outlines new round of budget cuts

John Marion
13 December 2012

Using the federal "fiscal cliff" as a pretext, Massachusetts Governor Deval Patrick announced last week that as the result of a state budget shortfall of more than half a billion dollars, he will stop the creation of 700 state jobs, while cutting aid to cities and towns, reducing the funds available for building new schools, and slashing the budgets of more than 100 state programs.

The spending cuts will hit some of the state's most vulnerable residents. Services for the mentally ill and developmentally disabled will be cut by more than $13 million. Tax credits for households with special education students will be cut by $11.5 million. Transportation to school for homeless students will be cut by more than $5 million.

Also faced with budget cuts are the state Department of Conservation and Recreation Administration, a community college reserve fund, and a program for teenage pregnancy prevention.

In announcing the cuts, Patrick stated, "the uncertainty of the fiscal cliff and the resulting slowdown in growth, is the direct cause of our budget challenges." (sic) The truth, however, is that the shortfall has been caused mainly by lower than expected tax revenues—particularly from corporate taxes—since the beginning of the fiscal year on July 1. It must be said that the federal "fiscal cliff" has not yet occurred and therefore has not affected state revenues; in fact, Patrick plans to patch up $98 million of the $540 million budget hole with federal funds for safety net programs.

When Patrick complains of a "slowdown in growth" he is referring to the effect on the Massachusetts economy of the continuing worldwide crisis. For several years, the state has benefited from renewed worldwide demand for semiconductors and other exports. In October, however, *The Boston Globe* reported that, "with a global slowdown affecting sales in Europe and China ... state merchandise exports in the first eight months of the year were down 5.9 percent compared to the same period last year."

Even before this economic reversal, businesses paid a paltry share of the state's tax revenues. A study by auditing firm Ernst & Young found that in fiscal year 2009 Massachusetts's business tax revenues were only 4.0 percent of Gross State Product. Had that rate been only 0.7 percent higher (equal to the national average of 4.7 percent) the state would have taken in an additional $2.3 billion in tax revenues. Patrick, a Democrat and former board member of subprime lender Ameriquest, has spearheaded the drive to cut the cost of doing business in the state.

Recent numbers are even more striking. In November, corporate taxes totaled only $8 million, or 0.56 percent, of $1.42 billion in total collections. Personal income taxes—which include small businesses operating as sole proprietorships—totaled $834 million, while $412 million was collected through regressive sales taxes on meals, motor vehicles, and consumer goods. Still desperate for revenues, Massachusetts has recently legalized casinos; cities and towns are scrambling to attract them.

In the first five months of this fiscal year, corporations paid only 6.5 percent of the state's $7.9 billion in tax revenues. According to numbers released with Patrick's budget cut announcement, corporate taxes in the state have decreased from $1.95 billion in FY11 to a projected $1.66 billion this year. In the same period, revenues from income taxes increased by 7.6 percent and those from sales taxes by 8 percent.

The elimination of plans to hire 700 state workers in this fiscal year means that the number of state jobs cut since the beginning of the economic crisis in 2008 will remain higher than 6,000. That such cuts have occurred under a Democratic governor who is close to the president—and rumored to be considering a 2016 run for the presidency himself—underscores the complete lack of government public works programs regardless of which big business party is in power.

Patrick's status in the Democratic establishment also raises the question of whether he is using the state's budget crisis to scare his liberal backers into supporting the entitlement program cuts that will result from the negotiations in Washington.

This layer of the affluent middle class is more upset about the possibility of higher taxes than the prospect of cuts in Medicare and Medicaid. On December 5, *The Boston Globe*, the state's liberal mouthpiece, published an article about the plight of professionals with "advanced degrees" and incomes ranging from $250,000 to $500,000. It offered the following description: "these earners are not the Warren Buffetts and the Mitt Romneys. They are the smartly suited, rank-and-file achievers who populate financial districts and research parks. They drive base-model BMWs and have timeshares in Florida, not their own private islands."

The Globe concluded that this "slice of America" lives predominantly in liberal areas like Massachusetts, New York, and San Francisco, and would suffer more from House Republicans' attempts to limit mortgage interest deductions than from Obama's proposal to raise their marginal tax rates. One can only conclude that their "base-model BMWs" sported Obama/Biden bumper stickers this fall.