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Modest revenues, sluggish job growth predicted for Mass.

By Associated Press

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BOSTON - Anyone hoping for a repeat of the giddy boom years of the late 1990's is wishing in vain, according to economists testifying before a key Statehouse committee Monday.

Massachusetts revenues will grow modestly over the next two years, but won't approach the sizzling recovery of the 1990s, they said. Of more concern is the state's sluggish job growth, they said.

The fiscal forecasts could have political repercussions in the ongoing debate about whether the state should cut the income tax rate to 5 percent.

Gov. Mitt Romney has long pushed for the cut. Last week Attorney General Thomas Reilly, who is running for governor, said he wants to cut the tax rate "as soon as we possibly can" if the economy continues to improve.

The economic forecasts pegged state revenues at about \$18 billion for the 2006 fiscal year, which began July 1. That's roughly \$1 billion more than the current fiscal year. The forecasts predict the growth of about another billion dollars for 2007.

Despite the increase, the state's budget remains tight, with most of the new revenue going to cover the growth of existing programs, including Medicaid education, and debt, said Michael Widmer of the business-backed Massachusetts Taxpayers Foundation.

"I don't see this situation changing anytime soon," he told a hearing of the House and Senate Ways and Means Committees.

Widmer said the state could ill afford cutting the state income tax from the current 5.3 percent.

Unlike the boom that followed the fiscal crunch of the late 1980s and early 1990s, Massachusetts is experiencing a "brain drain," according to economist Alan Clayton-Matthews with the Center of Urban and Regional Policy at Northeastern University.

"It's hard to see how that is going to turn around like it did in the 80's and 90's," he said.

David Tuerck, an economics professor at Suffolk University and executive director of the Beacon Hill Institute, said that while the state's economy is lagging behind the nation, it remains healthy.

"There is a tendency to be overly gloomy," he said. "I think the economy is doing quite well."

Secretary of Administration and Finance Thomas Trimarco, Romney's budget chief, acknowledged the state's sluggish job growth.

"At some time you have to ask the question, why is that happening? Maybe tax policy has something to do with that," he said.

While Romney has vigorously endorsed the tax cut, Reilly is more cautious.

Last week Reilly said the tax rate should be rolled back if the growth in revenues continues into the new year. The position is at odds with most other Democratic leaders on Beacon Hill.

Deval Patrick, who is challenging Reilly for the Democratic nomination, said it's too soon to talk about a tax cut.

"I support the rollback when we can afford it, but we can't afford it until we restore the local aid to cities and towns," he said. "It's the wrong tax to cut at the wrong time."

In 2000, voters approved a ballot question to gradually reduce the income tax rate from 5.95 to 5 percent over three years. Lawmakers later froze the rate at 5.3 percent.

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