HAWAIʻI BUDGET & POLICY CENTER

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HEALING HAWAIʻI'S ECONOMY

The State Government's Crucial Role in Countering the Pandemic Recession

GOVERNMENT EXISTS to carry out the public good—those services we all depend on that can't be performed individually. One of these essential services is economic regulation. During economic downturns, government needs to increase spending to counteract the drop in private sector activity. In other words, when the engine of private sector spending sputters, government has to provide the back-up power to keep the economy aloft.

Another essential government service is to increase support for basic needs—food, healthcare, housing—for people hurt by a bad economy. For these reasons, prudent governments do not cut jobs or services in hard times.

The Great Recession took a toll on our economy and state budget a dozen years ago, and it left us with valuable insights on how state government's actions can either support and speed recovery or allow recession and job loss to linger. Here are five lessons about state policy and reviving the economy:

LESSON 1. ECONOMIC RECOVERY DEPENDS ON STATE SPENDING

ECONOMIC HEALTH depends on money being circulated throughout the community. When private businesses shrink, government has to step up spending in order to keep money flowing.

- Every $1 in state spending adds at least $1.50 to the economy; every $1 cut from spending subtracts at least $1.50.
- Recessions have longer and more painful effects on employment and the economy than previously thought.
- Direct government spending on services and infrastructure can make the difference between a fast or slow recovery.
- Studies show that four years after the start of the Great Recession, states that cut their budgets had higher unemployment, fewer private sector jobs, and shrinking economies. States that expanded their budgets saw renewed economic growth.

LESSON 2. GOVERNMENT SERVICES HELP PEOPLE AND SUPPORT THE ECONOMY

DURING HARD TIMES, people need the support of public programs to get back on their feet. Government spending on vital services are good not just for the direct beneficiaries but also for the state economy because these services increase the flow of money throughout the community and support jobs.

- Enrolling as many people as possible in SNAP feeds families and brings in federal dollars that are spent immediately for groceries.
- Covering people who lose employer health insurance with Med-QUEST helps them maintain their health, brings in federal dollars, and supports local providers and insurers.
- The state can get a federal grant to implement the Short-Time Compensation program, which can provide enhanced unemployment benefits for workers whose hours are cut.
- EITC, the Refundable Food/Excise Tax Credit, and the Low-Income Renters Tax Credit help low-income families pay their bills.

LESSON 3.
CUTTING PUBLIC WORKER POSITIONS AND PAY HURTS THE ECONOMY

LAYOFFS AND FURLOUGHS reduce the spending capacity of a large part of Hawai‘i’s workforce. Layoffs would increase the unemployment rate so would be particularly counterproductive.

- Every $1 cut from workers’ pay damages the economy by $1.50 to $2.
- A 2-day per month furlough might save the state $330 million but it would pull $500 million or more out of the economy.

LESSON 4.
STATE SERVICE CONTRACTS SUPPORT JOBS THROUGHOUT HAWAI‘I

A LARGE PART of the state budget goes to pay for services in the private sector. Cutting spending there would be as bad for the economy as cutting state worker jobs and pay.

- The state spent $575 million in 2020 for health and human services delivered by private nonprofit organizations. This spending contributes $863 million to economic activity.
- Cutting nonprofit contracts would reduce services and undermine economic activity and jobs - often in the most vulnerable communities - just when they are most needed.
- For-profit businesses that contract with the state also contribute to the economy, support jobs, and pay taxes.

LESSON 5.
INFRASTRUCTURE SPENDING SUPPORTS THE ECONOMY AND BUILDS HAWAI‘I’S FUTURE

BORROWING MONEY now for infrastructure improvements earns a high return on investment and addresses current and future priorities.

- Investing in capital projects during a recession gets an especially high return on investment. Every $1 spent on infrastructure contributes $1.57 to the economy.
- Hawai‘i has significant infrastructure needs from expanding broadband, to addressing climate change, to improving our roads, airports, and schools.

Additional Revenues are Needed to Balance the Budget

The COVID-19 recession has devastated many workers in low-wage service jobs, but affluent residents and high-wage workers may be wealthier than ever. High-end earners were less likely to suffer job losses while the rich were able to benefit from a surging stock market and rising real estate prices.

Some places to look for progressive revenue solutions include:

- **Taxes on the wealthiest.** Trump Administration tax reform gave big tax cuts to the wealthy. In 2018, the average Hawaiʻi tax rate paid by millionaires was 6.8 percent.
- **Taxes on capital gains.** Earnings from investments benefit mostly the wealthy. Hawaiʻi caps the tax rate on capital gains at only 7.25 percent, much lower than the top marginal income tax rate of 11 percent.
- **Taxes on estates.** Hawaiʻi allows estates valued up to $5.5 million to go to heirs without taxes.
- **Taxes on real estate conveyance.** Between 2019 and September 2020, purchasers bought $8.4 billion's worth of houses in Hawaiʻi. The higher the average price, the more likely the purchaser was a nonresident.
- **Taxes on Real Estate Investment Trusts (REITs).** REITs own $17 billion dollars in Hawaiʻi's income-producing properties. Unlike individuals and corporations, REITs pay no taxes to the state on this income.
- **Taxes on profitable corporations and multinational corporations.** Like wealthy individuals, the Trump tax reforms cut taxes on corporations. Those making a profit, including multinational corporations doing business here, can pay more.
- **Tax credits and exemptions.** The state tax code allows many kinds of businesses to reduce their tax liability through exemptions or credits. During the Great Recession, the legislature suspended some of these. A similar suspension now could yield $250 million in increased tax revenues.