

COVID-19: Protecting Rhode Islanders and the State's Economy

The COVID-19 pandemic is both a public health crisis and an economic crisis, and these two are intertwined, making it a moral crisis as well. In order to protect public health and save lives, many people need to make temporary economic sacrifices—to stay at home and be out of work, to scale down or close down businesses. When we ask people to make such sacrifices, we have a moral obligation to help them. This must drive our fiscal and budgetary responses—to ensure that people can safely make the economic sacrifices necessary to keep as many of us as possible healthy and alive, and so that we halt the virus's advance and set the stage for the economy to recover soon. And we must do so in a way that does not increase existing inequities of race, ethnicity, economic status, gender. Through stimulus and relief packages, the federal government will provide some aid to Rhode Island, yet we will need to take additional steps.

Some may respond to the threat and reality of recession by calling upon all of us and upon our state government to tighten our belts and cut spending. We must resist such counterproductive policies and act forcefully to ease our sudden entry into recession and lay a foundation for a recovery that promotes shared prosperity.

How can we respond to this crisis effectively?

Protect vital services. Public services help keep people afloat during rough patches so that they can continue contributing to their full potential. During the last recession, we cut investments in programs and services that help people work and that support those who are not in the workforce. Many of these investments have not been restored. We must provide for a healthy unemployment insurance fund, access to affordable child care assistance, and a better monthly payment amount for families enrolled in the RI Works cash assistance program.

Keep our promises to public employees. Rather than lay off public servants, such as state agency staff, we should help them weather the crisis and continue serving Rhode Islanders. State workers play critical roles in facilitating swift access to unemployment benefits, Medicaid, SNAP, RI Works, and other basic-needs benefits for families who need this assistance. Providing these benefits not only is a boon to the families but supports the economy, as people immediately spend benefits and SNAP funds. Putting such people out of work will only serve to slow the economy and our recovery.

Resist ill-advised tax cuts. The evidence for cutting taxes to generate economic activity is weak even in good times. In times of crisis, to do so can prove catastrophic. Cutting taxes means cutting spending, cutting employment, and cutting services—all of which would harm the economy, just when we need the opposite. Cutting personal income taxes on the wealthiest fails to generate enough economic benefit to offset the resulting state revenue loss, which can be substantial. We also should avoid enacting universal business tax cuts. Some, mostly large, companies are thriving despite the crisis, and to provide such companies with tax cuts shifts valuable resources away from those who need assistance now the most.

Safeguard crucial revenue sources. We should not eliminate or further cut the estate tax. There are tens of millions of revenue dollars at stake. Easing the estate tax will benefit a few hundred people who need it least while depriving the state of much-needed funds.

We should also consider freezing or slowing significantly the motor vehicle excise tax phase-out. As currently written, the phase-out will cost additional general revenue of \$22.3 million for FY2021 and then \$50.1 million in FY2022, \$84.9 million in FY2023, and \$144.2 million in FY2024 for a cumulative amount surpassing \$300 million over the next four years. We think this tax relief, while popular, is not targeted to those that need it most and that the phase-out should be suspended to help us meet more urgent needs in this time of crisis.

Raise new progressive revenues. The unprecedented scope of today's crisis means Rhode Island is likely to require substantial new revenues in the near future. And because the wealthiest among us will likely best weather these difficult times, they will need to contribute a larger share. Before the novel coronavirus struck, the Economic Progress Institute, as part of a coalition of groups, proposed adding a new tax bracket to Rhode Island's personal income tax code. This new bracket would increase the marginal tax rate on the top 1% of taxpayers. Each taxable dollar above \$476,000 would be taxed an additional three cents, raising an estimated \$128 million in annual revenue, according to a forecast produced prior to the onset of our current economic turmoil. While recent events in the stock market and the broader economy may reduce the short-run revenue potential of this measure, they also make it more critical than ever. By definition, Rhode Islanders with taxable income above this high level are more able to afford higher taxes than any other group in our state. And this modest tax increase on the wealthiest will not necessarily cut their consumer spending significantly.

We ought to consider other targeted proposals for progressive taxation. These might include increasing the tax on certain types of investment income such as capital gains, revisiting the idea of a mansion tax on expensive, often second homes, and sun-setting costly economic development tax expenditures that do not yield a return on investment.

Even with a new infusion of federal funds, the state will need to raise new revenues to continue funding services that are vital to the health, safety, and prosperity of our people. When deciding who should pay more taxes during these difficult times, lawmakers should pay close attention to the plight of struggling Rhode Island families and should ensure that the bulk of new revenue-raising comes from families best positioned to ride out these hard economic times. In making decisions for the fiscal year 2020 and 2021 budgets, we must focus not only on protecting our economy and residents for the short term but must also lay the groundwork for future shared prosperity.