NewsLink
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Special Edition

The Unmaking of the American City
How the Novel Coronavirus Outbreak Will Turn the Young and Talented Away

by Benny Magid
Columbia University

It's been four months since I weaved through Manhattan traffic in a hurried move back to my home in suburban Boston. My rental car was crammed floor to ceiling with the dismembered fixtures of my first-year dorm room. During the solitary 4-hour drive North, I had time to seriously weigh the costs and benefits of tuition, once justified by Columbia's proximity to "the big city" and the endless job opportunities that its location would afford me.

Now, after finishing my first semester of online courses, I'm thinking critically about where I see myself geographically after graduation. It seems standard for a computer science major such as myself to graduate and move to a major U.S. city like New York, Los Angeles, San Francisco, or Boston, but the once "standard" migration of the young and educated will soon shift towards smaller, cheaper cities and suburbs.

Americans' growing distaste for large cities is nothing new. For decades, Los Angeles, New York, and Chicago have seen more U.S. residents move out than in. Their growing populations have mainly been composed of immigrants moving in. Now though, the overall population in major U.S. cities has begun to decline, and that decline is speeding up, according to a Brookings report. The COVID-19 outbreak will undoubtedly accelerate this trend in big cities and smaller cities alike.

Before the novel Coronavirus outbreak, the stage was already set for a mass migration of young families away from cities towards more suburban outskirts. A 2018 *Wall Street Journal* report found that millennials were leaving crowded, expensive cities like New York and Chicago for more spacious suburbs. Pair this trend with the expected explosion of remote work options after the pandemic, and cities lose much of their appeal to young, mobile professionals. A Global Workplace Analytics report predicts that by the end of 2021, 25% of the workforce will be working from home; that's almost 7 times the 3.6% that worked from home before the outbreak.

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Throughout its history, The Beacon Hill Institute has thrived on the success of its internship program. The Institute's research agenda draws student interns from institutions of higher learning across the United States. This summer, the Institute greatly benefited from the enterprising work of more than a dozen interns who researched, compiled and analyzed data that supported studies on the Commonwealth's response to the COVID-19 pandemic, state fiscal policy, industry regulation, international trade, and interstate competitiveness. The enthusiasm, creative individuality and rigor from our interns point to a brighter future for all. We thank the 2020 BHI interns for their contentious and capable work during this unconventional summer internship program.
- The Beacon Hill Institute Staff

Returning to Work After the Pandemic:

The Long-term Decline of Commerical Real Estate

by Caroline Pitman
Catholic University

Before the outbreak of COVID-19, the Boston real estate market was in a period of rapid growth. Rents were skyrocketing before the COVID-19 epidemic reached Boston. At the time of the Governor's stay-at-home order, there were less than a hundred cases in Massachusetts; however, the city braced for a rapid spread. This order shuttered non-essential businesses and pushed workers home.

Before this unpresented change, the demand for both traditional office spaces and other spaces, like co-working spaces, led to rising rents and a high demand for commercial real estate in Boston's commercial hubs. In 2019, the asking rate for commercial real estate in Boston increased by 4.21% from Q1 to Q2 according to Nordlund Associates.

Since March, life has rapidly changed within the city. The emerging market of co-working spaces as well as traditional offices are struggling with the short and long-term implications of the massive shift and transition to remote work. While some of these changes may only last until it is safe to return to a physical office, many companies are considering permanent changes, including reducing the number of physical workplaces, as Massachusetts reopens. That is not to say there will be a large scale exodus of companies out of their workplaces; however, there will be long term shifts to remote work and at least in the short term, there will continue to be a decline in demand for commercial real estate. Moody Analytics[1] predicts rents will fall in Boston by 12.6% in the next year due to the decline in demand.

Michael Klein, a professor of International Economic Affairs at the Fletcher School of Tufts University, stated "All the jobs that were created between 2010 and today have been erased within a month. The IMF has said this is the worst downturn since the Great Depression,"[2] In a recent interview with Boston Realty Advisors. While this downturn is different from the 2008 crisis for a number of reasons, the market will not rebound immediately. A gradual reopening of Massachusetts, as detailed in Governor Charlie Baker's reopening plan, will lead to slow growth. As offices reopen, they must comply with the strict health and safety measures. In the governor's recently launched reopening plan, during phase one, workplaces will have to ensure employees and customers remain six feet apart and require face shields for all those inside the workplaces.

Downtown workspaces will not go away; however, there is likely to be a decline in demand for commercial real estate.

For businesses that have already transitioned to remote work, it does not make practical sense for every employee to return to the workplace under these strict measures. Open workspaces and cubicles are not compatible with the

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current health and safety guidelines. It is costly for companies to provide adequate sanitation measures and unnecessary when work can be done remotely.

It is unlikely for companies to completely forgo workspaces; however, there is likely to be a decline in demand for commercial real estate. Since March, Morgan Stanley transitioned 90% of its 80,000 employees to remote work. Company CEO, James Gorman, emphasized the role of the physical workplace in cultivating office culture and community. "But could I see a future where, part of every week, certainly part of every month for a lot of our employees to be at home? Absolutely," .

With this model, large companies would require less space. Since companies have already been forced to build the infrastructure required to operate remotely, the need for physical workplaces will be fundamentally altered.

Looking forward, companies may choose to stagger their employees' workdays in the physical space or only have certain employees return to the space. In the long term, some companies will permanently shift to a hybrid of in-person and remote work. In the short term, it appears companies will be required to maintain social distancing guidelines. With all of this, the need for commercial real estate will not by any means disappear but the demand will decrease and fundamentally change the commercial real estate market. ←

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The Global Economy in a Pandemic

The Coronavirus Economy Offers Little Certainity

By Donny Tou
Newton South High School

As countries around the world have turned to lockdowns in order to "flatten the curve" of the coronavirus pandemic, their respective economies have been halted as well. The International Monetary Fund (IMF) projects that the global economy is expected to contract by 4.9% in 2020, a contraction much worse than the 2008-09 financial crisis and the steepest slowdown since the Great Depression.

In response, policymakers around the world have begun preparing massive fiscal stimulus packages for their own countries as frontline defenses against these viral economic downturns. Although such recovery policies aimed towards domestic stimulus are rightly needed, an international response is a next step we need to take in order to maximize recovery on the global scale. Thus, policymakers have to keep one critical thing in mind: a global response against a global economic crisis.

Photograph by Frank Conte

Unlike during the 2008-09 financial crisis, unfortunately, the current "coronavirus economy" has no global plan, nor leader, to combat economic slowdown. China's leadership, for example, seems "less inclined" to spearhead a global economic recovery this time than it did following the Great Recession. The United States and China continue to compete for power, and are taking jabs at one another. Moreover, unity within the European Union itself is being tested. These are just some examples of a fracturing global unity at a time when we need it the most.

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Global Economy, continued from page 3

When the world faced its previous economic crisis in 2008, major powers banded together to rehabilitate the global economy. At the time, the Group of Twenty (G20), or the world's richest countries comprising 80% of the international economy, organized a series of economic stimuli that totaled trillions of dollars of capital to prevent worldwide economic meltdown and enable global recovery.

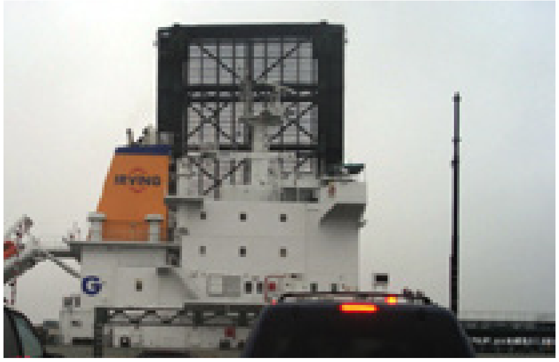
During this current crisis, G20 countries have already provided $6.3 trillion in fiscal support. However, the spending was a "cumulative total" of what each individual country would domestically spend on its own respective economy, not spending aimed towards international recovery.

In 2008, the IMF also issued a modest SDR 189 billion that would help economically vulnerable developing countries. And though the IMF is currently ready to lend support (at a much higher level than in 2008) to today's hard-hit emerging markets, there is still much more to be done at the international level to help these countries steer through this new crisis and emerge more resilient. The World Bank has also pledged $160 billion to the developing world, but this capital (along with the IMF money) will have to be borrowed, something that capital-restricted emerging markets will be burdened with (especially with recent capital outflows) in the long term. There needs to be more than just concessional financing; with the volatile status of the coronavirus, cooperative fiscal outlays are critical to tackling both health and economic crises for the world's most poorest countries.

Moreover, trade, which represents 60% of global GDP, is economically productive and should not be used as a weapon like it is being used in today's world. As the virus ultimately slows down, countries around the world should embrace global commerce as a method for long term economic growth. The collapse of international trade during the Great Recession exacerbated that financial crisis; we should not let this happen again.

As the virus ultimately slows down, countries around the world should embrace global commerce as a method for long- term economic growth.

Finally, it is important to note that today's economic crisis and the 2008-09 financial crisis are not exactly the same. Today's crisis may be larger, and a supply shock could be massive. However, a key trait that both large crises share is the presence of modern, global economic interconnectivity, which plays a critical role in how the international economy can collapse, but also in how it can recover and grow once again. Let's work together to utilize this interconnectivity to its full potential and bring back growth to the world's economy. ←



NewsLink is a special publication of The Beacon Hill Institute for Public Policy Research. The Institute focuses on federal, state and local economic policies as they affect ctiizens and businesses, particularly in Massachusetts. The Institute uses state-of-the-art statistical, mathematical and econometric methods to provide timely and readable analyses that help voters, policy makers and opinion leaders understand today's issues.

The American Trade War Continues: How the Pandemic Will Alter American Tariffs

by Henry Fernandez
Tufts University

As his frustrations grow with Beijing over their handling of the COVID-19 pandemic, President Trump's rhetoric on reigniting a trade war with China has steadily become sharper. Despite tweeting that "100 trade deals" could never compensate for the damage Covid-19 has inflicted on the U.S. economy, his administration has threatened new tariffs on China as an act of retaliation. This is a threat that, if followed through on, could be disastrous for the United States.

Despite escaping last year's trade war relatively unscathed, the U.S. may very well be too weak to handle another one this time around. The coronavirus has made an enormous dent in the economy, and while paths forward do exist in helping American businesses recover amidst this crisis, there are lessons to be learned in taking a protectionist stance during a recession.

By removing the tariffs currently in place, the U.S stands a better chance of receiving the necessary supplies to minimize the spread and death toll.

Considering the effects of the Smoot-Hawley Tariff Act — signed into law in June 1930 by President Hoover — the Trump administration would be ill-advised to pursue new tariff regimes. Smoot-Hawley was largely responsible for exacerbating and prolonging the crisis.

In the time between its enactment and 1932, the U.S. saw its imports decrease from $4.4 billion to $1.5 billion (-66%) and its exports fall from $5.4 billion to $2.1 billion (-61%). All the while, the country's gross national product fell from $103.1 billion down to $55.6 billion. The Smoot–Hawley Act also failed in combating joblessness as the unemployment rate jumped from 8% at its enactment to 25% by the start of 1933. While the tariff hikes are not solely responsible for these figures, there is little dispute that they aggravated the situation and that a different course of action should have been pursued. As can also be seen in the present day, other countries responded negatively to the United States Tariff Act of 1930 by raising international trade restrictions of their own. This resulted in imports becoming unaffordable. Faced with an economic crisis on the scale of the Great Depression, President Trump's and President's Hoover's priorities are similar: to protect and promote domestic manufacturing. The sentiment to help the U.S. businesses is positive from the President, but his decisions in doing so must be evaluated very cautiously. That is the long term. The short term effects of a trade war could be extremely damaging as well when considering the medical costs. As it stands, there is a 7.5% tariff on roughly $3.3 billion worth of imports of critical health care equipment necessary in combating Covid-19 according to the Peterson Institute of International Economics. Trump's current trade policies are forcing China to export its essential medical supplies to other countries. By removing these tariffs, the U.S. would put itself in a far better position to receive these supplies as the rest of the world desperately scrambles to import them. Since China began boosting production in January, they have a surplus of personal protective equipment, equipment that the U.S. desperately needs but is struggling to get its hands on. Additionally, imposing new tariffs would likely damage any efforts to coordinate a swift international response to the pandemic. Yanzhong Huang, senior fellow for global health at the Council on Foreign Relations notes that "Our ultimate success in containing the spread of Covid-19 is to a large extent dependent upon how effective other countries are dealing with the outbreak. We cannot claim victory unless other countries are virus-free".

The first step in recovering from this global pandemic is containing the spread. By removing the tariffs currently in place, the United States stands a better chance of receiving the necessary supplies to minimize the spread and death toll. Beyond this, opting not to continue with a trade war on China gives the U.S. the best odds of dampening the magnitude of this recession and hopefully seeing a stronger recovery than that of the 1930s.←

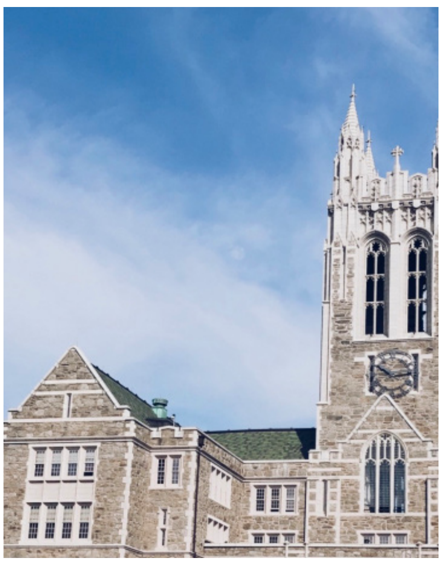
The Pandemic's Shock on Higher Education

by George Yeghyayan
Suffolk University

In the spring, Boston schools such as Harvard, MIT, and many others announced that in compliance with quarantine measures, they would switch to virtual learning for the remainder of the spring semester. Schools such as Suffolk University later decided that summer courses would also make the switch to online classes, and now the various learning hubs of the city contemplate the continuation of these measures into the following academic year. Though better than no education at all, what would the thousands of young people aspiring for an education in Boston be missing?

Although the universities of Boston have chosen a more gradual return to normal activity, positive developments in both COVID-19 research and cases may incentivize them to loosen their tight strategy.

Perhaps the most consequential sacrifice that was made with the introduction of online classes was the sheer opportunity provided to the students who are currently receiving their education in a Boston-based academic center. Students pursuing medical degrees have hospitals which give them straight paths into their future careers, sometimes right across the street. Aspiring lawyers have firms, courthouses, and the offices of legislators who are always looking for interns; the perfect place to build experience and establish connections. The same goes for students in business and science-related programs, who rely on co-ops and credited careers that form a fundamental part of their education. Extra-curricular appeal provided by Boston's schools do not end at apprenticeships and internships, however. There is an appeal to university/college student involvement and life that is very unique to the institutions in Boston. Clubs, student organizations, and on-campus departments have options to offer and people in other places could not experience. Boston is a city full of history, culture, and vibrance that is hard to replace, and so local schools pride themselves (and market) the fact that their students would have a world of opportunity at the tip of their fingers.



But how do Boston schools introduce their students to these opportunities? At the cost of constantly-rising tuition rates, they hire professors, department heads, and other staff that provide some of the best education in the world. Two of the most renowned schools in the world, Harvard and MIT, are located a train ride away from the city center. BC, BU, Northeastern, and Suffolk all have prestigious degrees to offer, and that very prestige is a massive contributing factor to the appeal of choosing Boston over other places. The overall appeal for coming to study in Boston, under normal circumstances, is worth the high rates and accommodations. The mandated quarantine set by local and state governments, as well as by the federal government, were put in place with the purposes of stopping the spread of the coronavirus, or COVID-19, as much as possible.

After months of implementing policy centered around social distancing, Boston has particularly seen a drop in cases and easier circumstances to open up the city; if the city administration and populace stay on track, then the only real way to maintain a healthy level of interest in local schools is to open the state back up fully. Although the universities of Boston have chosen a more gradual return to normal activity, positive developments in both COVID-19 research and cases may incentivize them to loosen their tight strategy and bring back their physical student life. ←

As Immigration and Travel Slows, U.S. Economy Falters

by Alice Nguyen
Suffolk University

The travel ban is already hurting the US economy as well as Europe's economy, with billions of dollars in losses.

Immigration has had an enormous and wide-ranging influence on America's open economy. It has contributed to America's unique status in the world. Along with the limits on international travel, immigration poses serioius challeges as the nation copes with the COVID19 crisis. For example, the segment of undocumented workers who comprise a part of overall immigration has sparked controversy For generations, American leaders still have struggled to find a rational policy for immigration, which most economists agree contributes to a nation's wealth overall. For a variety of reasons, the number of undocumented immigration increased rapidly in the last decades. This has divided policy makers between restrictionists and open border advocates. The onset of the COVID19 crisis isn't helpful.

The number of people who test positive for this virus is increasing, and likely to be far higher. The virus doesn't distinguish between citizen and non-citizen. Meanwhile, tens of thousands of asylum seekers from Central America and Africa have been stranded in Mexican border cities. They have to wait until their cases are solved in the US courts but now postponed due to this pandemic. Even though a few have been showing symptoms, and they have no access to the coronavirus test kits there. People don't have the ventilators, beds to deal with in this situation, their lives have suffered so much even before this pandemic. Moreover, it reduces their ability to provide the needs of the family, because many family members are being affected by the COVID-19 financially and medically.

Along with the lack of a rational immigration policy, the movement of people including tourists is diminishing economic opportunity. The travel ban, imposed by President Trump on 26 European countries, came into effect as a part of the emergency response to the coronavirus crisis. It's already hurting the US economy as well as Europe's economy, with billions of dollars in losses predicted. "The U.S. travel and tourism industry could lose at least $24 billion in foreign spending this year as more visitors are lost than even in the aftermath of the 9/11 terrorist attacks." Airlines and hotels had already taken a big hit as well. For example, "Delta announced that it is cutting its flight schedule by 40%. It's parking some 300 airplanes because of diminished demand for travel." So far, travel from the US to other countries at this moment has not begun to fully return. And the European Union has placed its own restrictions on American s travelling. The international capacity of Americans is about 20% lower, and other capacities are still expected to be low. "Ultimately, airlines that have built their business models around international travel will continue to struggle, even as domestic travel returns."←

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COVID19 Could Change Labor Force

by Calvin Sonalia
Florida State University

The visible economic effeccts of thenovel coronavirus are clear. Yet there are some economic effects aren't as obvious. One of these long-term effects is the shape of the labor force. The coronavirus has forced many employees to work remotely. If the productivity of these workers remains constant when compared to the office, business owners may be encouraged to continue to allow employees to work from home. This, in turn, would reduce the need for current office spaces and render many office construction projects obsolete. According to an MIT survey of over 25,000 American workers, roughly 15 percent of the workforce worked remotely before the coronavirus outbreak. Figures indicate that upwards of 50 percent of the workforce is currently working remotely. Many businesses plan to adapt the current changes for the long-term. For example, Jack Dorsey, the CEO of Twitter recently announced that if Twitter employees wish to work from home post-pandemic, they may on a permanent basis. A new wave of at-home workers could potentially reduce capital investment by businesses and harm the GDP, but this could be offset by an increase in the number of homes purchased, as employees would no longer need to live near their offices in cities.Without the need to commute to offices, either by foot, vehicle or public transportation, there will be a smaller number of vehicles on the road resulting in fewer motor vehicle accidents. Less commuting also allows for more disposable income in the pockets of individuals, making room for more investment potential.

If the productivity of remote workers remains constant when compared to the office, business owners may be encouraged to continue to allow employees to work from home.

Photograph by Stephanie Davis

With the newfound ways to cut costs in several areas, businesses and universities could look dramatically different post-COVID. Universities have also adapted to the COVID-19 pandemic. The majority of universities have shifted to remote online classes to accommodate for the coronavirus outbreak. Dorms are empty, as they are an environment prime for rapid spread of a pathogen like COVID-19. Online classes are a convenient way to continue education while away from the physical campus. Universities may take note of this trend and continue to administer online classes for a portion of their students after the pandemic has ended. Smaller universities could cut spending on dormitory construction and classroom building construction by allowing most, if not all of their students to take remote classes. There is some upside. Giving students the option to take online classes could allow the students to save more money and potentially expand their long-term wealth, instead of being saddled with debt. ←

The Massachusetts Revenue Shortfall and Public Sector Unions

COVID-19 Creates Uncertainity for Public Sector Unions

by Will Silverman
Cornell University

As the number of COVID-19 cases nears 3.2 million in the United States, the effects of the pandemic are leading to major budgetary and economic consequences. Essential businesses can remain open, yet most Americans are forced to work remotely and follow stay at home orders. In order to alleviate stress these drastic changes have had on many workers, the deadline for income taxes has been extended until July 15. For states like Massachusetts, the tax revenue shortfall represents not only a paralyzation of the Bay State's economy, but potentially major consequences for public sector unions.

Many conditions outline the possibility of unions remaining competitive in any labor market. Challenging their competitiveness, scale and substitution effects are always at play as technological inputs and globalization circumscribe union power. As such conditions determine the benefits union workers are awarded (or limited to) in labor-management bargaining negotiations, it is often considered that the busi ness cycle affects these conditions. According to Ruth Milkman and Stephanie Luce, authors of "Labor Unions and the Great Recession," the downward trend in private sector unionization from the early 1980s does not show an apparent relationship to the business cycle.[1] Furthering this view, Richard Freeman and James Medoff explained in their book, *What Do Unions Do?*, that wages of union workers tended to be less sensitive to business cycle ups and downs due to three-year contracts.[2]

Though labor unions have been insulated from many fluctuations to the business cycle in the past, our current crisis may pose a unique challenge to wage rates and membership. Researchers from the Center for State Policy Analysis at Tufts University estimate a tax revenue shortfall of $1.8 billion to $3 billion over the next 15 months for Massachusetts.[3] Nationally, sources indicate that unemployment could hit 25 percent. Union membership for Massachusetts has remained relatively stable over the decades, ranging from roughly 23 to 39 percent between 1973 to 2019.[4] But new legislation could undermine such historical stability. With the Supreme Court's ruling in Janus v. AFSCME, public employees not in a union are no longer required to pay union dues. Prior to this decision, 22 states had a "fair share" provision in their labor laws, which required people represented by -- but were not members of -- unions to pay fees to cover the cost of the unions' collective bargaining activities. This decision has served as a major victory for "right-to-work" states, but the Massachusetts Legislature overwhelmingly overrode Governor Charlie Baker's veto of a union-friendly law on September 19th, 2019; the Massachusetts bill allows unions to charge non-members certain fees, relieves unions of some of their obligations to those non-union employees, and expands unions' access to public employees. Regardless of the efforts of legislators in Massachusetts, according to the National League of Cities, new budget cuts due to COVID-19 could be profound: between 300,000 and 1 million public-sector workers could soon be laid off or sent home without pay.[5] The *Boston Herald* reports that "unemployment claims among government workers have jumped 9% since the coronavirus swept across Massachusetts."[6] Without increases in taxes or a reduction in government spending, budget cuts could heavily impact public sector unions at the local and state levels Beyond such findings, a reorganization of work across all spectrums is possible. Will a fear of interactive, service-based employment be replaced by technological processes to limit future infections? Are public sector unions too large of a relative cost

For states like Massachusetts, the tax revenue shortfall represents not only a paralyzation of the Bay State's economy, but potentially major consequences for public sector unions.

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to the state budget and are consequently driving up the deficit? To answer these questions, we also need to determine whether union or non-union public sector workers would be more greatly affected by such transformations. Based on all these factors, the consequences of the state's tax revenue shortfall will largely depend on the long term implementation of COVID-19 relief being directed towards public sector workers. In Minnesota, union officials are arguing that an infusion of potentially millions of dollars is needed to avoid cutbacks or layoffs due to the Coronavirus Aid, Relief and Economic Security (CARES) Act not covering the expenses that fire and police departments are forced to bear.[7]

In Massachusetts, Governor Baker has authorized a supplemental budget for the 2020 fiscal year to pay the wages of state workers on the front lines and other expenses. While membership layoffs will inevitably rise in Massachusetts as union officials predict in Minnesota, the hope of preventing such losses will depend on the adoption of expanded relief funding, a transformation of future work redefining public sector union versus non-union employment, and collective argaining agreements being upheld and contractually capable of supporting union workers through this pandemic. ←

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Opinion: A Critique of Modern Monetary Theory

by Luke Eldridge
Grove City College

Within the past decade a relatively new school of economics has come to the forefront of the subject and to public policy. This new school of thought within economics is named Modern Monetary Theory (MMT). Stephanie Kelton, a well renowned representative of this school of thought, writes in her book, *The Deficit Myth*, that MMT changes how we view our politics and economics by showing that in almost all instances federal deficits are good for the economy. They are necessary. And the way we have thought about them and treated them is often incomplete or inaccurate.[1] Kelton highlights the main vision that MMT advocates have, that infinite federal spending ìin almost all instances [is] good for the economy.[2] It is here that my issue with Modern Monetary Theory arises.

While Modern Monetary Theory has altruistic motives, it denies basic, proven economic principles.

Adopting a federal system based on MMT will distort economic calculation, induce a massive increase in moral hazard, and obscure the real purchasing power of money.

Allowing the federal reserve to print money ex nihilo, while the government is continuously racking up a massive deficit will undoubtedly lead to a "profit and lossî issue." The idea of economic calculation or profit and loss is a system in which companies can determine where to allocate their resources. For example, a simple childhood lemonade stand that sells both lemonade and mud pies will inevitably figure out that their cups of lemonade are selling vastly more than their mud pies. This lemonade stand is making profit through their lemonade but is taking a loss because of their misallocated resources with making mud pies.

This short anecdote gets at one of the main issues with MMT, that because of the infinite money supply and spending, it is impossible for the government to determine where to allocate resources. If this lemonade stand could simply invest an infinite amount of money into both their lemonade and mud products, then a $100 loss would be completely insignificant. With finite resources the lemonade stand owner is subject to going bankrupt and is forced to supply a service that meets the demand of consumers. Investing all his resources into mud pies would be asinine because he would go bankrupt; however, a stand with infinite resources could provide whatever worthless service because they can not determine people's preferences.

Another massive issue with allowing the federal government to engage in an infinite amount of spending is that it creates many moral hazard (perverse incentive) issues throughout the market. When entrepreneurs fail to have superior foresight than their competitors, or wrongfully invest in an unwanted area of the market, they would and should go bankrupt. With its infinitely open wallet, government would be capable of bailing out companies as they are going out of business. This action of saving an entrepreneur from going bankrupt sets up perverse incentives. If there is no punishment for investing and producing unwanted services, then there is no accountability for entrepreneurs. With a government constantly engaging in bailouts, entrepreneurs will gamble that their faulty actions will not lead to their destruction. Finally, with a government engaging in constant printing of

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Opinion: TCI Will Hurt the Recovering Economy

by Jose Manuel Rivero
Suffolk University

The proposed cap and invest system would restrict the flow of motor fuel into Massahusetts resulting in an increase of 42 cents per gallon in the *price of diesel.*

More than 8,000 Massachusetts residents have died as a result of COVID. The disruption of everyday activities has had a severe impact on the economy of the Bay State and will continue to do so as long as the Commonwealth's economy remains largely closed. Since Governor Baker issued a statewide stay at home advisory that forced all nonessential businesses to close, there have been more than 900,000 people who filed for unemployment insurance. Predictions suggest that Massachusetts unemployment levels could remain higher than thoseof the U.S. The Massachusetts TaxPayers Foundation (MTF) projected economic recovery to begin in July, and according to foundation president Eileen McAnneny, "Total employment will not return to pre-crisis levels until 2022."

As the state looks to stimulate the economy and allow some work places to reopen, unnecessary spending should be avoided and resources should be used in a thoughtful way. Ambitious plans and projects such as the Transportation Climate Initiative (TCI) should be, at least for the moment, postponed.

Table 1: The Costs and Benefits of a 22% Cap on Gasoline and Diesel

Variable	2022	2023	2024	2025	2026
Total dynamic revenue change ($,	431	431	432	432	432
Private employment (jobs)	-7,629	-7,478	-7,333	-7,193	-6,900
Investment ($, mil.)	-229	-233	-237	-239	-243
Disposable income, real ($, mil.)	-1,524	-1,548	-1,582	-1,607	-1,643
Cost per household ($)	585	595	608	618	631
Total social cost of TCI ($, mil.)	788	775	738	704	671
Total social benefits of TCI ($, mil.)	15	15	15	16	16
Net benefits (-cost) of TCI ($, mil.)	-773	-760	-723	-688	-655

TCI is a regional collaboration of 12 states and the District of Columbia that seeks to reduce emissions while cultivating a clean energy economy. A method called "cap and invest" would be used with a program administrator setting a cap on how much emissions can be released by fuel distributors. Earlier this year, The Beacon Hill Institute published a report in which the short-term costs and benefits to the state economy of participating in the TCI are estimated. According to the report, after the first year of the initiative (2022), business investment would fall by $229 million, disposable income by $1,524 million and private employment would fall by 7,629 jobs. Also, the average cost for Massachusetts households would be $585. By 2026, business investment would be reduced by $243 million, disposable income by $1,643 million, and private employment by 6,900 jobs. The cost to Massachusetts households would increase to $631.

Furthermore, the total loss of output, measured in real GDP, as a result of the TCI would be $788 million in 2022. As governor Baker plans to reopen the economy, demand for motor fuel will increase as people once again start carrying out everyday activities such as driving. The proposed cap and invest system would restrict the flow of motor fuel into Massachusetts which would also cause an increase of 42 cents per gallon in the price of on-road diesel. For many low income households, transportation costs consume a significant amount of income and a rise in gasoline prices would only cause further harm to families that are already going through financial turmoil because of COVID-19.

Massachusetts state tax revenues in April fell by 54% (compared to 2019) which is equal to $53 billion. As the state goes through the current pandemic and the economic impacts of the COVID-19, legislators and lawmakers should avoid joining initiatives that could potentially cause further financial harm, such as the TCI. With full economic recovery being unlikely to happen until people feel safe enough to carry out everyday activities such as riding the T, the costs of joining the TCI should be carefully taken into consideration by authorities. ←

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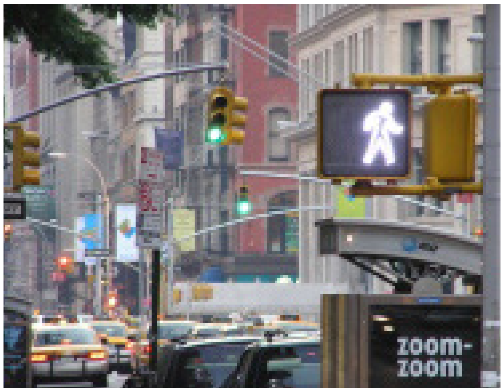
American City, continued from page 1

Connecticut Governor, Ned Lamont, summed up the new relationship between cities and remote work telling Bloomberg Law, "The old idea of the commuter going into New York City five days a week may be an idea that's behind us.

Maybe you have a great job that seems to be geographically located in New York City, you can do it two-thirds of the time from your home in Stamford."



What does this all mean for Boston, though? With rents on the rise and already negative population growth in the region, Boston's future looks as bleak as that of the larger U.S. cities. According to Boston Magazine, the median price for a single-family home in Somerville has increased 99% from 2008 to 2018, 85% for Cambridge in the same time, and 76% for the City of Boston. A review by the Boston Foundation found that the Northeast region of the U.S. had the lowest population growth between 2010 and 2018 at -0.8%. The report also states that Massachusetts' population growth rate has been kept positive only because of international migration. Boston is primed to lose many of its young visionaries as college graduates look for more affordable housing from high-profile jobs that pay enough to live there. We need look no further than the meteoric rise of Boston's Seaport District to see this locally.

Increasingly unaffordable U.S. cities have lost what was left of their appeal during the COVID-19 pandemic as restaurants, museums, and theatres are forcibly emptied. It will be a long time before any of these attractions come back in any recognizable form. With millions of Americans unemployed, city dwellers will not have the patience to wait for their apartments to be worth their luxury price tag (if that day ever comes). Young people returning to the labor market will find a new normal of remote work, and they too will question the value of their current, convenient, city center location. Developers must heed the warning signs sent to large U.S. cities if they wish to keep Boston an attractive housing option for the young and educated after the COVID-19 outbreak. ←

Updated BHI tax revenue estimate shows rebound in FY 2021

by Beacon Hill Institute Staff

As the Massachusetts economy turns the corner amidst the COVID-19 pandemic, The Beacon Hill Institute (BHI) projects that state tax revenues will total $27.731 billion in FY 2020, 6.6% below FY 2019, and $28.562 billion in FY 2021, 3.0% above FY 2020.

The shutdown clearly imposed costs on the state economy. In January, The Beacon Hill Institute estimated that Massachusetts state tax revenues would total $30.242 billion in Fiscal Year 2020, 1.9% above FY 2019. At that time the Institute, FY 2021, revenues would total $30.476, a mere .8% above FY 2020. The latest revisions do show some improvement for the current fiscal year.

William F. Burke, BHI Director of Research, released the estimate today which will also be presented to the administration and the Joint Committee on Ways and Means. Each year, the legislature uses the BHI estimate, along with estimates provided by other groups, to help determine the revenues needed for the upcoming state budgets.

Legislators have yet to pass a FY 2021 budget, as the state faces a potential $6 billion budget deficit.

"The major indicators for the state economy— like recent measures of state Gross Domestic Product and the unemployment rate —have translated into lower state revenues, "says Frank Conte, who co-authored the Institute's estimate. "Also putting pressure on revenues are consumer worries about their economic well-being."

In FY 2021, personal income taxes will increase by 9.5 percent and corporate income taxes will rise by 8.7 percent. Sales tax revenues will fall by 1.3 percent. Alcohol taxes will fall by 4.9 percent. Motor fuels taxes will increase by 2.1 percent, and cigarette taxes will increase by 1.0 percent. Other tax revenues will fall by 12.6 percent. Even with the rebound in FY21, state revenues will lag the FY19 highpoint of $29.7 billion. ←

BHI in the Media

States to extend fuel emissions talks into the fall
Gloucester Daily Times, May 16, 2020

Economists debate taxes
Commonwealth Magazine, May 31, 2020

State budget writers wait for federal bailout
Lawrence Eagle Tribune, July 15, 2020

Lawmakers may stretch Beacon Hill's calendar
The Daily News of Newburyport, July 25, 2020

Healey's climate lawsuit about headlines, not solutions
Boston Herald, August 11, 2020

MMT, continued from page 11

of money and utilizing this with purchasing assets will set off an an increase in the Cantillon effect. The Cantillon effect refers to the change in relative prices resulting from the change in the money supply. Under a MMT system, the Federal Reserve would constantly be producing new money. With an injection of new money into the economy, the purchasing power of the dollar would decrease. The people who receive this newly-printed money first would have an advantage over those who receive it later. Those who can spend the new money before inevitable price increase have a clear competitive advantage.

While MMT has altruistic motives, it denies basic economic principles. While under a MMT system would allow for the government to purchase anything, it would be lost in trying to discover just what the best output would be. ←

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[3] Nicolas Cachanosky, "Cantillon Effects and Money Neutrality", American Institute for Economic Research (June 27, 2017). https://tinyurl.com/y643llqv.
[4] Jim Cox, "Explaining the Economic Calculation Problem in a Principles Class," Mises Institute (March 14, 2018).

BHI Releases 18th Edition of its State Competitiveness Index

Massachusetts still on top, but Texas is catching up

Massachusetts once again secured the top spot on the [Beacon Hill Institute's State Competitiveness Index (SCI).]() The index, in its 18th edition, measures the ability of states to grow their economies and increase personal income. Massachusetts has retained the number one position each year since 2011.

The BHI competitiveness index is based on more than 40 indicators divided into eight subindexes–government and fiscal policy, security, infrastructure, human resources, technology, business incubation, openness, and environmental policy. Known in the field as a "productivity index", the BHI ranking distinguishes it from more narrowly-focused measures that target only taxes, high technology, quality of life, or economic freedom.

"Massachusetts continues to do well in our index because its workforce is attractive to the innovation industries drawn here," says Vanessa Robinson, Assistant Project Manager for this most recent report. "Strengths in human capital and openness allow us to overcome the perennial soft spots in our economy: the cost of labor, high housing and utility costs."

The most recent index is based on data collected for 2018 and does not reflect the current economic downturn prompted by the COVID-19 crisis where Massachusetts currently suffers one of the highest unemployment rates in the nation. "The good news is the Competitiveness Index captures long-term influences in the economy," remarks Frank Conte, Manager of the Project. "Should Massachusetts turn the corner, the fundamentals —or what is known as the "micro-foundations"— outlined in this report will be basis of a rebound."

Massachusetts was followed by Iowa, Texas, South Dakota, Idaho, Nebraska, Minnesota, Utah, Virginia and Colorado fill out the top 10. "One state that has moved up quickly Texas which has shown a mostly steady rise from 9th place in 2014 to 3rd place in the most recent measure based on strengths that close in on the Bay State's advantages such as technology, business incubation and openness," observes Conte. The lowest rated states are New Mexico, Oklahoma, West Virginia, Louisiana and New Jersey

Policymakers often compare a state's performance with that of "leading technology states (LTS)." However, these states do not always prove to be competitive according to the SCI. Massachusetts (1) Minnesota (7) Texas (3) Colorado (10) and Virginia (9) are the only LTSs to finish in the top 10. Other LTS states ranked as follows: Connecticut (33), North Carolina (11), New York (25), California (20), Pennsylvania (36), and New Jersey (50) ←

The managers of this latest edition of the SCI would like to thank interns, Vanessa Robinson, Benny Magid, Caroline Pitman and Will Silverman for their contributions.

State Competitiveness Index 18th Edition	Overall			Overall	
	Index	Rank		Index	Rank
Alabama	4.18	40	Montana	5.10	23
Alaska	3.74	45	Nebraska	6.14	6
Arizona	5.06	24	Nevada	4.52	32
Arkansas	4.22	39	New Hampshir	5.38	16
California	5.32	20	New Jersey	2.85	50
Colorado	5.92	10	New Mexico	3.74	46
Connecticut	4.51	33	New York	5.02	25
Delaware	4.03	42	North Carolina	5.91	11
Florida	5.23	22	North Dakota	5.85	12
Georgia	5.56	14	Ohio	4.51	34
Hawaii	3.93	43	Oklahoma	3.68	47
Idaho	6.28	5	Oregon	5.35	17
Illinois	4.09	41	Pennsylvania	4.34	36
Indiana	4.96	27	Rhode Island	4.34	37
Iowa	6.88	2	South Carolina	4.92	29
Kansas	5.62	13	South Dakota	6.30	4
Kentucky	4.81	31	Tennessee	4.32	38
Louisiana	3.14	49	Texas	6.70	3
Maine	4.94	28	Utah	5.98	8
Maryland	4.96	26	Vermont	5.27	21
Massachusetts	7.75	1	Virginia	5.95	9
Michigan	5.39	15	Washington	5.32	19
Minnesota	6.03	7	West Virginia	3.43	48
Mississippi	3.82	44	Wisconsin	5.32	18
Missouri	4.49	35	Wyoming	4.88	30

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