THE BEACON HILL INSTITUTE AT SUFFOLK UNIVERSITY

The Beacon Hill Institute for Public Policy Research

News Release

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Proposed FY 2014 state budget and its taxes will not help job market or private investment; More education spending faces the law of diminishing returns

(BOSTON - May 20, 2013) The current version of the state legislature's proposed budget will diminish economic activity less than the Governor's original House 1 proposal. This is the finding of a new study from the Beacon Hill Institute at Suffolk University.

Applying its State Tax Analysis Modeling Program (STAMP), the Institute compared both budget proposals and found that the legislature's plan would destroy fewer jobs and investment and impose a far lighter claim on real household disposable income. In summary, the model found that the Governor's proposal would:

- Raise $1.876 billion in new tax revenue
- Reduce employment by 17,800 jobs
- Shrink real disposable income by $1.2 billion, or by $480 per household
- Lower investment in the state by $120 million.

BHI also analyzed the House proposal released last month finding that the legislature's plan would:

- Raise state tax revenue by $466 million in the first year
- Reduce employment by 2,460 jobs
- Shrink real disposable income by $643 million, or by $250 per household
- Lower investment in the state by $2 million.

"The Governor had hoped that his original budget would be the blueprint for the future," says Frank Conte, a co-author of the study. "However, the legislature is taking a relatively more fiscally conservative position, understanding that tax increases of the Governor's magnitude do exert negative effects."

The study also questioned the wisdom of dramatically increasing education spending in Massachusetts since the extra spending would have no effect on performance. More spending on transportation such as rail would also be counterproductive and prone to overruns.

"While the legislature's more modest proposal produces less economic harm, lawmakers should recognize that linking infrastructure funding to taxing products such as tobacco and gasoline, whose consumption is falling and will continue to fall in the future is a tenuous proposition at best," writes lead author Rosolino Candela. "The Governor and legislature need to seek innovative alternatives to fund the state's infrastructure needs. "

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