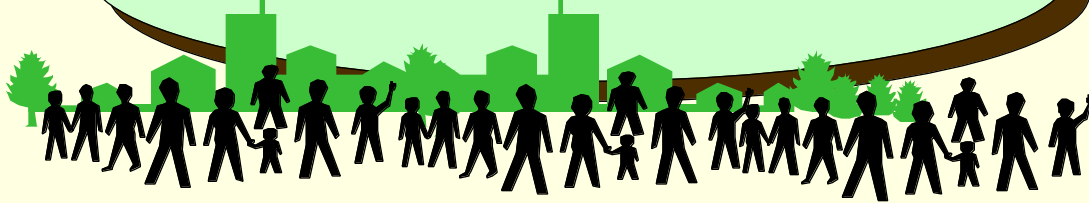


# Save Our Communities!



How the Massachusetts budget crisis  
is threatening our communities  
. . . and what we can do about it.

Massachusetts Coalition for Healthy Communities  
P.O. Box 644 • Lexington, MA 02420  
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Massachusetts is in crisis. Our state legislature has imposed devastating budget cuts totaling over \$2 billion. If left uncorrected, the cuts in essential services will fundamentally alter the Commonwealth we live in and that our children will inherit.

We are told that we can no longer afford programs vital to the health of our communities – quality education, a safety net for health care, environmental protection and adequate police and fire safety. We can no longer expect everyone to have a roof over their head.

We are told that this dismantling of vital services is a result of economic necessity. We are told that resistance is futile and that we just have to accept “reality.”

There is one thing wrong with what we are being told: ***It isn't true.*** To the contrary, we *can* save our communities and reclaim our future. Working together, we can eliminate the extreme inequities in the state tax system, restore needed revenues and provide vital programs that are essential for health, justice, and the prospects of a better future for all members of the Commonwealth

This presentation provides background on the budget crisis and the **fair revenue solutions** that can solve it. We hope this information will help put **fairness** at the center of the discussion.

We also hope this information will help empower ordinary citizens to participate in the critical budget decisions that affect our lives and future. Greater public participation in this process is essential for restoring our democracy and putting Massachusetts back on track towards a more healthy, just, prosperous and democratic future.

These annotated slides were produced by the **Massachusetts Coalition for Healthy Communities**, a nonpartisan, nonprofit organization formed to help citizens protect and improve the social, economic, educational, environmental and democratic foundations of healthy communities. Further information on the issues discussed here can be found at the MCHC website:

[www.masschc.org](http://www.masschc.org) .

Or contact

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MCHC welcomes comments, support, and volunteers.

## A healthy community includes:

- health care
- education
- good jobs
- a clean environment
- a social "safety net"
- affordable housing
- freedom from violence
- justice for all
- real democracy

and more .



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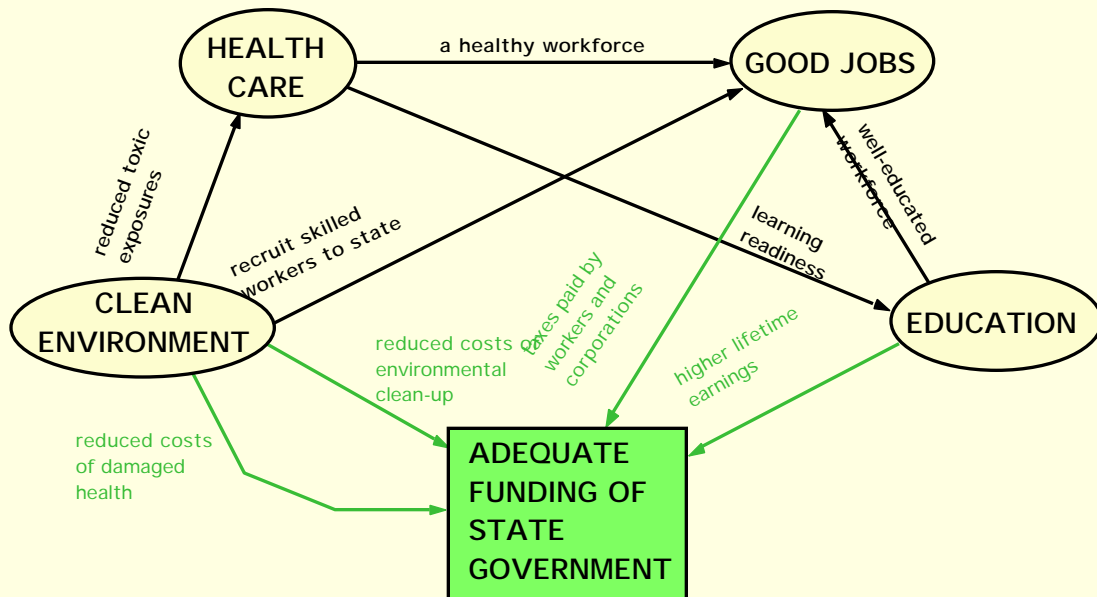
Health implies wholeness. When a person is healthy, all the body's systems are working well together. If one system is in trouble, then the entire fate of the individual is at risk. Similarly, a healthy community is made up of many integrated components. Each one must function in order for the community as a whole to be well.

The components of healthy communities include:

health care      education      good jobs      a clean environment  
a social "safety net"      affordable housing      freedom from violence  
justice for all      democracy

These things are clearly interrelated. For example, a healthy and well-educated workforce makes local businesses more competitive. A clean environment enables people to stay healthy, and helps businesses recruit necessary talent. Real democracy is essential for achieving all of these dimensions of healthy communities. Without real democracy policy decisions tend to serve powerful interests rather than the common good.

# Reinforcing Relationships



(MCHC.A.06)

Here we show some of the ways in which healthcare, a clean environment, education, and good jobs are interrelated.

Adequate funding for state government is more readily available in healthy communities. Costs are reduced when the population is educated, healthy and employed, and productive workers provide the tax base that produces adequate revenues.

When funding of programs vital to healthy communities is cut, we enter into a downward spiral that leads to economic decline.

# Where are the cuts falling?

We are not just cutting "waste". We are destroying people's lives.

## HEALTH

- MassHealth Basic **health insurance**
- State worker health care insurance
- "Healthy Start" **prenatal care** program
- **substance abuse treatment** services
- **tobacco control and smoking cessation**
- Women, Infants & Children (WIC) **nutrition** program
- public health

## EDUCATION

- Early childhood education
- local aid to K-12 education
- **higher education** (UMass, community colleges)
- **libraries** and reference materials
- State funding for the **arts, scholarships**

## SOCIAL SERVICES

- **family stabilization supports** for children at risk of abuse or neglect
- **home care** for frail elders
- residential placements
- Women, Infants & Children (WIC) **nutrition** program
- affordable housing

## JOBS

- Teachers
- Job training
- State employee layoffs

## ENVIRONMENT

- clean air and water
- hazardous waste clean-up
- pollution prevention• **recycling** incentive programs (MRIP)
- state parks

The recent budget crisis in Massachusetts has accelerated an alarming trend. Many of the critical components of healthy communities are being allowed to disintegrate. The Governor and the Legislature, for a variety of reasons, have allowed continuing budget cuts to dismantle vital programs in health care, education, human services and the environment. Unless something reverses the trend, our future as a fair, humane and productive society will continue to unravel.

## What we are asking for:

- Healthy Communities
- Fair Taxes
- Real Democracy

- *We need all three.*
- *We must have all to have any.*
- *We have a right to have all three.*



To correct the growing crisis, the people of Massachusetts need three basic things:

**Healthy Communities** - because this is what people need to live secure and fulfilling lives.

**Fair Taxes** - because those who are most financially well off must contribute their fair share. This is essential if we are to raise revenue needed to sustain healthy communities.

**Real Democracy** - because we cannot have healthy communities or fair taxes if we allow our government to be run by special interests

# The Conventional Wisdom

**“The state is broke.”**

**“Now that tax revenues have fallen, we can no longer afford health care, quality public education, environmental protection . . .”**

**“By sharply cutting government programs, we save money.”**

**“Taxes are just too darn high.”**

**“Higher taxes will *cost jobs*.”**

**“Tax breaks for businesses encourages job creation in Massachusetts”**

**“In a recession, tax breaks will stimulate the economy and aid recovery.”**

**“No-new-taxes politicians are protecting our pocketbooks.”**

*There's only one thing wrong with the conventional wisdom: It ain't so!*

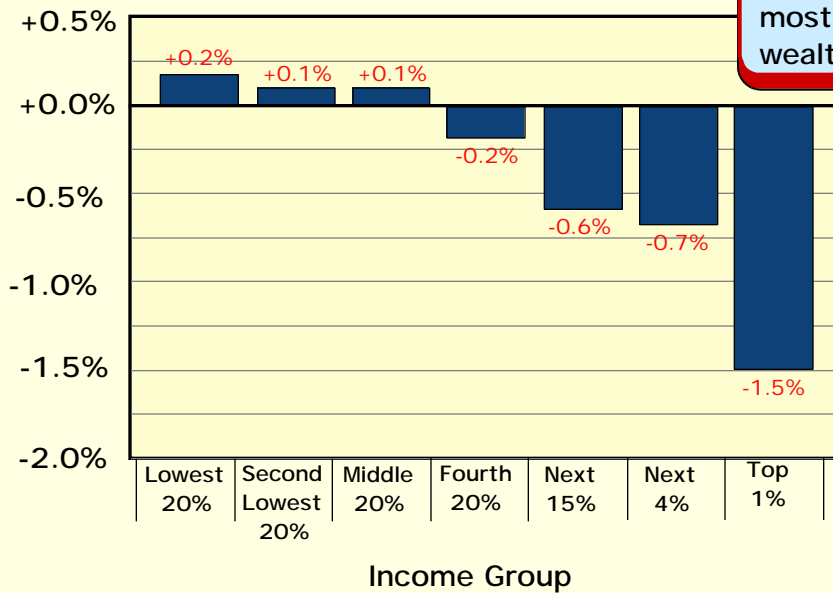
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The conventional wisdom is constantly promoted in the media and in political discussions.

There's only one thing wrong with it: It's mostly wrong - designed to promote the agenda of special interests rather than to produce a tax system that is best for society as a whole.

# Where the Money Went . . .

## Change in Tax Contribution 1989-2000



Tax breaks in the 1990's mostly benefited the wealthiest taxpayers.

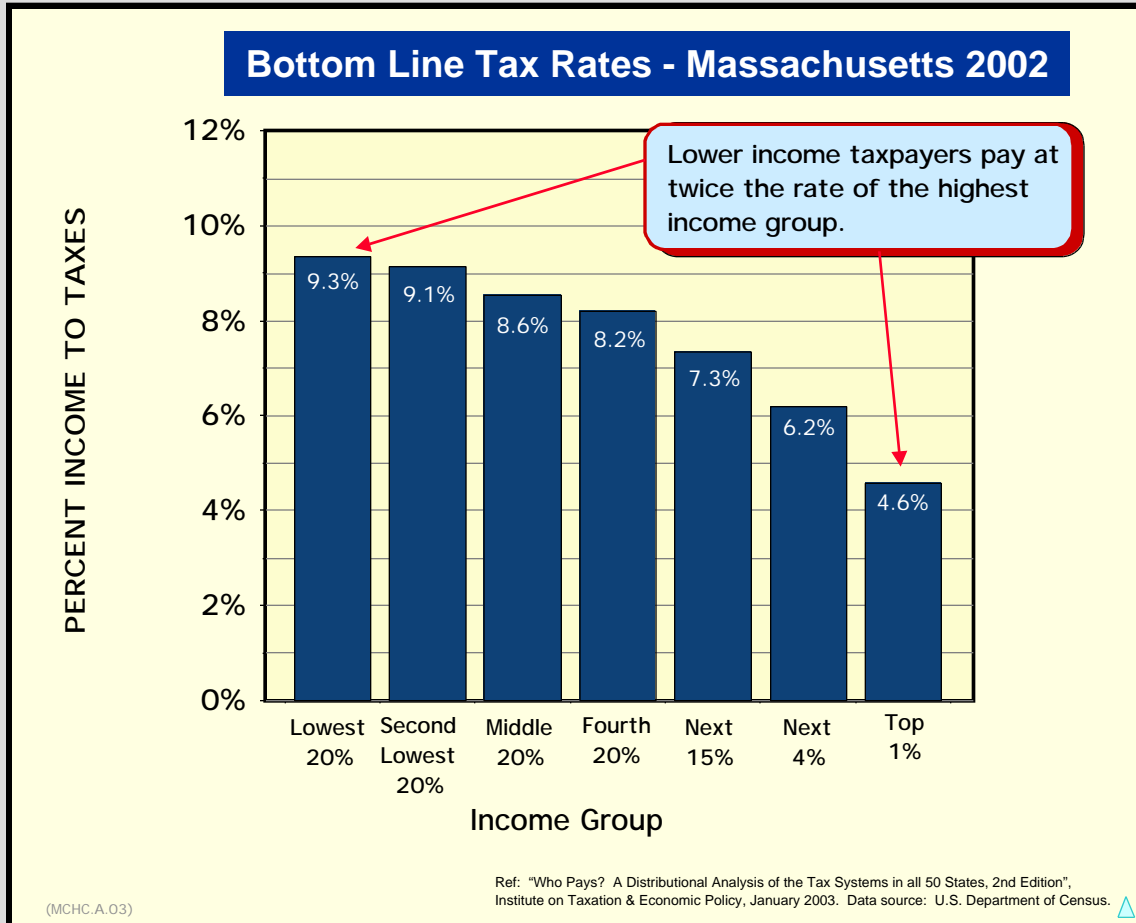
Ref: "Who Pays? A Distributional Analysis of the Tax Systems in all 50 States, 2nd Edition", Institute on Taxation & Economic Policy, January 2003. Data source: U.S. Department of Census.

(MCHC.A.03)



Why do we have a fiscal crisis? While the economic slow down of the past two years has contributed to the decline in state revenue, much of the decline in revenue is actually due to the tax cuts implemented over the past decade. Those tax cuts add up to over \$3.5 billion dollars per year. That is bigger than the budget deficit. And to make matters worse, those billions of dollars have been given away largely to the wealthy few, with much of it being invested outside of the state.

This slide shows that for lower and average income tax-payers, there was no tax break at all. In fact, for the lower 60% of the income distribution, there was actually a tax increase, at the same time this group has faced a loss of services and steep increases in the cost of living. As you can see from this slide, the tax cut was confined almost exclusively to the wealthiest 20%, that is, only the wealthiest one out of five. The richest 1% of the population – earning more than an average of 1.3 million dollars a year – received the biggest benefit of this tax cut.



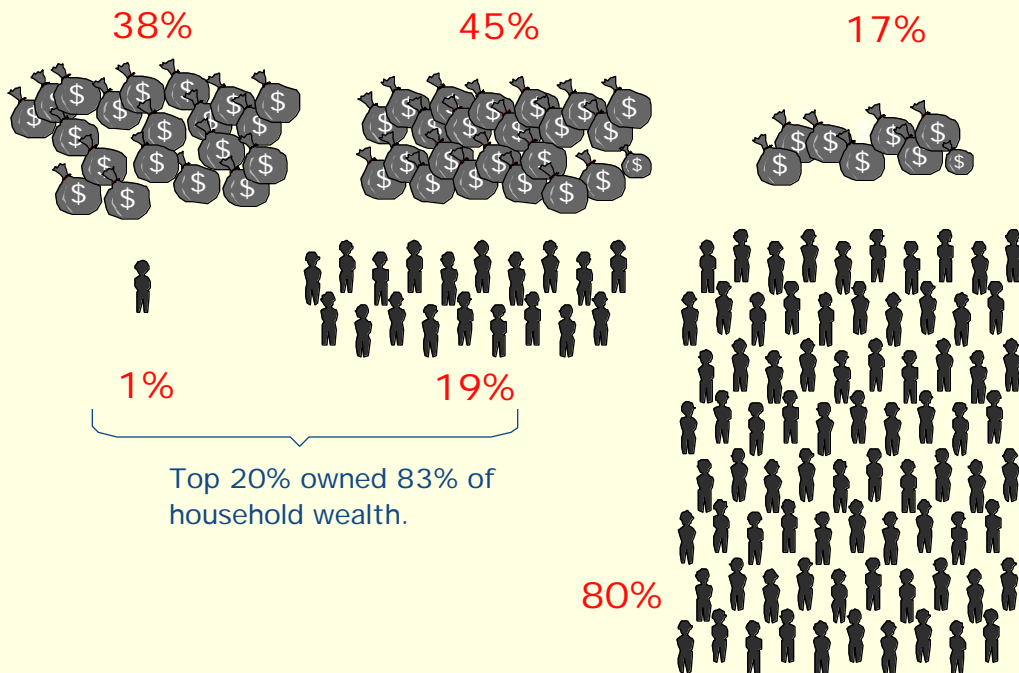
The unfair tax cut of the past decade has left us with a very unfair tax system. This slide shows how the tax burden is distributed in Massachusetts. It shows the bottom line tax burden on each income group, after all state and local taxes are added up, and all tax loopholes and "offsets" are taken into consideration.

The bottom line is this. Lower income taxpayers contribute a higher percentage of their income in taxes than the higher income brackets. In fact, **the top 1% of taxpayers pay at about one-half the rate of the lowest 40 percent** (4.6% compared to 9.2%).

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Ref: "Who Pays? A Distributional Analysis of the Tax Systems in all 50 States, 2nd Edition", Institute on Taxation & Economic Policy, January 2003. Data source: U.S. Department of Census

# Household Wealth



(MCHC.A.04)

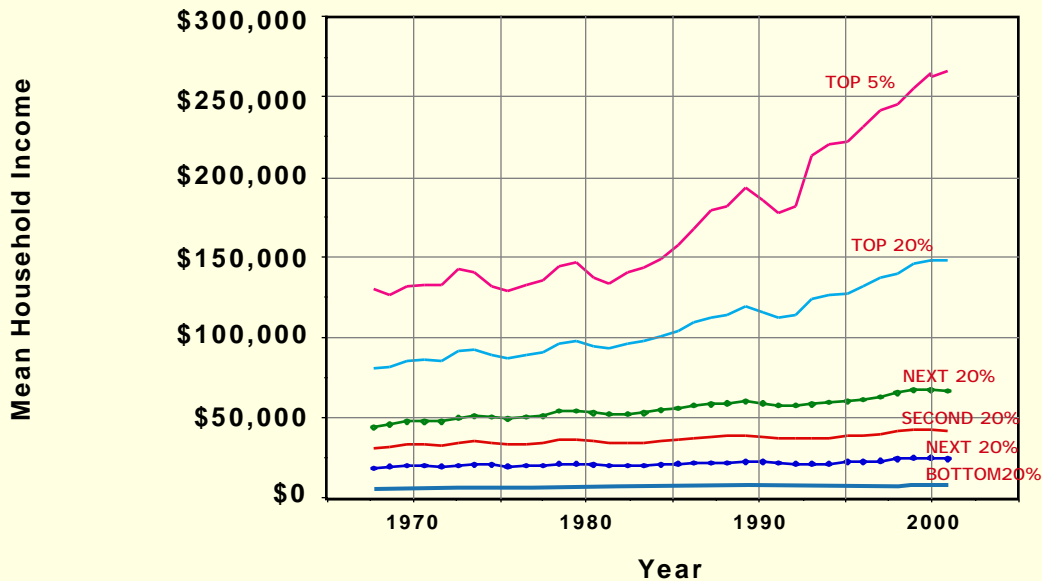
Ref: Wolff, Edward N., "Where has all the money gone?", The Milken Institute Review, Third Quarter 2001

Unfairness in the distribution of taxes is all the more of concern when viewed in the broader context of the extreme disparities in wealth in the United States. Over the past three decades wealth in the United States has become increasingly concentrated in fewer and fewer hands. The wealthiest 1% of Americans now hold approximately 38% of the total household wealth. The richest 20% hold 83% of household wealth. That doesn't leave very much – only 17% of household wealth – for distribution among the remaining 80% of the population!

This concentration of wealth has profound implications for our democracy. Funding for the mainstream political parties, political campaigns, policy think tanks, and lobbying is increasingly provided by the wealthy few. As a result, public policy is increasingly influenced by wealthy special interests advancing their own agendas – quite often at the expense of the common good.

# Household Income Trends

(U.S., constant 2001 dollars)



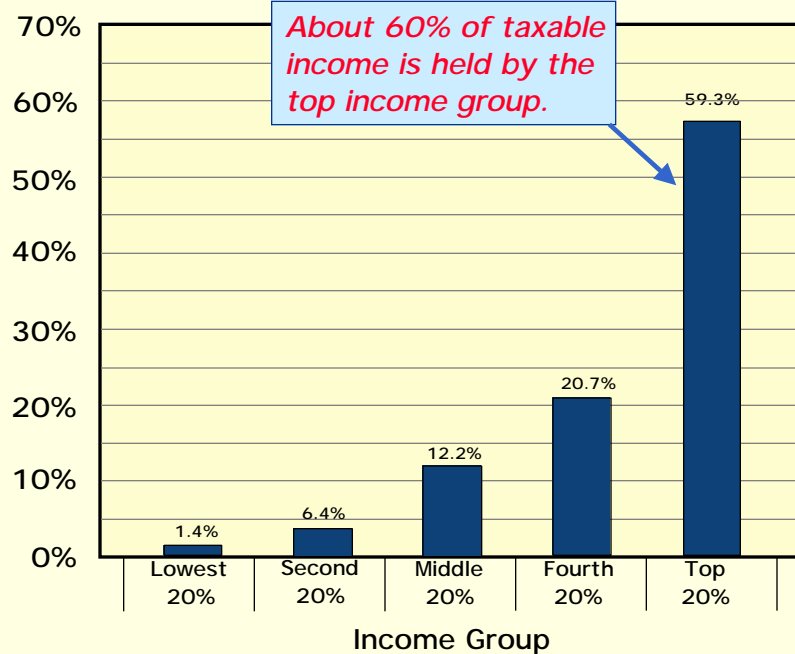
Source: U.S. Census Bureau, Historical Income Table H-3.  
Income in current and 2001 CPI-U-RS adjusted dollars.

(MCHC-A.05)

Unfairness in taxes and the economy is of even greater concern considering the direction things are going. That is towards ever greater disparities between the very rich and everyone else. Over the past 30 years, there has been very limited economic progress for most Americans. Instead, there has been a steadily increasing gap between the rich and the rest. The wealthiest 5% of Americans have surged ahead while the lower 80% are working harder and harder just to stay in place.

These trends – as illustrated by this graph – are worrisome enough. But the reality is even more troublesome than indicated in the graph. That's because in order to maintain household income, families now generally need two wage earners to maintain the income that used to be earned by one wage-earner. So while income levels have been maintained, that has come at an enormous price. Add to that the fact that those earnings are buying less and less as the costs of housing and health care skyrocket, and fewer workers have access to health, employment and pension security.

## Taxable Income in Massachusetts



Source: "Massachusetts Statistics of Income - 1996 Individual Tax Returns, Massachusetts Dept. of Revenue, 2000

(MCHC A 06)

This figure shows the distribution of taxable income in Massachusetts. The top 20% of taxpayers in Massachusetts account for about 60% of all taxable income.

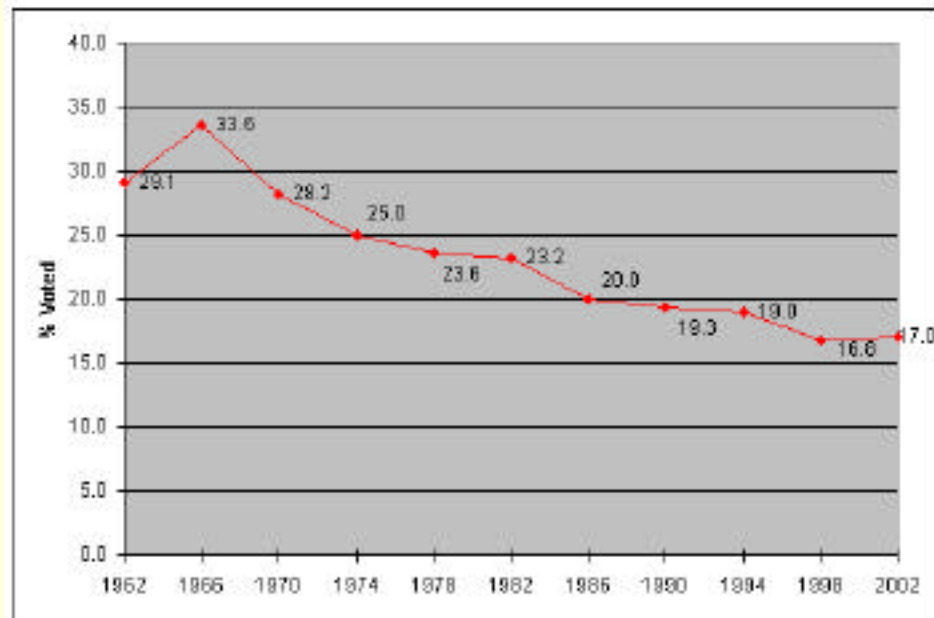
This has significant implications for tax policy:

- If wealthier taxpayers are given an abundance of tax breaks, there may not be enough income left in other groups to adequately fund programs.
- Tax increases that hit low-moderate income taxpayers generate widespread resentment against the tax system, but are unlikely to solve the revenue problem.

Taxpayers who have benefited greatly from past economic policy and public investments must play a major role in solving our revenue shortfall crisis.

## Signs of a democracy in decline:

Voter Turnout - Mid-term Primary Elections



This figure shows the average percentage of the voting age population (VAP) who voted in all the states that held statewide primaries in both major parties in the years 1962 - 2002.

SOURCE: Center for the Study of the American Electorate

*The vitality of our democracy is at risk.*

As extreme wealth concentrates in the hands of a few, democracy is undermined. That's because extreme disparities in wealth invariably result in disparities in political power. Currently over 80% of the money contributed to political campaigns comes from a tiny fraction of voters – a mere 1%. This allows the wealthy special interests who provide most of this funding to have enormous influence over political campaigns, traditional political parties and the legislative and regulatory agenda.

As the political message is increasingly influenced by the wealthy few, more and more voters become disengaged from a political system that fails to address their concerns.

Growing political disenfranchisement of the wider public is reflected in declining voter turnout and growing frustration and disinterest in the political process. Government is left to others - which means that it becomes vulnerable to the influence of special interests manipulating public policy for private purposes.

The downward spiral of democracy is well established in Massachusetts, which leads the nation in money spent on lobbyists. This downward spiral must be ended if we are to have good public policies needed for healthy communities.

## What is a Good Tax System

### A good tax system:

- provides **adequate revenues** that permit proper funding of vital services
- is **fair and equitable**, not placing undue burdens on people who are under economic stress, not arbitrarily taxing some people more than others
- is **stable**, not failing when we need it most
- is **synergistic** with other social objectives (such as a clean environment, economic growth, public health, etc.)

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What would a good tax system look like? Here are four criteria:

- adequacy
- fairness
- stability
- synergism

Our current tax system is poorly designed to achieve these objectives. It is failing to provide adequate revenues. It is not fair. It is not stable - as shown by our current revenue crisis. And it often encourages waste, pollution, and job loss rather than supporting our societal objectives in these areas.

# A Fair Tax Strategy

## STRATEGY:

- Ask all income groups to make the **same** final tax contribution (measures as a percent of income after all deductions are considered)
- *Nobody* contributes more than lower income individuals have been contributing for the past decade.

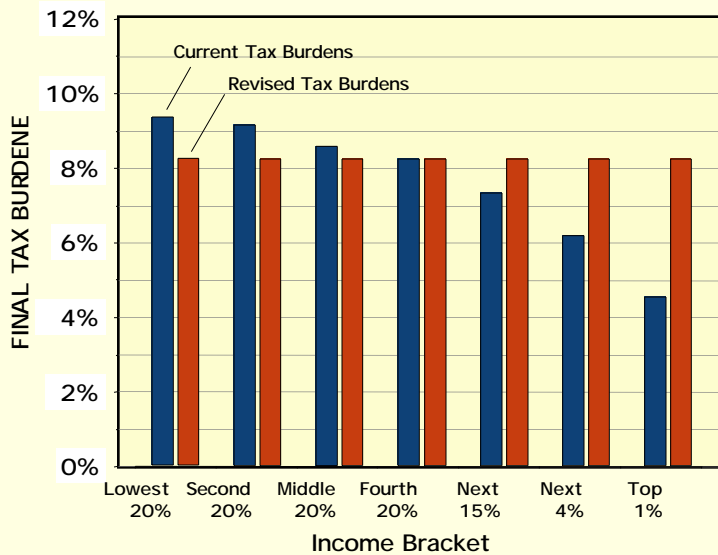
Massachusetts Coalition for Healthy Communities



Fair taxes won't eliminate economic disparities overnight. But they will at least move us in the right direction. And, by providing adequate funding for vital programs, fair taxes will also help establish fairness in our communities.

So how do we get to fair taxes? One approach is to simply modify the current tax code so that when all state and local taxes and deductions are added up, all income groups are contributing at the same bottom-line rate.

## A Fair Tax Strategy (8.2% Case)



### RESULT:

- The lower 60% of taxpayers get a tax reduction.
- Revenue increase: \$2.1b.
- Combined with one-time measures, this eliminates all cuts to vital programs.

The solution to the budget crisis is tax fairness.

(MCHC.A.03) 

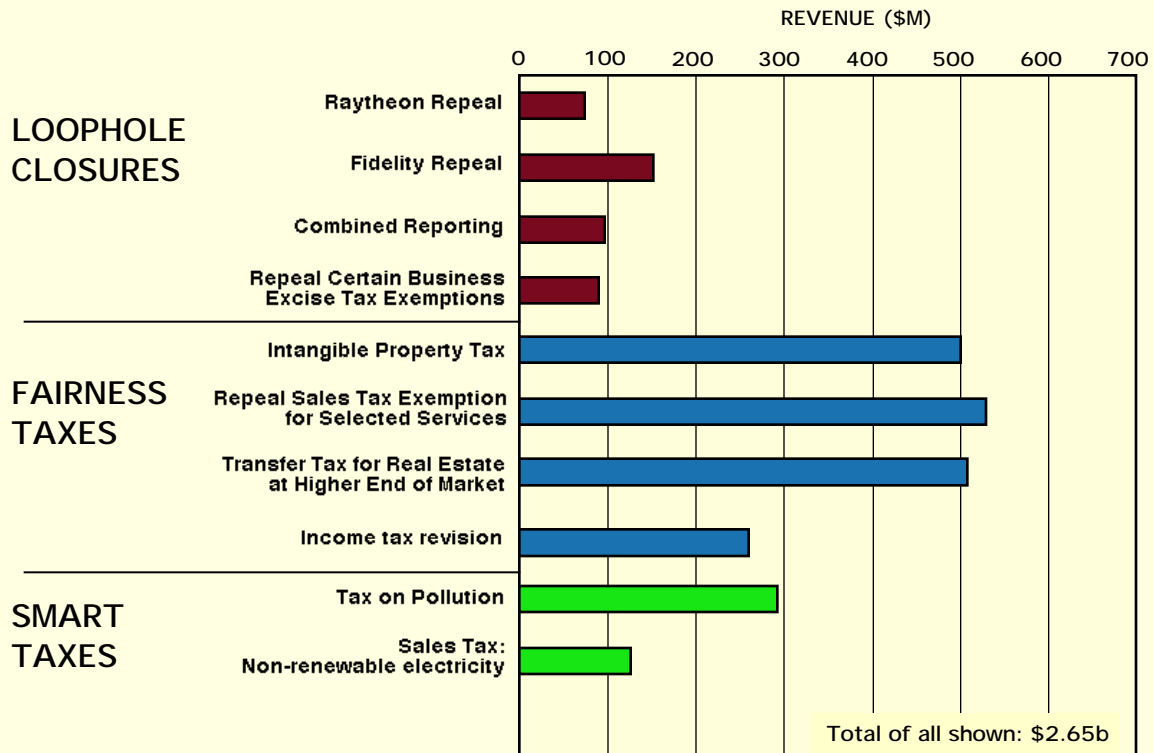
Imagine that we are designing such a system. This figure shows how the tax burden would be shifted. The blue bars show the current distribution of the tax burden. The red bars show the distribution of taxes within a hypothetical new system in which all income groups are contributing at the same rate. If the contribution rate was set at 8.2%, a rate slightly lower than what most people are currently paying, but higher than what the very wealthy are paying, here's what would happen.

The lower 60% of taxpayers receive a tax cut.

The only increase is in the top 20% bracket, but these taxpayers still pay a lower rate than the lower income taxpayers have been paying for the past ten years.

The change produces additional revenues of \$2.1 billion per year. Together with one-time revenue measures, this would eliminate the revenue recent revenue shortfall and allow vital programs to be restored.

# Revenue from Tax Code Revisions (Examples)



(MCHC.A.04)

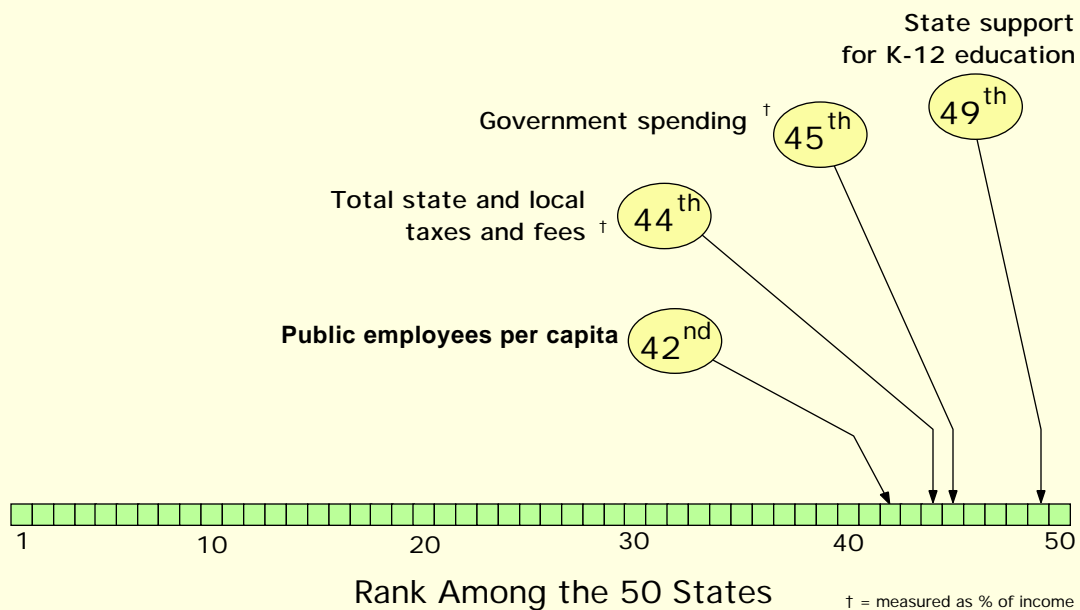
This slide shows some of the revenue options that could help us move towards a fairer tax system, in which all income groups are contributing at the same bottom line rate.

For example, by closing a variety of **corporate tax loopholes**, it is estimated that over \$400 million dollars in revenue would be restored.

By increasing the **income tax** rate to 5.6%, but increasing the personal exemption at the same time, average and lower income groups would be protected from an increase in the tax burden while restoring hundreds of millions of dollars in revenue.

Details about other fair revenue proposals shown on this graph, with information on how they are used in other states, can be found at the [Masschc.org](http://Masschc.org) website.

## Debunking The High Taxes Myth: Our State Taxes and Spending are Low



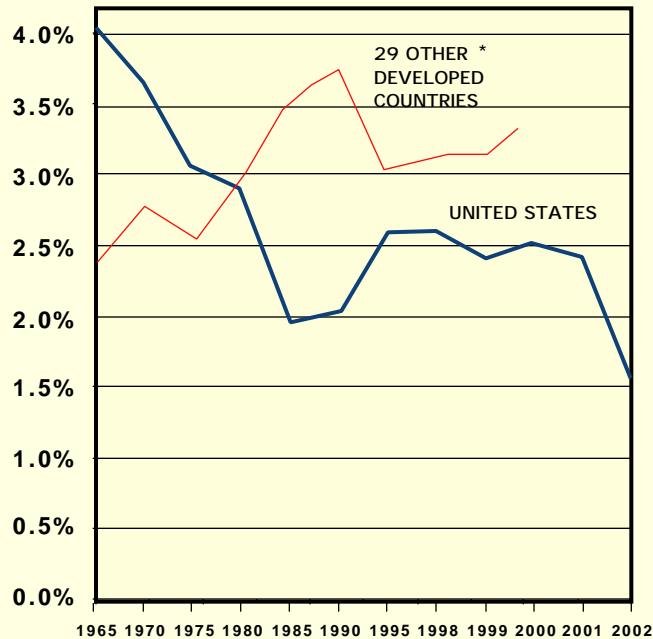
Sources: Massachusetts Budget and Policy Center, U.S. Census Bureau

(MCHC.A.05)

This slide clarifies where Massachusetts stands among the 50 states on taxes and spending. Contrary to popular mythology, Massachusetts is far from the Taxachusetts of 20 years ago. Since then Massachusetts has cut spending \* more than almost any other state in the nation. Currently Massachusetts ranks close to the bottom of the 50 states on a variety of critical indicators, including the number of public employees per capita, total government spending, support for K-12 education, and total taxes and fees as a portion of personal income. Compared to other states, we are well below the norm in both revenues and spending.

\* Spending is measured here as a portion of personal income.

## Corporate Income Taxes as % of GDP



\* This is the average for the other 29 members of the Organization for Economic Cooperation and Development (OECD).

(MCHC.A.03)

Source: Center for Tax Justice

Massachusetts Coalition for Healthy Communities



This slide shows the dramatic decline in corporate income taxes in the United States over the past several decades. This occurred even while corporate taxes were increasing throughout most of the other developed nations\*. In Massachusetts in particular, corporate contributions have declined by 75% over the past three decades\*\*. In addition, business tax burden in Massachusetts now stands about 16% below the national average.\*\*\*Thus the argument that any increase in Massachusetts business taxes will stifle economic development is false, and should not be used as an excuse for wealthy corporations to avoid contributing their fair share. To the contrary, adequate state revenues are essential to providing a healthy, educated, and productive work force, a clean environment, and safe streets. Such tax dollar investments create the climate in which businesses thrive.

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\*The decline in corporate taxes is measured as a portion of Gross Domestic Product, an indicator of economic activity.

\*\* MBPC study. Corporate contributions are measured here as a portion of total state revenues.

\*\*\*Robert Tannenwald, Boston Federal Reserve's state and local tax expert, as described in "Taxachusetts no more" by Steve Bailey, Boston Globe July 2, 2002.

## Some Final Thoughts

- The prevailing cut-and-suffer approach to the budget is **unwise, unfair, and unnecessary**

*The damage it is doing to all we value is too severe.*

- The best solution to the budget crisis is **tax fairness**.

*When everyone is given a similar bottom-line tax burden, the revenue shortfall can be eliminated.*

- **Citizens** have to provide sustained leadership to get Beacon Hill to change direction.

*The entrenched system on Beacon Hill has evolved to protect the status quo. The impetus for change must come from outside.*

Massachusetts Coalition for Healthy Communities



In conclusion, it is clear that the current cut-and-suffer approach to the budget is unwise, unfair, and unnecessary. It violates our values and damages our quality of life and our future.

The best solution to the budget crisis is tax fairness. By asking those who can most afford it to pay their fair share, the budget deficit can be eliminated, and the cuts in vital services can be restored.

The entrenched system on Beacon Hill has evolved to protect the status quo. Citizen engagement and leadership is essential to fundamentally change the direction on Beacon Hill.

# Save Our Communities!



- Healthy Communities!
- Fair Taxes!
- Real Democracy

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We hope this presentation has been informative.

Remember that in America, all just power derives from the consent of the governed. We have a right to the future we want, not that which powerful interests dictate to us.

By standing up and speaking out for our communities, we can help build the healthy, just, prosperous, and democratic Commonwealth that we and our children deserve.

## ACKNOWLEDGEMENTS

Much of the data in this publication originated with publicly released material from a number of governmental and nonprofit organizations. MCHC acknowledges and thanks the following organizations in particular who are making valuable contributions to the understanding of the issues before us:

Center for Tax Justice  
Center for the Study of the American Electorate  
Institute on Taxation and Economic Policy  
U.S. Department of the Census  
Massachusetts Budget and Policy Center  
Massachusetts Department of Revenue  
Massachusetts Taxpayers Foundation  
National Conference of State Legislatures

These annotated slides were produced by the **Massachusetts Coalition for Healthy Communities**, a nonpartisan, nonprofit organization formed to help citizens protect all aspects of healthy communities, including health care, the environment, the economy, and true democracy.

Further information on the issues discussed here can be found at the MCHC website:  
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