



Issues in Tax-Exempt Finance

MassDevelopment, November 10, 2020

- I. An Overview of Macroeconomic Developments During the Pandemic
- II. Race-based Inequality of Economic Opportunity: The Facts, Some Ways Forward

Jeff Fuhrer

EVP and Chief Strategy Officer
Mass Development



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The US Macroeconomy in the Time of COVID

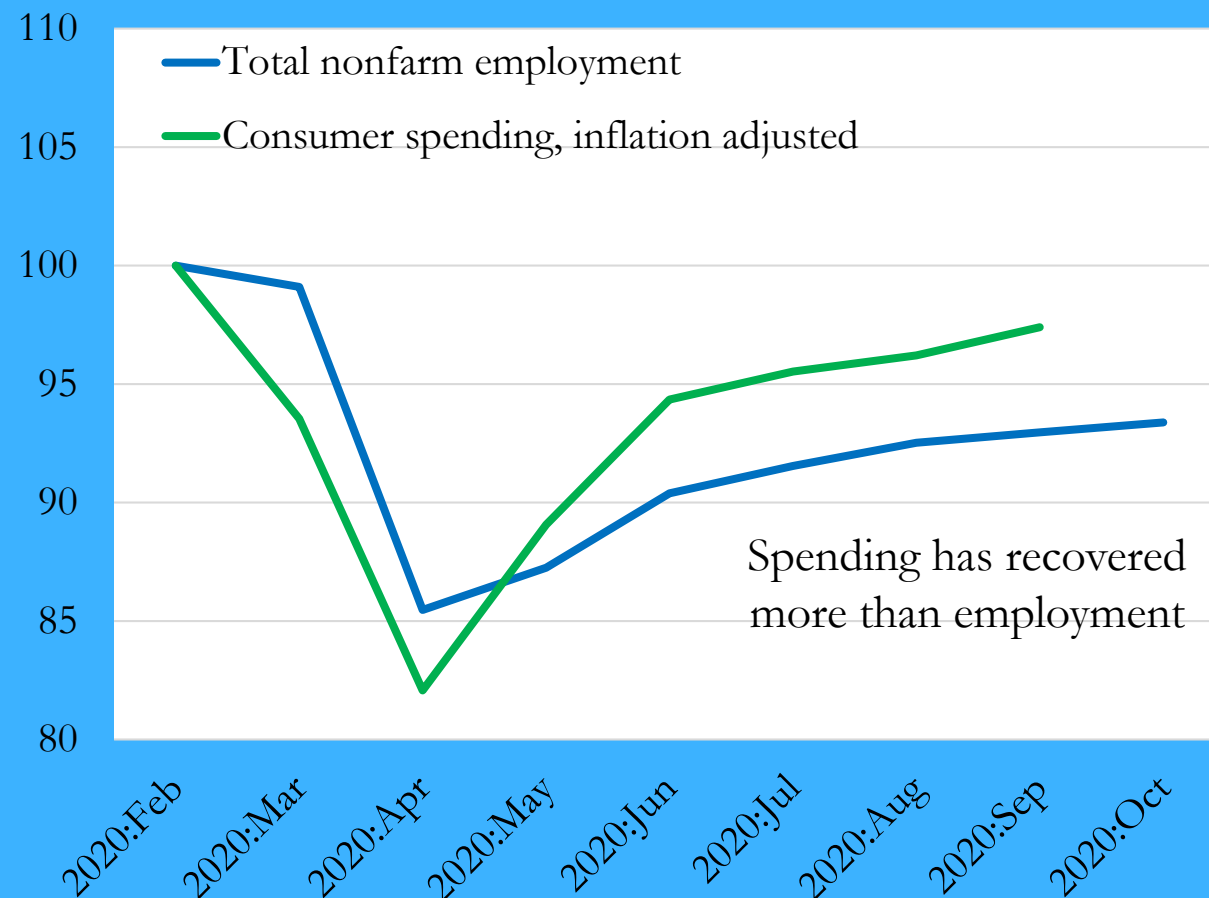
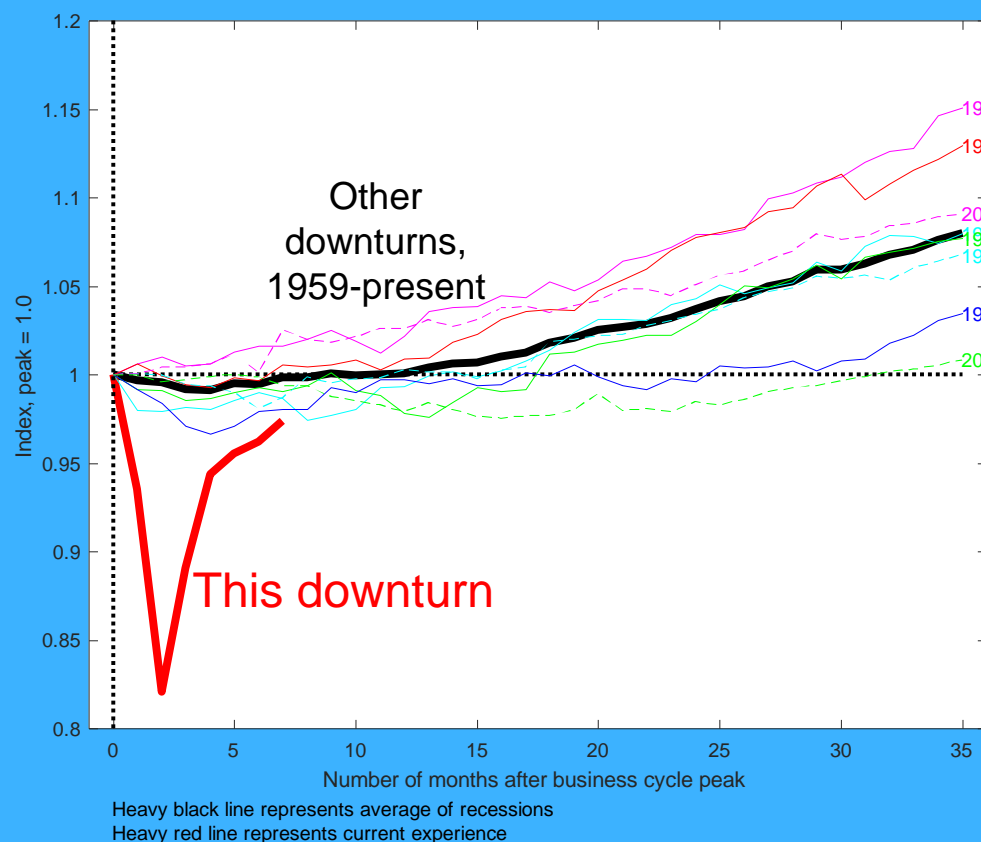
Not your average downturn: We have never seen this rapid a deterioration in spending and employment

- Unemployment
 - Initial claims—increased by about 26M in five weeks.
 - Never happened before.
 - Reference: 2007-9 recession peak was 665,000 in March 2009
 - Improved, but still at record-setting levels



Consumer spending and employment initially plummeted, but have recovered significantly

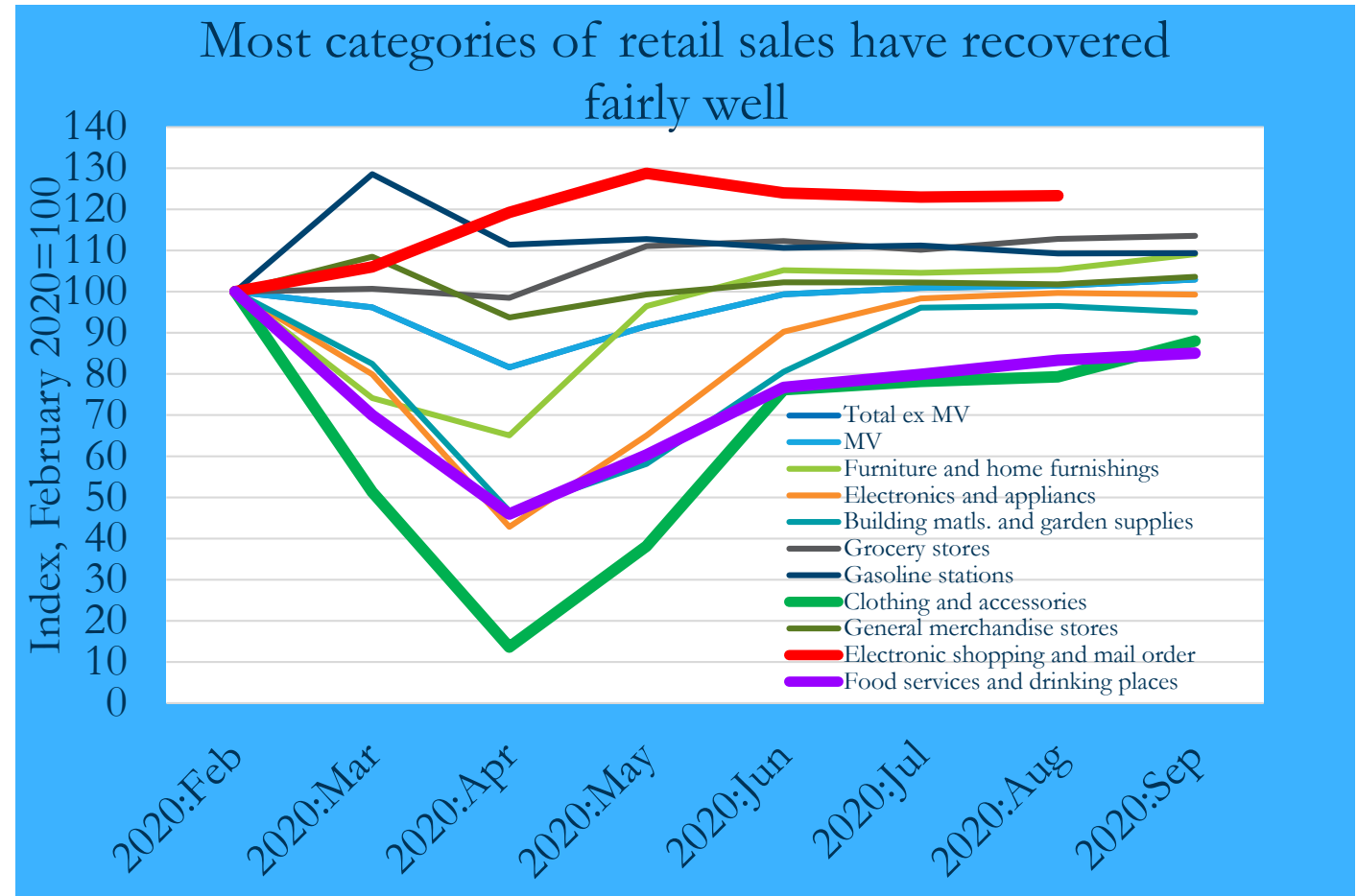
Consumer spending, inflation-adjusted, indexed from business cycle peak



The effect on the economy has not been even.

Some sectors did well; some tanked but recovered quickly

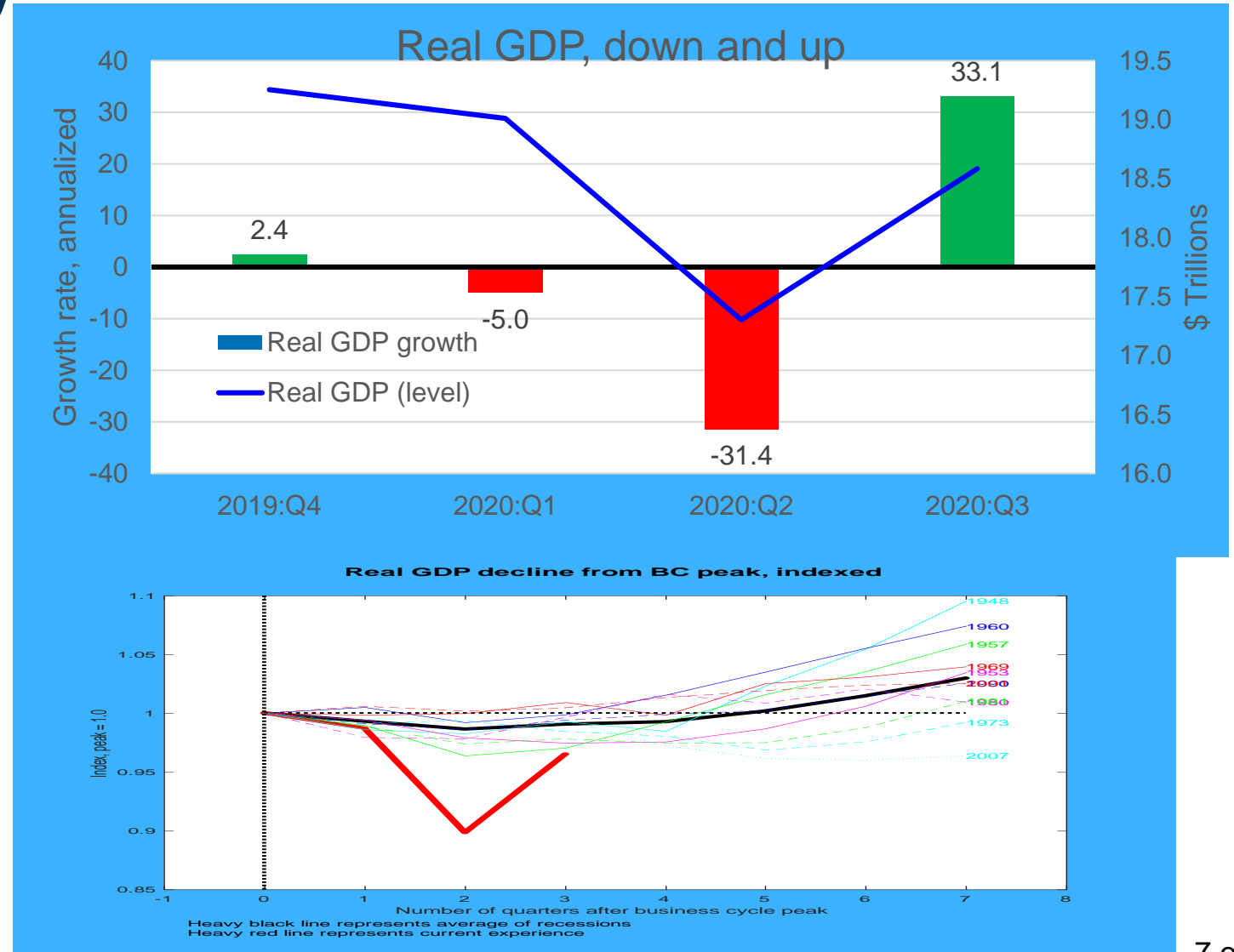
- Many components took a deep plunge in March-May
 - Exceptions are online sales, grocery stores
- Most have come back to or very near their February 2020 levels
 - The exceptions: Restaurants and clothing
 - Still 10-15% below their previous levels



Massive growth rates, down and up

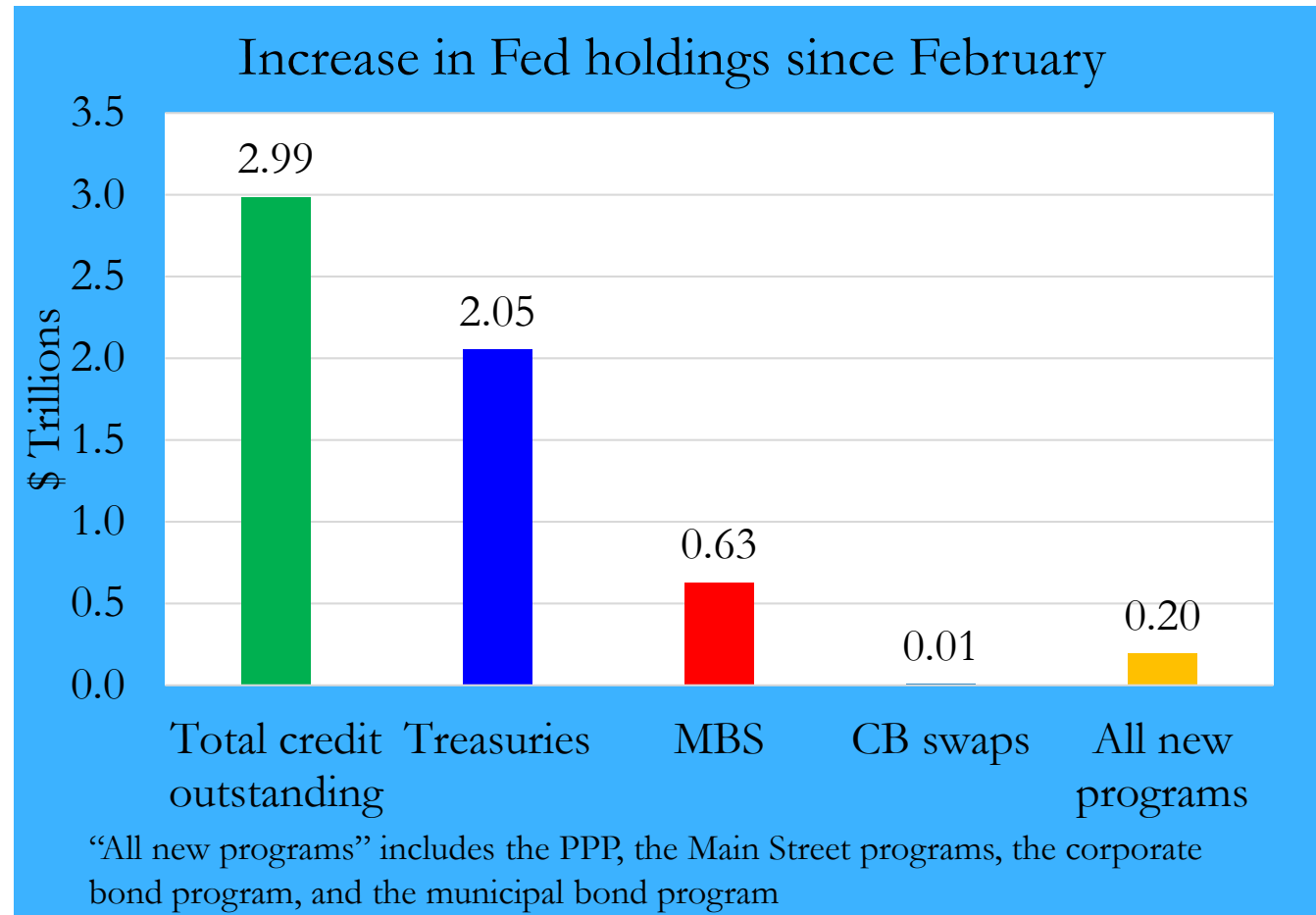
But still, a depressed economy

- No examples of 30+% growth rates in post-WWII history
- Rapid decline, rapid increase
- But we are still well below where we started (blue line) (about 3.5%)
- Compare to other recessions:
 - As of Q3, we are currently below the deepest point of most historical recessions



Federal Reserve response: Pulling out all the stops

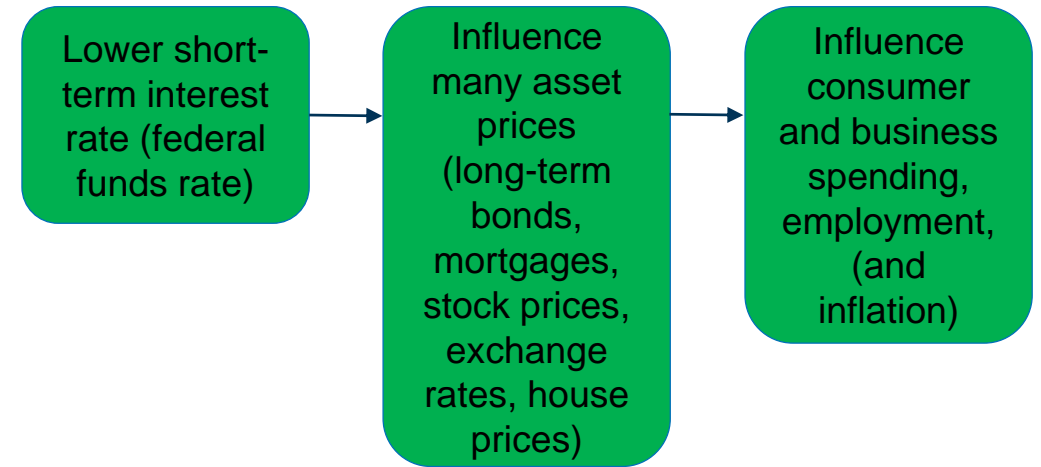
- Purchased almost \$3T of Treasury and mortgage securities (MBS) in 5 months
 - Largest is Treasury purchases
 - But also about \$0.7 trillion of MBS and swaps with foreign central banks (CB's)
 - Provides dollars to foreign countries that conduct many transactions in dollars
- Added new programs to support
 - Corporate bond market
 - Municipal bond market
 - Small- to medium-sized businesses
 - PPP loan financing
- Total Fed assets: about \$7 trillion



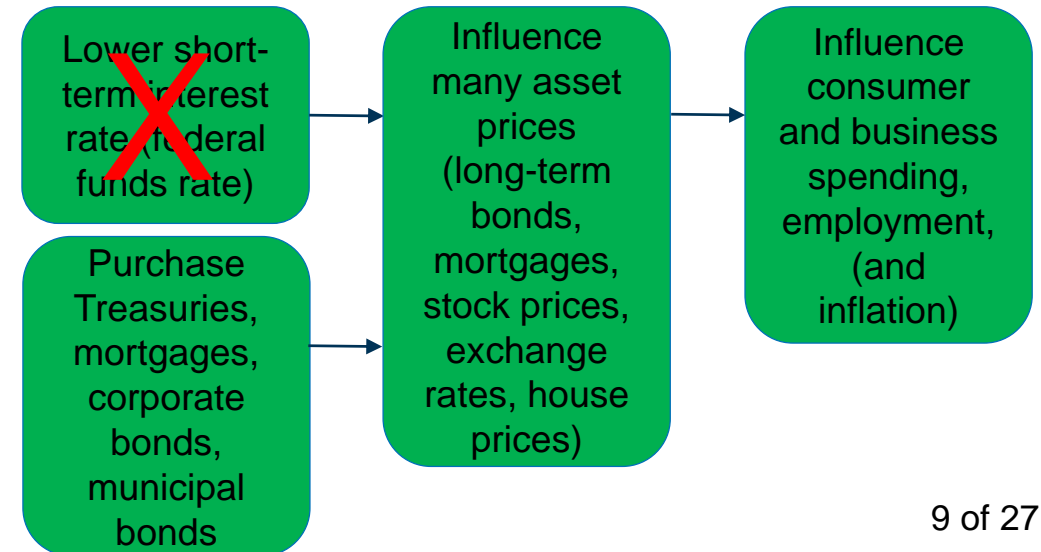
The goals of these policies

- Help key markets to keep functioning reasonably well
 - They support business and consumer activity
- Provide direct macroeconomic stimulus
 - Can't lower short-term interest rates
 - But would still like to affect rates that are more directly tied to spending, employment
 - Work directly in these markets
- Limits to monetary policy
 - Grants may be needed, not loans
 - The government's (Fed and Treasury) risk appetite may be too low for current circumstances

Chain of Policy Actions, normal times



Chain of Policy Actions, today

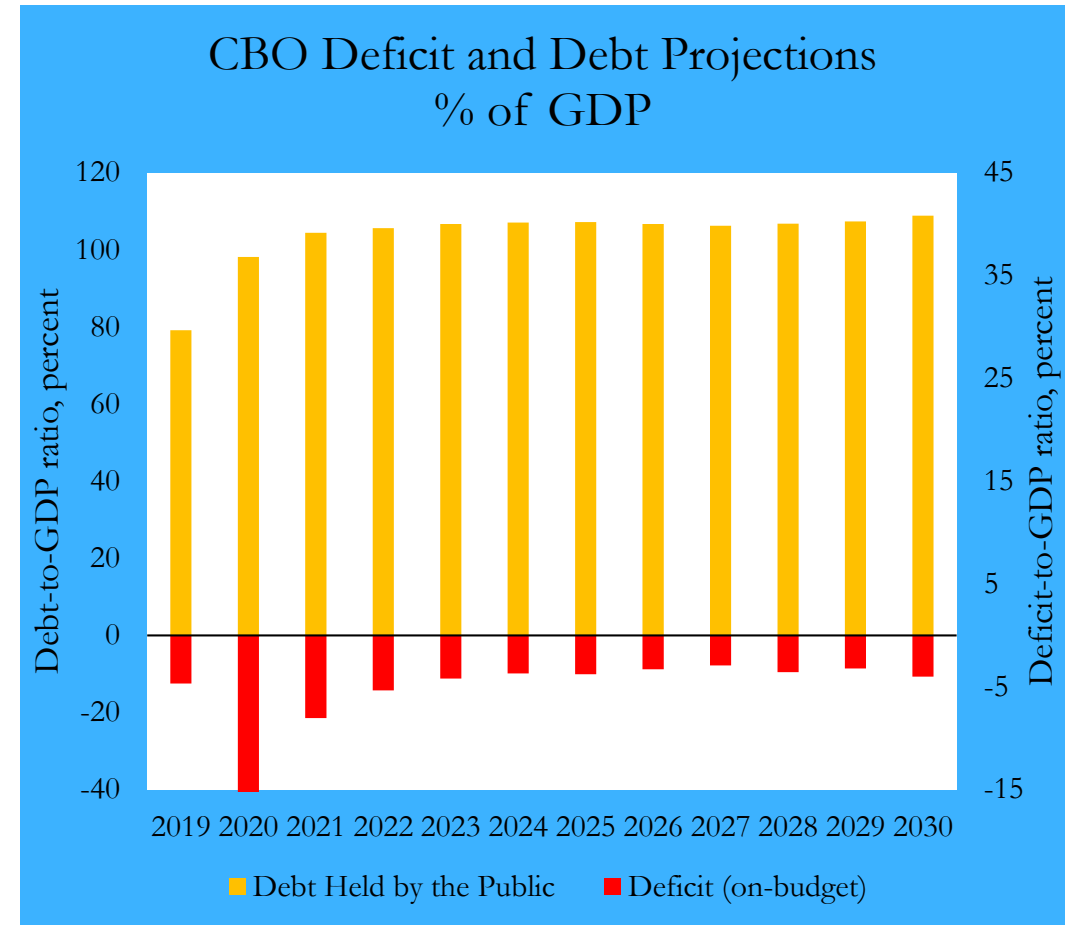


Effective fiscal policy

- This is a very different kind of recession
 - Rapid, steep decline in spending = income
- What is needed?
 - A bridge to the “normal” future
 - Keep workers and businesses afloat while the epidemic works its way through
- The PPP and enhanced unemployment insurance benefits likely helped achieve some of that goal
 - But haven’t avoided all of the unemployment and firm dissolution
 - These two will slow the transition to normal later
 - Forgiveness for most all loans will be key
 - Distribution of PPP recipients by race, access to banking, etc—not great
- Near-term challenges
 - Expired unemployment benefits (some worry about incentives, but not now!)
 - Expiring eviction suspensions
 - No agreement in sight for additional stimulus

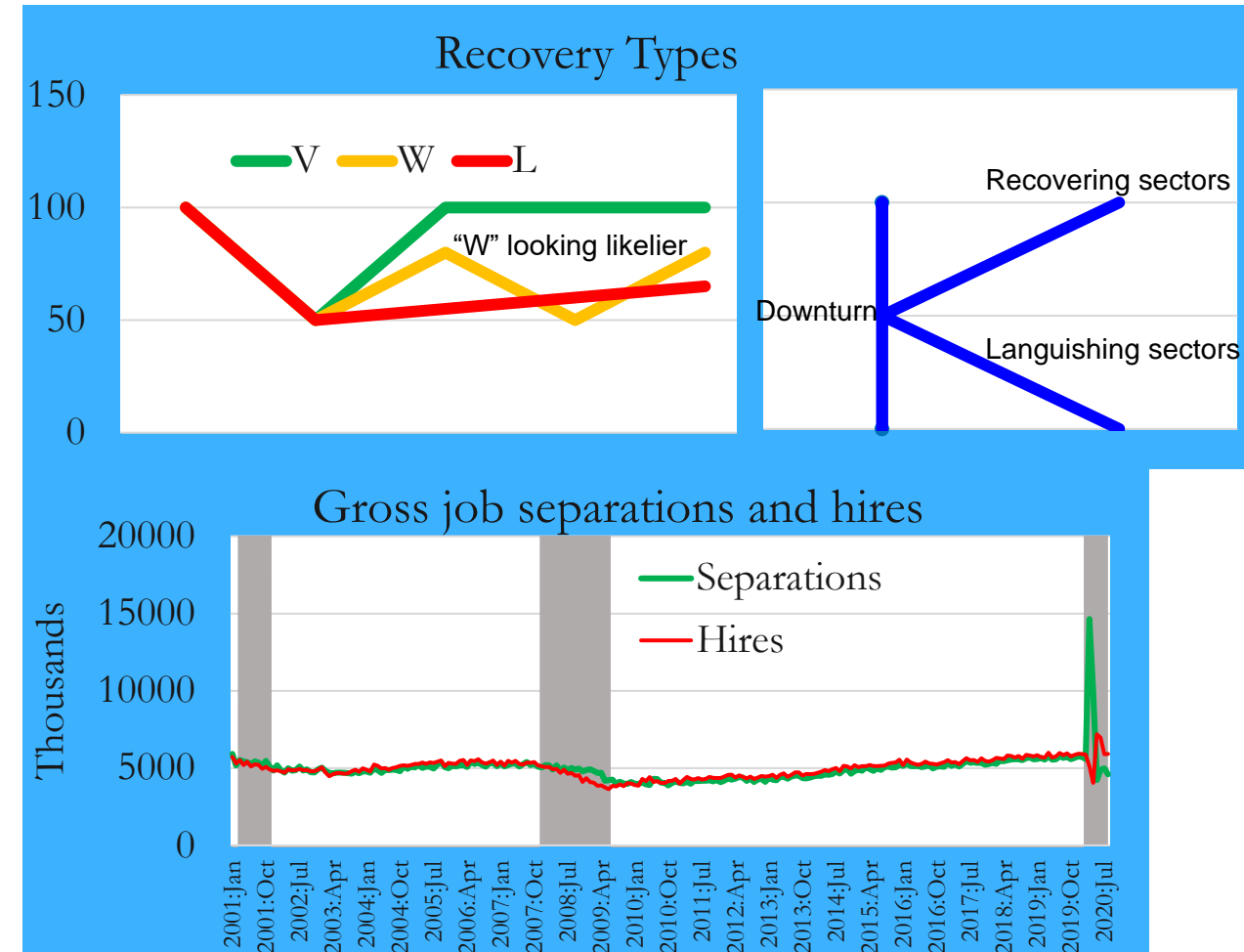
Fiscal policy—deficits and debt implications

- By CBO's September estimates, fiscal actions will
 - Add \$2.3T or more than 10% to the deficit/GDP ratio in 2020
 - Raise the debt/GDP ratio to nearly 100%
 - This excludes debt held by the Social Security Trust Fund—i.e. only debt held by the public
- Is this a problem?
 - Sustainable at current interest rates
 - Little evidence of a market penalty (rates demanded to hold Treasuries remain low)
 - Longer-run, some concern—add Medicare, Social Security debt burdens



What will the recovery look like?

- “V”? “L”? “W”? “K”?
- “V?”
 - Unlikely, but not impossible
- Why unlikely?
 - Business failures are extensive, Job losses are massive
 - See the level of job separations, right
- **Key issues:**
 - Public health measures
 - Policy support
 - The Fed will do whatever it takes
 - But its tools are limited
 - Unemployment benefits, eviction suspensions and the like are still hanging in the political balance
- What will the policy response be?



Race-based Inequality of Economic Opportunity

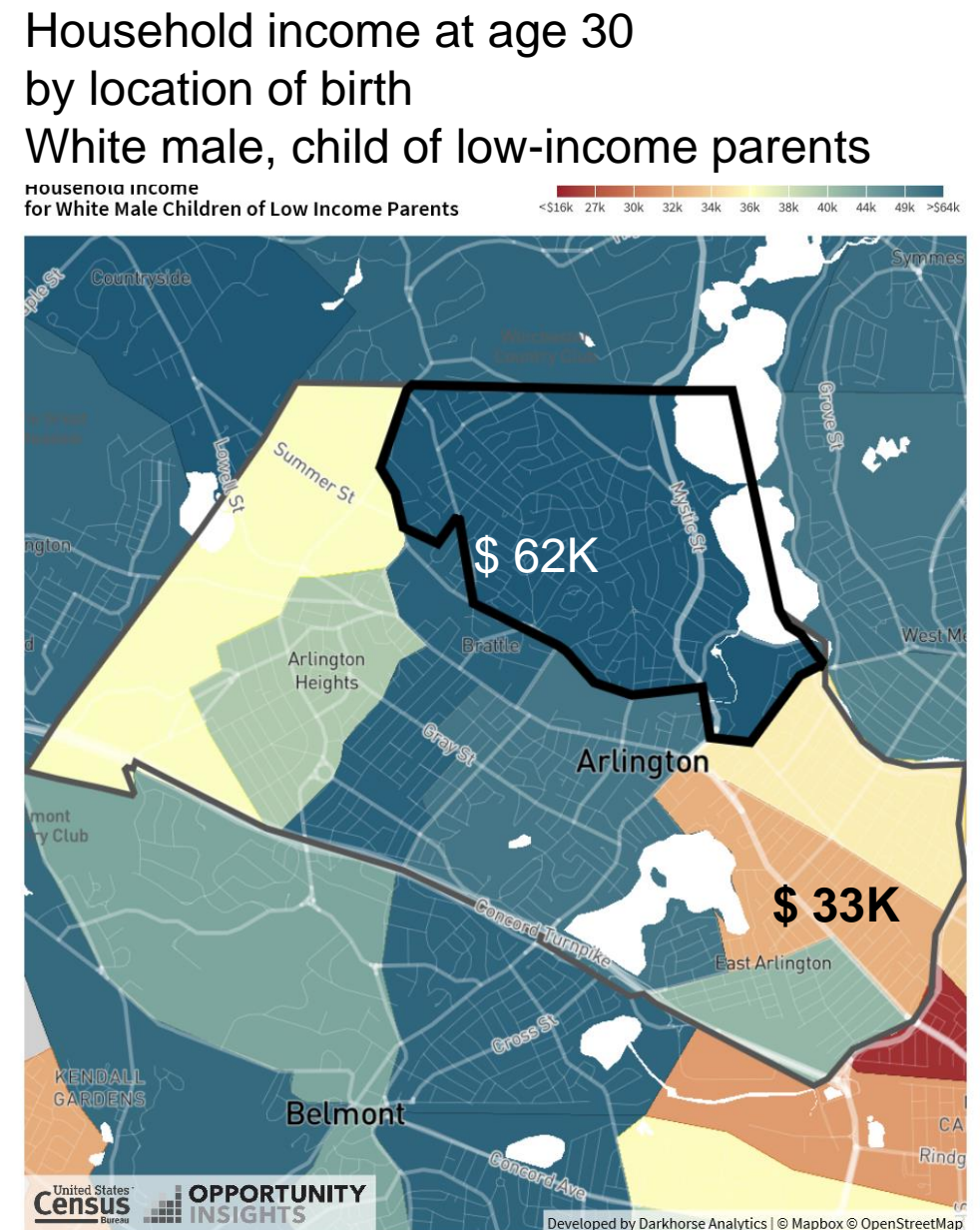
A national challenge for the next 25 years

Race, the Economy, and the Nation

- Equality of outcomes is not a guarantee (although greater equality would be a great improvement!)
- Equality of opportunity is our ideal*.
 - The reality is FAR from the ideal.
- We will look at some data on how equal opportunity is for
 - Income
 - Wealth (actually, net worth = assets – liabilities)
- And importantly, we will look at the sources of these inequalities
- We will then discuss some potential solutions

Equal opportunity? Geography as Economic Destiny

- Arlington, MA
 - For white male, child of low-income parents
 - Household income at age 30 differs by factor of 2, depending on which tract in Arlington you grew up in
 - Same affluent town, less than 2 miles apart.
- In Mobile, AL
 - The relative gap is the same
 - But the level is \$15k versus \$30k
- Why is this OK?



Equal opportunity?

Interaction of geography and race

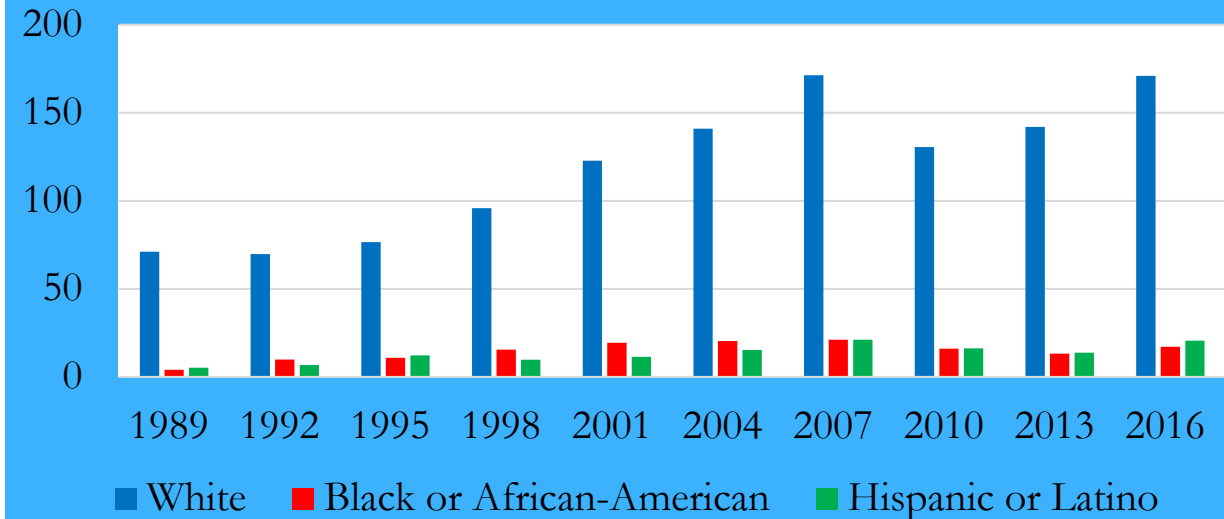
- Geographic differences can still be large, within either demographic category
 - Diff's are larger for black households
- But look at difference in location for low-income black outcomes, especially in AL!

Median Household Income at adulthood by neighborhood in which you grew up				
	Black		White	
Parents' income level	Low	Mid	Low	Mid
Somerville, MA*				
Prospect Hill	16	40	35	46
Magoun Square	39	40	40	46
Mobile, AL				
Blackstone, Semmes	6.3	29	32	41
Overton	25	29	41	49
*Note: Arlington, MA had insufficient observations on black households to compute median				

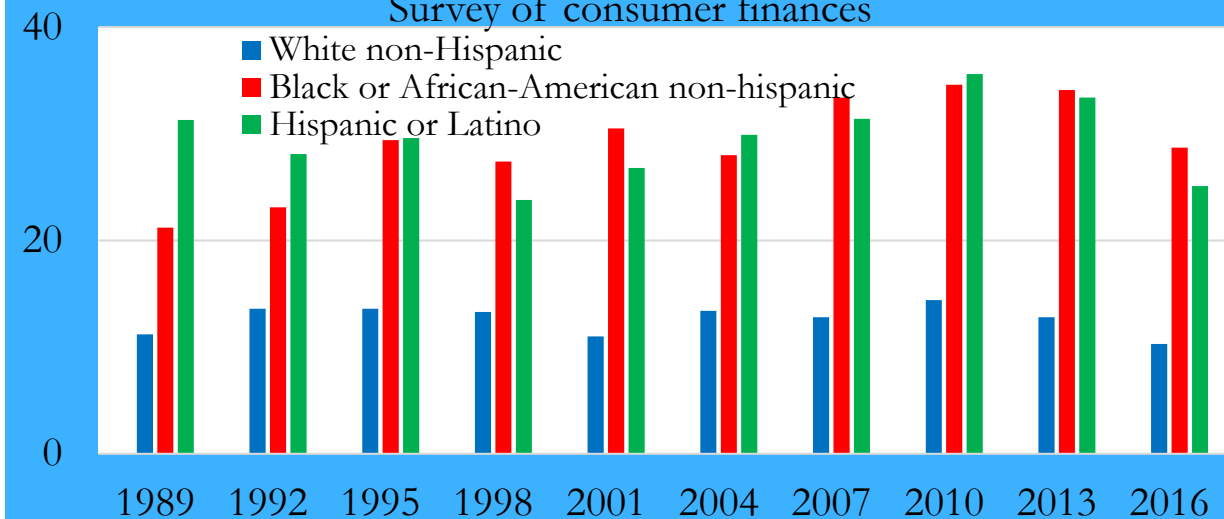
Equal opportunity? Accumulation of wealth

- US data
 - Median net worth (assets-liabilities)
 - Ratio to white net worth: It has varied, but not improved over time
 - About 10 percent for African-Americans and Latinos
 - Prevalence of debt is much higher
 - Viz the Leverage Ratio—3x as high as whites

Median net worth by race and ethnicity
Survey of Consumer Finances



Leverage Ratio, by race and ethnicity
Survey of consumer finances



Equal opportunity? Accumulation of wealth



- Boston data
 - Survey of Boston metro area households
 - Questions about debt, assets and (implied) net worth
 - All minorities hold small fractions of white population net worth
 - Differences across Black, Latino sub-groups
- What are the sources of the gap?

Median net worth as a percentage of white households' median net worth, Boston

U.S. Black	≈0*
Caribbean black	4.8
Puerto Rican	1.2
Dominican	0.0
Other Hispanic	1.1

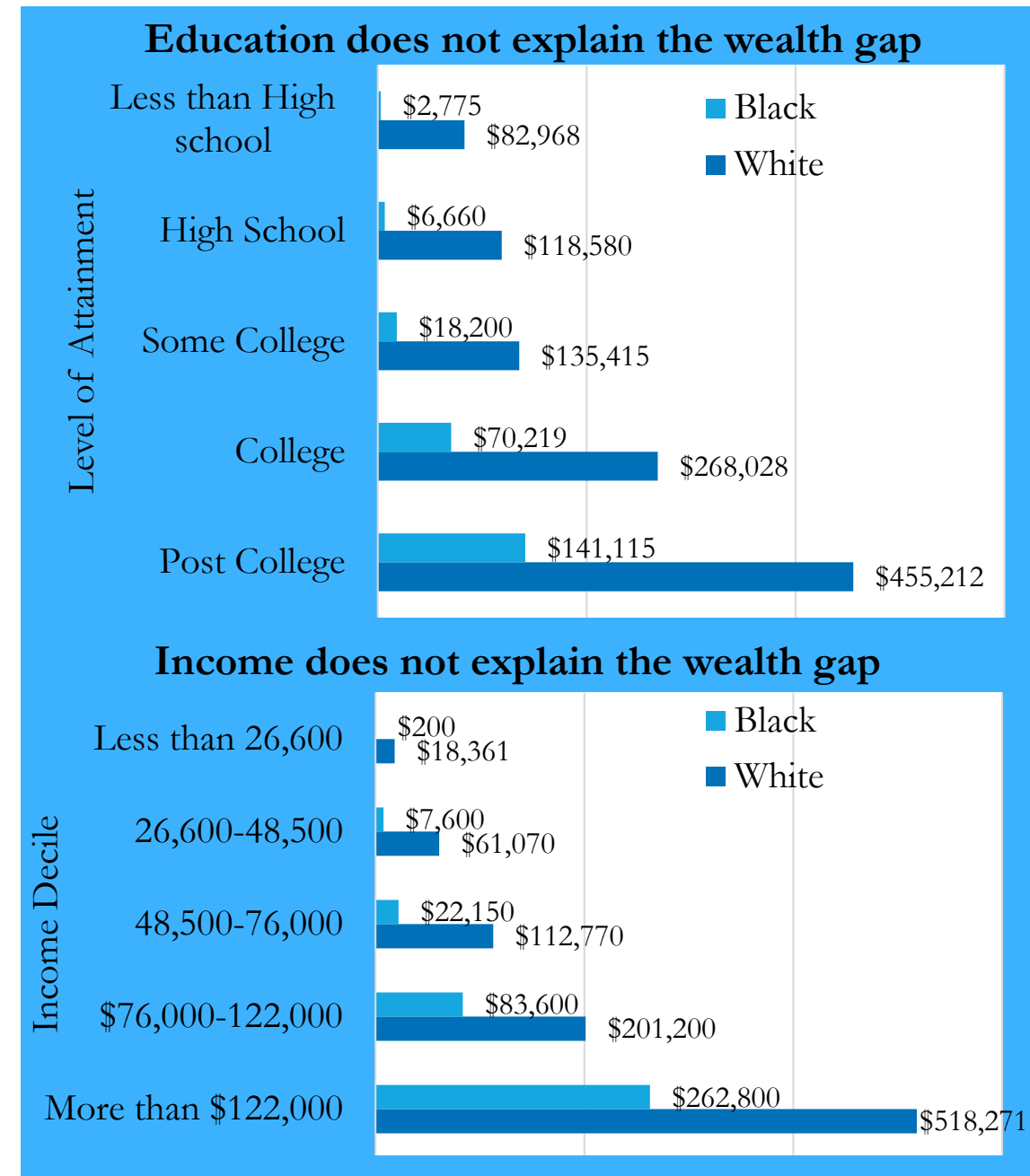
*Significantly different from white, not significantly different from zero. Range of estimates from -\$1500 to \$1500 versus white net worth of \$247,000.

Source: Muñoz, Kim, Chang, Jackson, Hamilton and Darity, "The Color of Wealth in Boston," Federal Reserve Bank of Boston, 2015.

<https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx>

Non-explanations for the wealth gap

- Education
 - A black household with a college-educated head has less wealth than a white family whose head did not obtain a high school diploma
- Income
 - On average, a black household in the top income quintile still has one-half the wealth of a white household
- Homeownership (still a 2.5x gap)
- Saving, financial literacy, entrepreneurship, soft skills, family structure
 - No, no, no, no, no



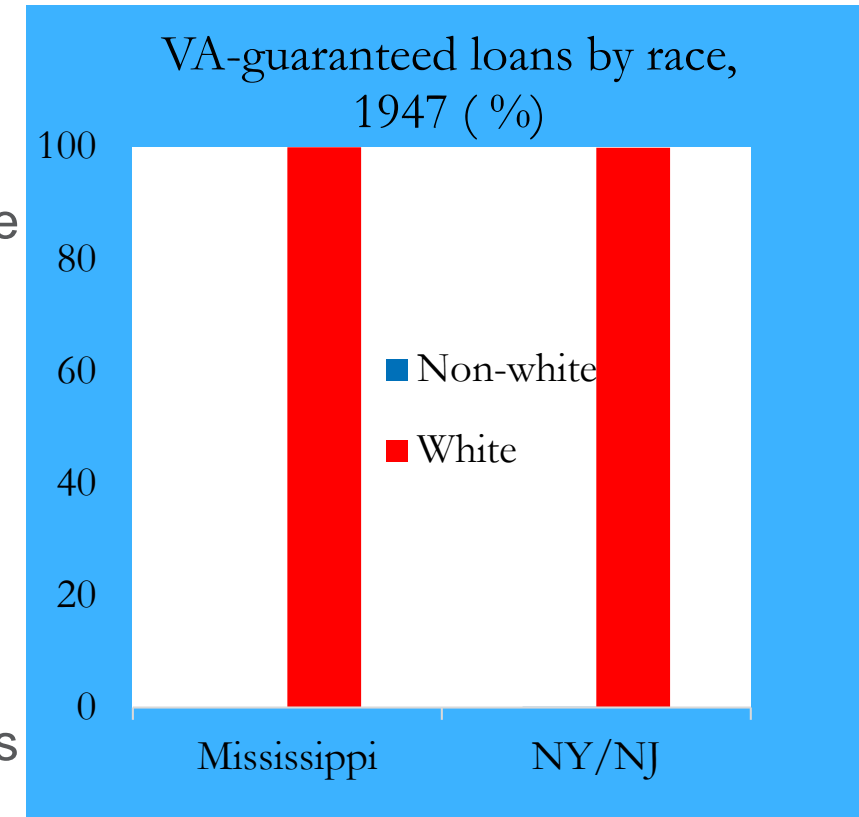
Equal opportunity?

The sources of wealth inequality

- Institutional, generational, persistent, spanning centuries [MLK Speech](#)
- Key examples:
 - Post-Civil War “reconstruction”—an embarrassing string of broken promises and abuse
 - Social Security and unemployment insurance in the 1930s—excluded domestic and agricultural workers (65% of black workforce excluded, versus 25% of white workforce)
 - Debate about whether it was intentionally discriminatory
 - Housing assistance in the 1940s (e.g. Levittown—written clause excludes black homeowners)
 - The GI bill post-WWII—a tiny fraction went to black soldiers
 - Housing policy post-1950s
 - Welfare reforms of the 1990s
 - Current: Education spending disparities; criminal justice disparities (the “War on Drugs”); policing disparities; voter registration restrictions
 - (see e.g. Carol Anderson, “White Rage,” Michelle Alexander “The New Jim Crow,” and many others for additional documentation)
- ALL of these policies build white families’ wealth, and exclude black (and Latino) families
- Generational impacts
- How many generations more?

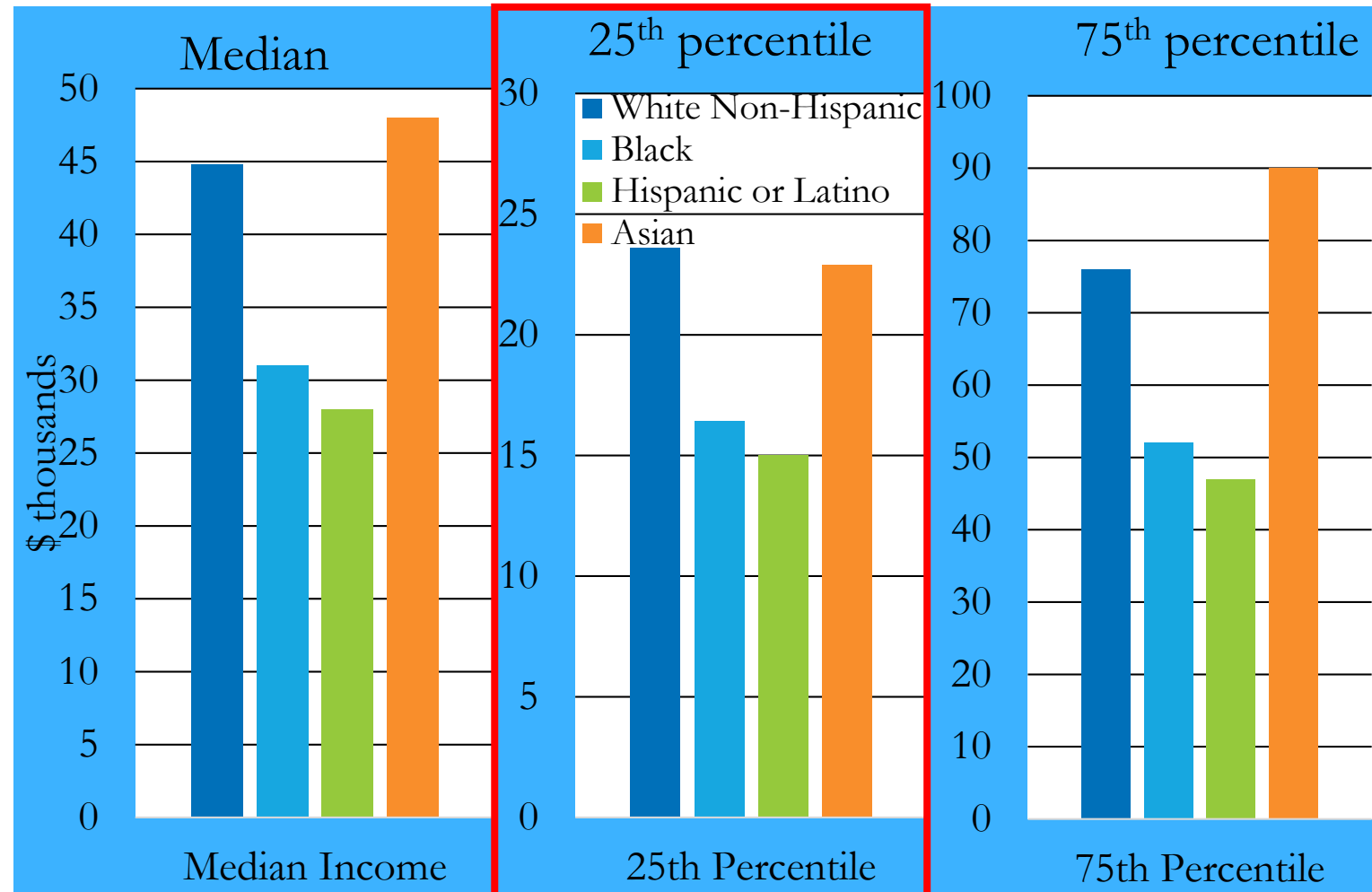
Policies that excluded non-whites: VA loans

- Post-WW II housing discrimination through the GI bill
 - Many locations had “covenants” that restricted access to housing
 - Minneapolis: “the said premises shall not at any time be sold, conveyed, leased, or sublet, or occupied by any person or persons who are not full bloods of the so-called Caucasian or White race.”
 - "premises shall not at any time be conveyed, mortgaged or leased to any person or persons of Chinese, Japanese, Moorish, Turkish, Negro, Mongolian or African blood or descent.”
 - Such redlining purposely segregated residential areas
 - Common until the Fair Housing Act of 1968
 - In 1947, only 2 of the more than 3,200 VA-guaranteed home loans in 13 Mississippi cities went to Black borrowers
 - In NY/NJ metro area: fewer than 100 of 67,000 GI bill-insured mortgages went to non-whites



Income inequality—a better known discrepancy

- Discrepancies are striking across the income distribution (2018 data)
 - Note especially the 25th percentile—at barely \$15,000 or below for Black and Latino families
 - Not that \$24,000 is good for white families!



It's not only about race

- There are millions of poor white people as well
 - Their fortunes are also disproportionately determined by geography and other initial conditions
- The system doesn't work well for them
 - See the Fed's "Increasing the Quality of Jobs" work
 - <https://www.bostonfed.org/community-development/expanding-employment-opportunities/increasing-the-quality-of-jobs.aspx>
 - And "Investing in America's Workforce"
 - Great intro here: <https://www.bostonfed.org/publications/one-time-pubs/investing-in-work.aspx>
- But long-run systemic and institutional racism has hurt people of color much more

Some Solutions

1. One prerequisite: Change the narrative

- Why are people poor? What are the sources of racial inequity and injustice?
 - Ronald Reagan: ““There’s a woman in Chicago. She has 80 names, 30 addresses, 12 Social Security cards and is collecting veterans’ benefits on four nonexistent deceased husbands. She’s got Medicaid, is getting food stamps and welfare under each of her names. Her tax-free cash income alone is over \$150,000.”
 - This narrative was not a Republican/Democrat issue—many in both parties held similar views
 - President Clinton’s welfare reform
- Economic disparities are not about who works hardest.
 - Laziness is equally distributed across income deciles!
 - They are (sadly) mostly determined by who’s luckiest, by skin color, neighborhood of birth, inherited economic history (family wealth)
- That is inconsistent with some of our national narrative about who we aspire to be, IMHO

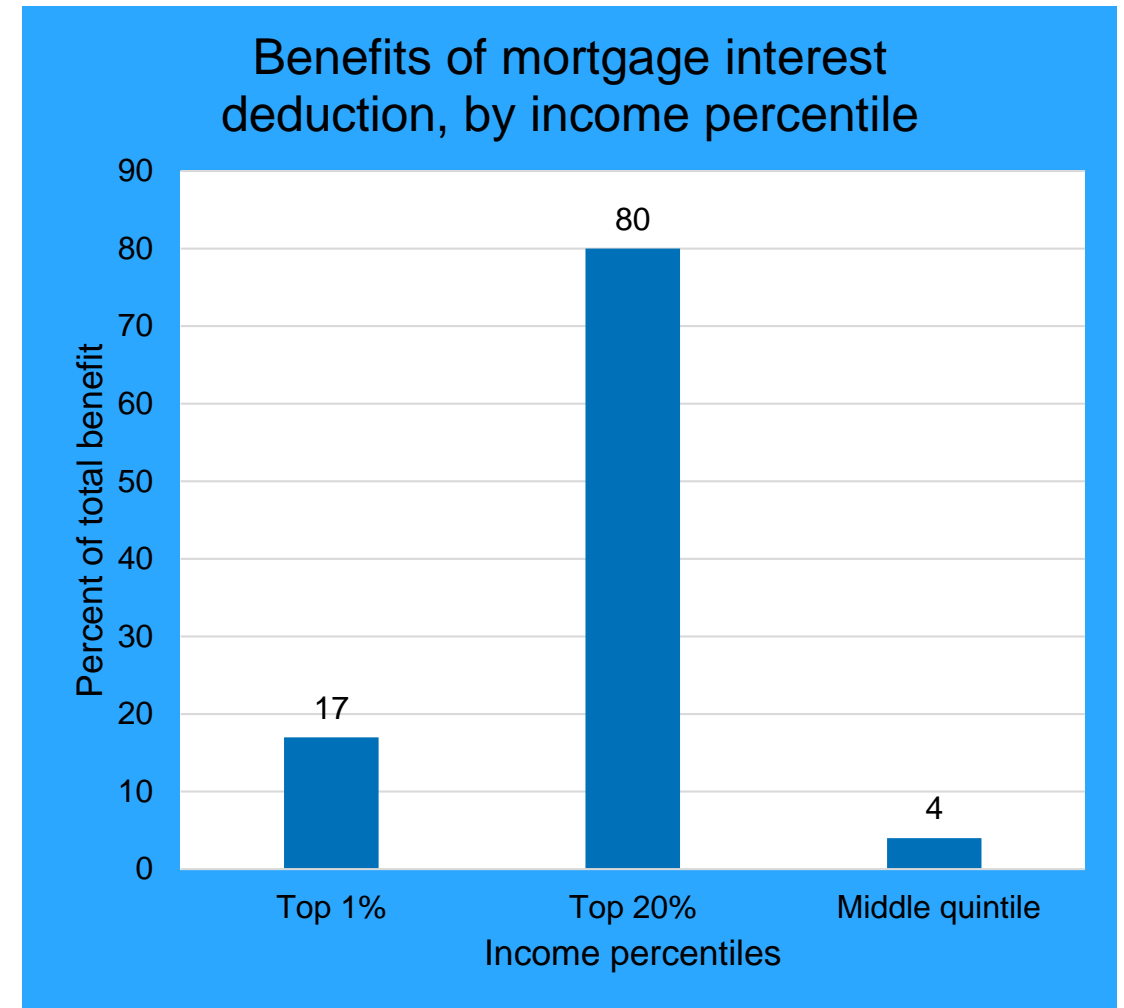
2. Who’s responsible?

- Our nation, our government, our private sector constructed this
- We are jointly responsible for dismantling it

Solutions, cont'd

3. Many pieces to the solution

- Change tax laws that disproportionately favor more affluent and wealthier white homeowners (e.g. mortgage interest deduction, see figure at right)
 - Current loss of tax revenue: \$30B/yr. (was \$60B pre-2017 tax reform)
- Change our economic system, which sends profits to the wealthy, and provides below-subsistence wages and benefits and work conditions for the working poor, disproportionately people of color
- This is no small task



Solutions, cont'd

4. “Cashing our check”

- A number of proposals have received increased attention in recent years
 - E.g. “Baby bonds”—deposits to newborn’s accounts, scaled by family resources

5. All of these solutions entail considerable cost.

- But far less than continuing the current system, which is fundamentally broken.
- The cost in terms of lost economic and human potential is enormous.
- And look at how much we spent on the COVID-19 recession when we had to!

6. The goal: Move us toward the land of opportunity that we are supposed to be.

This is our great national challenge

- The data just shown precede the crises
- They are being exacerbated, as we speak, by the health and economic effects of the crises (charts at right—disparate effects of COVID and the recession)
- Ignoring this represents an enormous loss of economic potential
- And a horrendous, embarrassing loss of human potential

