

## TESTIMONY

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## cSPA Testimony, American Rescue Plan

I want to thank you for inviting me to testify today. It's always an honor to help the Commonwealth address difficult policy questions.

My name is Evan Horowitz and I'm the Executive Director of the Center for State Policy Analysis at Tisch College, Tufts University, abbreviated as c-S-P-A and pronounced "sea-spa."

cSPA provides timely, relevant research on live policy issues in Massachusetts — in a strictly non-partisan way. That includes work on tax policy, economic aid, police reform, voting rights, TCI, the digital divide, and — most relevant for today — key principles for maximizing the impact of the American Rescue Plan (ARP) in our state.

Today, I want to emphasize two things that I believe will be vital to the efficient and successful use of federal ARP dollars:

- 1) A deliberate and unhurried timeline
- 2) A transparent, multi-step decision-making process

I'm going to address these one by one, starting with the first point: **the importance of a deliberate and unhurried timeline.**

Choosing how to spend \$5 billion in federal money is an exceedingly complex problem, not least because the number of choices is so vast.

Ample time has to be given for advocates to build their cases, citizens to weigh in, analysts to model long-term effects, and lawmakers to negotiate trade-offs.

And this may take a while, but that's OK. Indeed, given the current state of the economy, a delay in ARP spending may be a good thing.

Right now, the economy doesn't need any short-term stimulus. Outsize federal spending and low interest rates are already driving economic growth to exceptional, and possibly unsustainable levels.

We are in a very unfamiliar situation, which should change the way lawmakers think about their role in providing economic aid and stimulus — at least temporarily.

For decades now, the great economic challenge in Massachusetts — and across America — has been a lack of demand. And that lack of demand created a huge opportunity for governments to step in and spend where people couldn't.

But that's not the situation we're in right now. To the contrary, the US economy is bumping up against real limits in the amount of goods we can produce and supply: carmakers are unable to get vital parts; construction companies are battling for materials; and small businesses are struggling to attract workers.

And we know that these aren't just stray anecdotes because they're translating into system-wide price increases in the form of higher inflation.

In this environment, with inflation elevated and the economy facing real, short-term constraints, efforts to quickly spend federal ARP dollars are not just procedurally difficult but also economically risky, stimulating an already hyper-stimulated recovery.

Again, this situation is likely to be temporary, with inflation moderating in the months ahead and supply chains adjusting to better meet consumer needs.

Six months from now, or perhaps a year, the economy should be in a better position to absorb new government spending — meaning that a slower and more deliberate process will actually make many ARP investment more impactful than they would be right now.

If there is a driving reason to spend some money right away, it should be tightly targeted to aid to those with the highest needs or to support efforts to expand the state's long-term economic capacity through things like broadband subsidies and workforce training.

Otherwise, the most effective use of ARP money may involve efforts to spread out spending via long-term loan programs or debt repayment, as can be done for unemployment insurance.

Now, let me move to my second point: **the importance of a transparent, multi-step process** — ideally one that funnels decisions into ever-narrower choice points.

ARP spending decisions are really quite different from those in the traditional budget process. Among other things:

- ARP involves one-time money, rather than recurring revenue

- ARP funds are not tied to an annual calendar, but extend across a multiyear window
- ARP spending is constrained by a set of federally-imposed rules, with competing interpretations
- The ARP programs lacks clear interim deadlines

Each of these features of ARP raises novel challenges for lawmakers, who may need to create a para-budget process to manage ARP spending decisions, with different deadlines and a purview that crosses fiscal years.

Otherwise, absent some kind of ARP-specific process, it will be hard to resolve debates and reach agreement. There are simply too many competing proposals and worthy options.

One way forward is to create a kind of decision-making funnel, where early choices about high-level priorities filter down to later commitments around on-the-ground spending.

As an example, the legislature could aim to identify 6-8 areas of focus sometime this fall, areas where you hope to spend a large chunk of ARP money (let's say more than 10%), be it for transit, early education, the unemployment insurance trust fund, affordable housing, tuition-free college, racial justice, or adapting our economy for remote work.

With agreement on these 6-8 high-level priorities, lawmakers could then turn to more focused debates about specific programs and interventions in each bucket.

One advantage of this funneling approach (priorities first, details second), is that it would allow the state to make meaningful decisions around ARP while awaiting greater clarity on federal spending rules and restrictions.

More than that, it gives us time to learn from other states, both where we see potential paragons and also cautionary tales.

This basic funneling approach could then be enriched in a number of ways.

Adding annual spending targets, starting with FY 23, could help ensure consistent action across budget cycles and legislative sessions. It would also facilitate coordination with the regular budget process and allow for greater fungibility, where the savvy use of tightly-restricted ARP money frees up other revenue that can be used for broader purposes.

To maximize impact and boost transparency, it might also be valuable to create an independent advisory panel with an ambit to collect information, share data, and issue regular reports.

One function of this panel would be to provide the legislature with information about how ARP money is being used — not just by other states but by cities, towns, and agencies across Massachusetts. This information could help lawmakers maximize the impact of their spending and smooth coordination across the various ARP funding streams.

At the same time, an advisory panel could publish its findings online, thus sharing their insights with state residents, municipal leaders, and interested lawmakers from around the country.

I want to thank you again for inviting me to speak here today. I'm happy to answer any questions or share further thoughts. cSPA is always ready to provide research on topics or issues that you think useful.