Public Policy Guide for Economic Recovery from COVID-19 for Hospitality and Retail Businesses

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This paper is a publication of Pioneer Opportunity, which seeks to keep Massachusetts competitive by promoting a healthy business climate, transparent regulation, small business creation in urban areas and sound environmental and development policy. Current initiatives promote market reforms to increase the supply of affordable housing, reduce the cost of doing business, and revitalize urban areas.

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Overview

Analysis of the economic fallout from the COVID-19 pandemic has made it clear that some industry sectors have been disproportionately affected by business closures, employee sickness, and inadaptability.\(^1\) Specifically, state data have indicated that, in the early days of the pandemic, the Accommodation and Food Services sector had the highest number of new unemployment claims in Massachusetts, followed closely by Retail.\(^2\)

There were over 16.3 million U.S. jobs in the Leisure and Hospitality “supersector” in 2018, which includes industries classified within the Accommodation and Food Services sector as well as the Arts, Recreation, and Entertainment sector.\(^3\) This number represents over 10 percent of the country’s workforce—and had been expected to grow in the coming decade.\(^4\) Retail Trade jobs number 15.8 million, another 10 percent, although before the pandemic, automation and online competition were projected to reduce their overall share of the U.S. workforce to 9.3 percent by 2028.\(^5\) Moreover, Pioneer Institute’s own research has highlighted significant barriers to recovery from the pandemic for brick-and-mortar merchants.\(^6\)

In recognition of the important role public policy will play in the adaptability of these industries to the COVID-19-related economic reality, we will explore the potential for incentive-driven policies and best practices, including industry innovations, to expedite recovery at the state and national levels. Given the adaptability constraints on certain sectors of the economy, we will focus on Leisure and Hospitality (specifically, the Accommodations and Tourism and Restaurant industries) and Retail Trade. In 2018, Massachusetts had about 781,000 employees in these three areas combined, some 20 percent of the state’s workforce.\(^7\) In the last several months, however, many of these jobs have disappeared at an astonishing speed, and the national picture is no less bleak, although recent forecasts indicate some improvement in June (see Figures 1 and 2).

Figure 1: Number of employees (thousands) in selected industry sectors in Massachusetts, January 2019 - May 2020\(^8\)

In 2018, Massachusetts had about 781,000 employees in these three areas combined, some 20 percent of the state’s workforce.
Overall, the Leisure and Hospitality supersector, which includes most restaurants, hotels, and tourist attractions, has the highest unemployment rate in the nation (see Figure 3). While this rate was consistently higher than the national average before the pandemic, it is now more than double the next-hardest-hit industry, Other Services, a hard-to-characterize, highly diverse category that includes funeral homes, gas stations, and privately-owned parking lots alike. Instead, we identify Retail Trade as another industry severely affected by the shutdowns following the COVID-19 outbreak, based on unemployment levels among U.S. retail workers.

No industries have been more negatively impacted by the pandemic than the Leisure and Hospitality supersector, due to a combination of travel restrictions, stay-at-home advisories, crowd size limits, and general fear about contracting the coronavirus, and the travel industry alone is projected to lose over $500 billion in revenues. The supersector classification also includes the restaurant industry, which by itself makes up over 4 percent of the nation’s economy. Restaurant sales overall are projected to be down 11.4 percent overall in 2020, penciling out to a loss of over $2.1 billion in Massachusetts and more than $100 billion in the industry nationwide (see Figure 4). Similar calculations project an almost $400 billion cleft in national retail sales in 2020 compared to the National Retail Federation’s rosy late-February projection. Meanwhile, the travel industry is projected to lose over $500 billion in revenues. Combined, the anticipated national economic losses figures from these three industries represent nearly 5 percent of the United States’ 2019 GDP.
In analyzing the specific factors that led to this crisis, as well as potential mitigation measures, we will examine the accommodation and tourism industries, restaurant industry, and retail sector in turn. We first draw on sales and employment data as well as information from 10-Q and 10-K reports submitted to the U.S. Securities and Exchange Commission (SEC) to provide background on the unique ways the pandemic has affected each of these types of businesses. We then draw on innovative industry practices and public policy solutions to examine possibilities for adapting these industries to the environment created by COVID-19. Later, we use these adaptive practices to craft recommendations for both business leaders and policymakers with the ultimate goal of stimulating the economy and facilitating a safe resumption of activity in these industries. Data sources throughout the paper range from government statistical tables and SEC filings in the background sections to industry association publications, journalistic articles, and consultant reports in the adaptations and recommendations sections.
Accommodation and Tourism Industries

Background

After news agencies covered early outbreaks of the novel coronavirus aboard cruise ships, the panic regarding the potential danger of travel, both international and domestic, began. Shortly thereafter, cases began to rise in the U.S. due to travelers returning from China and Europe, where outbreaks of the virus had already begun to spread. As travel bans made headlines, the hospitality industry became very vulnerable to a possible recession related to the pandemic. The Leisure and Hospitality supersector includes a wide range of occupations and types of businesses in accommodations and tourism, as well as food services, and was arguably one of the earliest hit industries by the economic shutdowns related to the COVID-19 pandemic. This section will focus primarily on the accommodations and tourism-related businesses within this category. A specific section dedicated to restaurants will follow.

Amidst the widespread economic impacts of COVID-19, companies in the accommodations and tourism industries have experienced a dramatic reduction in revenue and jobs. As previously noted, the hospitality sector made up over 10 percent of all jobs in Massachusetts before the pandemic. In May 2020, employment attributed to the accommodations and tourism industries was down 70 percent from February 2020 and down 72 percent from the 2019 average, according to state data.

More specifically, sub-industries in this sector have seen similar employment declines. Accommodations businesses alone lost 62 percent of their jobs between February and May 2020, and Amusement, Gambling, and Recreation businesses lost 78 percent of their jobs over the same period. Some of the most notable impacts in Massachusetts have occurred in companies like Encore Boston, which had at least 3,850 laid off or furloughed employees as of July 1; MGM Springfield, which had 1,887 employees affected as of May 8; and numerous hotels and other hospitality-related businesses.

This downturn is reflected in many accommodations and tourism companies’ evaluations of risk for their business outlook, which is documented quarterly (through 10-Q forms) and annually (through 10-K forms) and submitted to the SEC. One of the themes among these publicly traded companies’ risk assessments centers around depressed demand for travel, and therefore travel-related consumption, which falls squarely in the domain of the hospitality sector. On May 7, Hilton Worldwide Holdings (HLT) stated that a major risk posed by COVID-19 is the uncertainty of the consumer response going forward and its effect on demand for travel and leisure, noting that “travel demand may remain weak for a significant length of time and we cannot predict if or when our properties will return to pre-pandemic demand or pricing.” In addition, the risk assessment also maintains concerns regarding the economic climate and consumers’ ability to travel due to higher unemployment rates, lower income, and loss of personal wealth due to effects of the response to the outbreak.

Other publicly traded companies echo this concern. Boyd Gaming Corporation (BYD), which owns 29 casinos and some other hospitality properties across the United States, cited similar concerns about risks facing the company. Boyd’s quarterly risk analysis, submitted on May 11, added that in addition to consumer skepticism surrounding travel, uncertainty regarding when government-mandated shutdowns will end also makes the future of the company unclear. “We cannot predict for how long public officials in each state will require that our operations remain closed, nor the extent to which our operations will be restricted by capacity or social-distancing or other requirements once we are permitted to reopen or the effect of any such restrictions.”

Another recurring theme among accommodations and tourism companies included consumers’ perceptions of safety and the uncertainty surrounding when travel would be considered safe again. Inevitably included in these perceptions is the potential longevity of travel restrictions, social distancing and mask requirements, which have been advised by governments at the local, state, and federal levels and may continue to influence how likely people are to book business or leisure travel. This will certainly have a direct impact on the ability of the accommodations and tourism industries to recover from COVID-19.

In May 2020, employment attributed to the accommodations and tourism industries was down 70 percent from February 2020.

Consumers’ perceptions of safety and uncertainty surrounding when travel would be considered safe is a recurring concern for companies.
Related to these concerns, Park Hotels and Resorts, Inc. (PK), which owns all or part of 60 hotels across the country, also captures an important ramification of the shutdowns and their impact on accommodations and tourism-related businesses. Not only are revenues likely to remain low due to “sustained negative consumer or business sentiment” stemming from health fears and the economic shutdown, but costs are likely to increase due to mandated health and safety policies: “additional factors that would negatively impact our ability to successfully operate...include...increased costs to maintain hotels, including hotels whose operations are suspended, and increased sanitation and hygiene requirements, social distancing and other mitigation measures at hotels that continue to operate or that begin operating again.”

The risks highlighted by these publicly traded companies provide a way to measure how most businesses within the hospitality sector are assessing their futures. While the largest companies may feel deep impacts due to the pandemic response, smaller businesses and those in niche areas within the sector not only experience similar effects of the economic recession triggered by shutdowns but also may be more acutely and uniquely affected. Given the precedent of the SARS epidemic in 2003, concerns about consumer demand for travel and accommodations and tourism-related consumption are predicted to remain depressed for some time, which could have even longer-term impacts on the viability of accommodations and tourism establishments, whether large or small.

Adaptations to COVID-19: Best Practices

The hospitality sector has been forced to analyze its practices, capacity, and growth in the midst of shutdowns due to the COVID-19 outbreak in the United States. While the shape of the recovery in hotel occupancy, amusement facility visits, and guest dining is uncertain, currently there are indicators of how accommodations and tourism establishments have performed in their efforts to adapt.

Data published by MMGY Travel Intelligence’s Travel Intentions Pulse Survey (TIPS) corroborates the concerns about consumer demand as reflected in risk analyses noted above for the coming year and provides insights on the types of adaptations the hospitality sector will need to make to survive. In the fifth wave of the survey, conducted through June 10, respondents indicated that they believe the eventual decline of COVID-19 cases and de-escalation of the current U.S. “Do Not Travel” advisory will have the biggest impact on demand for travel. The survey also showed that respondents were still relatively reluctant to travel or use most forms of transportation, but the percentage of those willing to stay in various types of lodging has been rising since April. In the most recent survey results publication, about 40 percent of those who had engaged in business or leisure travel in the past 12 months indicated that they would be expecting to travel in the next six months (see Figure 5). This is up from 30 percent of business travelers and 36 percent of leisure travelers indicating as such in the previous iteration of the survey, published in early May. In addition, most respondents preferred traveling by personal car rather than taking air transportation: 67 percent said they would be likely to travel by personal car, more than double those saying they would be willing to travel by air.

While travelers have indicated reluctance to use shared transportation modes, results from the MMGY survey show that willingness to stay in hotels and resorts, as well as vacation rentals, is on the rise since a low point on April 11. In the most recent publication, 38 percent of respondents indicated they intended to stay in a hotel or resort in the next six months, and 28 percent intended to stay in a vacation rental (see Figure 6).
Figure 5. Share of survey respondents who plan to engage in various modes of transportation for travel in the next 6 months, March–June 2020

Figure 6. Share of survey respondents who are likely to book accommodations in the next six months, March–June 2020
The attitudes toward business and leisure travel indicate that a significant portion of those who traveled in the last year are inclined to book travel—67 percent for leisure and 55 percent for business—within the next six months. However, almost 20 percent of this survey group indicated they would not expect to book business travel within a year.39

Regarding companies’ stated concern about increased costs to implement heightened hygiene, social distancing, sanitization, and other requirements for reopening, another survey reveals that health precautions and cleaning strategies are key to individuals’ decision-making about whether to stay at a hotel.40 Based on this demand, hotels and other accommodations and tourism-related establishments need to put acute focus on ensuring that travelers feel safe and clean. A New York Times article explores the possibility that implementing COVID-19 response strategies in their establishments requires hotels and other lodging businesses to expand their janitorial workforce. The article posits: “these measures, if implemented fully, will substantially alter how hotels operate.”41 Despite the financial pressure accommodations businesses are experiencing to streamline their housekeeping services in the name of cash-flow sustainability, many establishments may instead need to spend more for staffing, supplies, and adaptive equipment to fulfill new hygiene and cleanliness standards.42 Upping the ante of supplies and payroll costs during a period of reduced occupancy is likely to exacerbate cash-flow problems for many travel companies, including hotels, attractions, transportation agencies, and food services.

Surveys indicate that while travel opportunities are currently limited, desire for leisure travel remains strong, especially among younger people. In addition, an STR survey shows that while demand for hotels fell by 40 to 50 percent in March 2020, Americans who indicated a desire to travel “the same amount or more” as they had in 2019 only dropped by 10 to 20 percent. STR concluded that “as long as they can, consumers will always want to travel,” and low occupancy seen during economic shutdowns may simply reflect travel restrictions, not necessarily consumer demand.43

In the June 10 MMGY TIPS survey, one-third of travelers reported a desire to postpone, rather than cancel, previously scheduled travel.44 In addition, while younger respondents were most likely to want to travel within the next six months, the 50–64 year old group seemed most likely to take a trip within the U.S., stay in a hotel or resort, or visit a local, state, or national park, according to the May 1–6 wave of the same survey, which broke down data by age cohort.45 While state and local governments, in conjunction with the U.S. Department of State, navigate a plan for relaxing travel restrictions and safely reopening their economies, there is significant uncertainty and a lack of concrete information for companies to plan their individual reopening strategies. Although data suggests that a significant portion of the public still desires to travel in some capacity, whether for business or leisure, accommodations and tourism businesses face significant uncertainty about the timetable for recovery from the COVID-19 pandemic.

Incentivizing travel

Travel and transportation are directly related to the success of the hospitality sector. As travel advisories have limited the spread of the coronavirus outbreak, they have resulted in sharp decreases in travel via airplanes, buses, and trains, especially across state and national borders. During the week of April 22, a PricewaterhouseCoopers survey found that consumers want safety guidelines and evidence of safety protocols from trusted sources, especially the Centers for Disease Control and Prevention (CDC), before they resume travel.46 For that to happen, transportation providers have to work with experts to improve safety and, just as importantly, to convince entities like the CDC and state government health departments that they have done so.

Travel and leisure spending in Massachusetts creates a “multiplier effect” in the state. Direct travel spending includes sales of in-state transportation, hotels, leisure activities, and other revenues generated from consumers traveling to and spending in the Commonwealth. In 2018, travelers spent $24.2 billion in Massachusetts, resulting in $37.8 billion of total domestic and international travel output for the state, or 7 percent of Massachusetts’ GDP. In that same year, such output was responsible for creating or sustaining 244,700 jobs in the state.47

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Indirect spending resulting from travel is another important effect of tourism in the state, and includes purchases that travel and hospitality businesses make from local suppliers to meet demand, in turn supporting many auxiliary industries and companies. Furthermore, induced spending comes from employees of these businesses spending their earnings. In 2018, travel in the Commonwealth generated $5.6 billion in payroll income for hospitality and other industry workers and $3.7 billion in tax revenue for federal, state, and local governments. Travel to Massachusetts creates a whole wave of spending, revenue, and jobs. It is critical to find ways to support the Commonwealth’s hospitality sector to continue to find opportunities and jobs for residents, especially as the effects of COVID-19 continue to wear on the state and national economy.

In 2020, spending has declined within the travel industry and in ancillary industries due to coronavirus fears and shutdowns. In the U.S., the accommodations and tourism industries (including transportation, lodging, recreation, related retail, and food services) are expected to lose over $500 billion in direct spending in 2020. This is estimated by the U.S. Travel Association to cause a total impact spending loss of $1.2 trillion around the country. According to this analysis, over eight million jobs and $80.3 billion in federal, state, and local tax revenues could be lost as a result.

Reopening conditions
Due to the risks presented for the accommodations and tourism industries, related sales and employment figures may be slow to return to pre-COVID-19 levels. While there is survey evidence to suggest that some segments of the population are ready to return to travel, there are waves of people who may need to be convinced by government and public health authorities that it is safe to do so. Therefore, accommodations and tourism establishments will likely encourage travel by catering more to travelers’ qualms and articulating specific strategies to keep visitors safe during their time at such establishments. Social distancing and COVID-19-specific health regulations have become part of the everyday vernacular, and tourists may be more inclined to travel knowing that their journey and destination partners are aware of and implementing these best practices. This includes the gargantuan task of rethinking all consumer touchpoints, including registration, check-in, and customer service desks. New measures and operating procedures across the hospitality sector may prove costly for establishments, but may be necessary to bring in revenue and support business cash flow and employees. Certain strategies to ease consumer concerns over the virus, such as crowd control and cleanliness, are detailed in the sections that follow.

Crowd control
Many tourist destinations have seen rapidly growing numbers of travelers in recent years, which in some places have overwhelmed local economies and ecosystems. With an effective halt on most travel, especially for leisure purposes, some areas are now considering sustainable tourism strategies that limit the number of visitors to an area at any one time, both to preserve the local community and ecology and also to allow visitors to remain as safe as possible. “Managed tourism” strategies do not let the number of visitors to an area naturally grow out of control, but rather allow areas and destinations to strategically plan for the number of travelers they can handle given personnel resources, the local economy, and the environment.

Popular tourist hotspots like Venice, Italy and Hawaii have handled massive volumes of tourist arrivals over the years using this approach, which has proved especially prudent given the social distancing and other safety guidelines recommended for travel. The Hawaii Visitors and Convention Bureau has predicted that some localities, national parks and preserves, and other destinations around the world may begin to implement crowd control measures that seem to kill two birds with one stone: limit over-use of local land areas and enforce compliance with post-COVID-19 safety protocols. These measures could include more limited capacity restrictions for certain facilities or areas, entrance fees dedicated to area resource management, or campaigns for visitors to sign “visitor pledges,” or codes of tourist conduct, already implemented in Iceland, New Zealand, and Aspen, Colorado, that aim to educate visitors and mitigate the effects of tourism on local areas.
Another example of crowd control aimed particularly at limiting tourists who may spread coronavirus to their destination state is the 14-day quarantine advisory or requirement maintained by some states. In Maine, those coming from out of state are required to quarantine and not make use of any public or recreation facilities for 14 days. For accommodations and tourism establishments considering reopening, this has somewhat placed the burden on business owners to enforce these requirements to limit the spread of the virus. However, Maine has recently adopted a change to its “Keep Maine Healthy Plan” that allows out-of-state visitors to provide proof of a negative COVID-19 test to forgo the aforementioned quarantine requirement. While this places the onus on business owners to collect and document proof of visitor testing, it may also help assuage safety concerns among travelers, thus encouraging consumers to book travel and leisure activities and businesses to reopen.

Safety measures
Another tactic employed by accommodations and tourism establishments, most notably hotel companies, has been the dissemination of briefs on health and safety initiatives implemented to improve customer experiences in a post-COVID-19 world. While some consumers are ready to resume travel activities, a significant proportion may still require additional assurances that it is safe to do so. A New York Times article on the subject captured this sentiment in a poignant headline: “The Most Important Word in the hospitality sector? ‘Clean.’” Many companies have released documents on their “clean initiatives,” which include information on housekeeping practices, staff requirements for testing and personal protective equipment (PPE), and other precautions, such as eliminating breakfast buffets and extraneous room items that may house the virus. In addition, potential utilization of electronic air filters and/or ultraviolet light sterilization systems in HVAC and duct systems may reduce airborne spread of the coronavirus. Strong marketing to customers emphasizing guest experiences and safety could calm fears about travel and related activities. Marketing should be segmented to focus separately on those traveling for leisure and those traveling for business.

All accommodations and tourism establishments, including lodgings, amusement venues, and other travel and tourism-related establishments, may consider formulating similar briefs that contain comprehensive COVID-19 safety and hygiene information for guests that complies with local, state, and federal hospitality reopening guidelines. These plans may include:

- Staff requirements (i.e. testing, scheduling, and PPE)
- Options to decline, and potentially the elimination of, housekeeping
- Cleaning and disinfecting procedures for common spaces (i.e. lobbies, elevators, parking garages, hallways)
- Information on any suspended services (i.e. eateries, buffets)
- Strategies for social distancing of guests in common spaces
- Clear instructions for any online booking and registration procedures, social distancing upon arrival, and check-in and check-out procedures

Strong marketing and clear information at all customer-facing channels may help potential travelers understand what future travels may look like, and also help visitors understand procedures that help keep them safe.

Companies are surely cognizant of the lack of demand for travel due to concerns about contracting and spreading the virus. As surveys indicate, a significant portion of the population is hesitant to travel due to safety concerns. Hotels, venues, and other attractions that can advertise the ability to effectively implement state quarantine and testing requirements for out-of-staters may be able to gain some advantage amidst these fears. Apps or record systems that allow establishments to remind customers of health requirements and accept and track submitted records would also aid in reducing face-to-face contact between check-in staff and guests, paperwork at check-in, and potentially also privacy concerns. The State of Maine has proposed using an app that would allow out-of-state visitors to send documentation of negative test results prior to arrival, as a sort of reservation confirmation.
In addition, touchless and contactless interactions that are prioritized and advertised can ensure that guests limit face-to-face interaction. Companies may look to automate and permit remote registration, submission of body temperature checks or COVID-19 test results, and check-in procedures that reduce in-person contact between staff and guests. Other contact-free options could include phone-enabled check-ins and room keys, virtual payment options where appropriate, and virtual maps and menus of facility features. This may mitigate some pandemic-related travel fears.

Third-party insights and customer reviews may also be helpful tools for navigating the best ways to travel once restrictions are lifted. Third-party rating platforms could host customer reviews and ratings based on businesses’ adherence to COVID-19 reopening guidelines. For the hospitality sector, this could include booking sites like Expedia and Orbitz, among others. Hotel review sites, including TripAdvisor and Oyster, may also include a COVID-19 safety ranking. Oyster, while lesser known than some of the previously mentioned sites, employs a team of reviewers that professionally investigates hotels. This type of reviewing may provide more accurate, detailed analyses of COVID-19-related guest safety protocols in hotels.

Public Policy Adaptations

While previous suggestions have focused on best practices for encouraging the return of customers, policy-related adaptations have an enormous potential to provide financial relief to ailing businesses in the hospitality sector. On that point, the temporary suspension or reduction of employer payroll taxes for hourly workers in accommodations and tourism should be investigated. If employers do not have to pay payroll taxes for their hourly employees, which amount to 7.65 percent of gross wages, the savings would incentivize rehiring laid off or furloughed staff and filling open positions. This could result in greater liquidity and cash flow at a time when merely allowing businesses to reopen is insufficient to spur a complete economic recovery. Hourly employees, especially in leisure and accommodation-related businesses, have been acutely affected by layoffs due to COVID-19. According to a Tax Foundation analysis, “improving liquidity for firms via a payroll tax holiday and reducing the rate of business failure improves the odds of a speedy economic recovery once the public health crisis abates.”

A 2011 Congressional Budget Office (CBO) analysis of various types of economic stimulus policies concluded that a payroll tax holiday specifically for employers would reap significant economic benefits, including increased output and employment growth. The CBO’s testimony before the U.S. Senate states:

“Policies that would have the largest effects on output and employment per dollar of budgetary cost in 2012 and 2013 are ones that would reduce the marginal cost to businesses of adding employees or that would be targeted toward people who would be most likely to spend the additional income. Such policies include reducing employers’ payroll taxes (especially if limited to firms that increase their payroll), increasing aid to the unemployed, and providing additional refundable tax credits in 2012 for lower- and middle-income households.”

In the CBO’s estimation, reducing employers’ payroll taxes would have had slightly higher estimated cumulative effects on the U.S. GDP than both reducing employee payroll taxes and reducing individual income taxes. In addition, a Congressional Research Service brief prepared for members and committees of Congress in August 2019 noted that payroll tax cuts, including those on the employer side, may affect more lower-income individuals than other types of tax cuts, due to the nature of many types of hourly positions, and the vulnerability of such positions in a situation like that created by the COVID-19 outbreak.

In a similar vein, the government could explore a temporary suspension of the Massachusetts room occupancy excise tax, currently levied at 5.7 percent on room rentals of 90 days or less. Economic theory suggests that removing such a tax would effectively reduce the cost of traveling and therefore incentivize consumers to book travel and accommodations. However, this type of
policy may not be so effective at achieving these goals in practice. A marginal reduction in cost may not be enough to overcome coronavirus fears. According to elasticity studies, demand for hotels and lodging is relatively inelastic, meaning that price does not have as much influence over travel bookings as other factors may. According to the attitudinal data collected in surveys like those described previously, fear of COVID-19’s spread and government-mandated travel restrictions and advisories deter people from traveling more than the cost of doing so. Still, the state government should conduct an in-depth analysis of excise tax reform initiatives, particularly as they pertain to the accommodations and tourism industry.

Another tax-related adaptation that could drive the recovery of travel-related businesses in the Commonwealth would be the temporary suspension of car rental taxes, especially at transportation hubs like airports and train stations. Like the room occupancy tax, this levy directly targets consumers of travel, often out-of-state travelers, and would seek to reduce the cost of booking travel, thereby incentivizing travel and support of the accommodation and tourism industries. However, the demand for car rentals has also been estimated to be relatively inelastic, indicating that changing the price would not necessarily result in significant increases in travel spending. In normal economic circumstances, increasing car rental levies has resulted in fewer customers, implying that perhaps in a pre-COVID-19 setting, decreasing this tax may spur some economic activity related to travel. As mentioned in relation to the room occupancy tax, these are not normal economic times, nor is cost necessarily people’s main motivation not to travel. Removing this tax may result in reduced state and local tax revenue without yielding the needed recovery for accommodations and tourism businesses.

Furthermore, recent proposals to give each American a vacation tax credit could incentivize people to travel more and stimulate economic activity in tourist-oriented areas and the accommodations and tourism industries. The “Explore America” Tax Credit would cover up to 50 percent of a household’s total vacation expenses, up to $4,000 per adult and $500 per child, and could be used for domestic vacation spending at places such as theme parks, hotels, and restaurants at least 50 miles away from the taxpayers’ principal residence. In a similar bill introduced by Arizona Senator Martha McSally, the credit would also include business-related travel. However, the nature of the tax credit means consumers spend money on a vacation immediately but are reimbursed at a later date. Given ongoing economic uncertainties caused by the pandemic, the number of people willing to make use of this paradigm may be underwhelming. Other observers foresee ambiguities in how to apply the tax credit, making the final price tag hard to predict. With some experts predicting that one-third of the population will be unwilling to travel until a COVID vaccine is available, the cost-effectiveness of such a policy is unclear. However, such an avenue should be explored at the federal level.

These tax reform and incentive policies for consumers and businesses in the hospitality sector should still be investigated in Massachusetts for their ability to spur some recovery from the economic downturns caused by COVID-19.

Recommendations: Business Practices

* Develop publicly available cleanliness and hygiene operating strategies
* Implement contactless procedures wherever possible (including for health check reporting, check-ins, room keys, concierge services, etc)
* Post clear summaries of all implemented safety procedures at multiple customer-facing points, including in hotel rooms, on travel service and experience booking websites, at payment portals, when booking confirmations online and through email, and during follow-up confirmation correspondence prior to guest arrival
* Prioritize marketing campaigns highlighting key COVID-19 safety measures
* Develop capabilities to monitor guest health metrics prior to guest arrival
* Strive to maintain competitive rates, but offer flexible deposits and cancellations for bookings, which could include refund or voucher guarantees
* On third-party review websites like TripAdvisor, create a platform where customers can leave reviews and ratings based on business adherence to COVID-19 reopening guidelines “Explore America” Tax Credit would cover up to 50 percent of a household’s total vacation expenses, up to $4,000 per adult and $500 per child. The government could also explore a temporary suspension of the Massachusetts room occupancy excise tax.
Recommendations: Public Policy

- Investigate the costs and benefits associated with suspending the federal employer-side payroll tax for a distinct period of time, specifically as it would help the hospitality sector
- Consider suspending or reducing state room and/or car rental taxes

Restaurant Industry

Background

COVID-19 has undoubtedly compounded existing restaurant industry concerns, instilled more uncertainty in a highly competitive environment, and necessitated coordination across jurisdictions with very different virus responses. In some cases, virus fears kept consumers away from restaurants long before the virus was widespread in the United States, and the wariness of potential customers remains a deep-seated concern for restaurateurs heading into the summer.

Nationwide restaurant industry sales were down over 50 percent between February and April 2020 before rebounding slightly in May. Mirroring this loss of sales was a steep decline in the share of consumers visiting sit-down eating establishments, with less noticeable declines at fast food restaurants and pizza shops. Consumers anticipated frequenting dining establishments more in May and June, but volume is expected to exceed pre-pandemic levels only at local “neighborhood” restaurants.

In the meantime, even quick service restaurants have seen a more than 60 percent decline in employment between March and April, with bars, taverns, and fine dining establishments laying off or furloughing close to 90 percent of workers. Sales decline exceed 50 percent across industry subsectors, and even top 80 percent at casual and family dining establishments. Overall, market capitalization in the food services industry declined by 37 percent nationwide in the six weeks between February 10 and March 23, and by 62 percent in the casual dining subsector.

As for the causes of these abysmal sales figures, McDonald’s Corporation (MCD), the publicly-traded restaurant chain with the largest market cap as of June 2020, cited “restaurant closures, limited operations, and dramatic changes in consumer behavior” (see Figure 7). McDonald’s emphasized the increased importance of drive-thru windows, delivery services, and mobile ordering while cautioning shareholders that preferences among clientele continue to evolve rapidly, potentially hurting business as the company works to adapt. The effectiveness of these adaptations is inherently uncertain in such an unprecedented public health crisis.

The fact that the duration of the pandemic is unknown complicates long-term planning, especially among franchises that intend on expanding operations or opening new stores. Instead, COVID-19 has forced many corporations to redirect would-be capital expenses towards keeping existing stores financially viable. Moreover, the ability of such franchises to open new restaurants in the future depends on the viability of their present locations. This was largely the motivation behind the recent announcement by YUM! Brands Inc. (YUM) that Pizza Hut would transition from being a sit-down restaurant to a more delivery-oriented pizza shop. In the meantime, Yum! Brands Inc. has delayed payments on royalties from its franchises and considered providing rental payments from its corporate office to individual establishments.

Meanwhile, Restaurant Brands International Inc. (QSR), which owns the Burger King and Popeyes’ franchises, has identified the need to strike a balance between loan provision and forgiveness of corporate dues for establishments with maintaining central financial strength. Compounding this problem are the higher operating costs associated with mandates to provide paid sick leave, PPE, and other benefits to employees. Several firms mentioned other personnel struggles, especially with replacing and/or retaining workers who tested positive for (or are especially vulnerable to the effects of) the coronavirus.
In some cases, businesses’ struggles are exacerbated by government policy aimed at containing COVID-19. Stay-at-home orders and gathering restrictions have limited consumer demand for sit-down restaurant meals, and not all locations have the capacity to add outdoor seating. While it may be difficult to comply with such regulations in a cost-effective manner, many restaurants also anticipate lawsuits related to their safety and cleanliness practices during the pandemic. Others are concerned that it will be difficult to immediately restart operations after the pandemic ends, as supply chain disruptions complicate the manufacturing and transportation of products and ingredients.

Ultimately, however, the greatest obstacles to the continued resilience of the restaurant industry are shifts in consumer demand. Even after there is a COVID-19 vaccine, consumers may be reluctant to return to restaurants in great numbers because of the economic fallout of the pandemic (see Figure 8). General economic conditions, including volatility in financial markets and reduced income among potential customers, were among the most oft-cited risk factors for major restaurant industry firms in 10-Q reports for the quarter that ended March 31, 2020. These demand shifts may necessitate the postponement of major promotional sales and special events, including deals that coincide with holidays and seasonal products. Firms with a global footprint may need a flexible and diversified approach to reopening establishments, as case rates and government infection control measures vary widely among and within individual countries.

Some food industry firms expressed optimism in their March 2020 10-Q reports that they would be able to adapt to the effects of the coronavirus. Aramark Corporation (ARMK), which provides food services to schools, prisons, and other institutions, cited its “strong liquidity position, flexible and low fixed cost operating model, and our diversified service offerings” as evidence that they would emerge from the COVID-19 recession in a relatively good financial position. However, the firm also cautioned that the virus could jeopardize its ability to pay off existing debts.
While large chains of casual venues constitute most publicly traded restaurant franchises, local family restaurants, fine dining establishments, and bars have seen disproportionate impact from COVID-19 in terms of both sales and employment (see Figure 9). These data help demonstrate that, even within the food industry, there are large differences in the effects of COVID-19 on various sub-sectors, with particularly harmful effects on small, local dining establishments. Other firms that are analogous or ancillary to the restaurant industry, such as grocery stores and third-party delivery services, have gained business during the pandemic. Below, we explore how certain adaptations, whether through policy reform or the use of industry best practices, can help facilitate better matching between the needs of restaurants and those of consumers during this summer and beyond.

Adaptations to COVID-19: Best Practices

In the face of government restrictions and a marked decrease in consumer demand, the restaurant industry has worked quickly to adapt to new protocols and service models during the COVID-19 pandemic. Many of these adaptations consist of innovative ways of reaching customers who are hesitant to eat out and incentivizing their return to sit-down restaurants. Still, the Massachusetts Restaurant Association has predicted that some 23 percent of restaurants in the state will close permanently because of COVID-19. Stabilizing the industry will require both short-term innovations and long-term business model shifts.

Expanded services and special offers

While there are significant variations by type and format of service offered, most restaurants have not shut down entirely due to COVID-19 (see Figure 10). Takeout, delivery, and curbside pick-up policies have allowed many to maintain some limited revenue streams.
Figure 9: Change in sales and employment in restaurant industry by subsector during the pandemic\textsuperscript{53}

Figure 10: Availability of takeout and/or delivery options among various restaurant subtypes, April 2020\textsuperscript{54}
In particular, innovative approaches to takeout and delivery service provision have helped keep restaurants afloat. Partnerships and promotional deals have allowed them to advertise on food delivery apps and in other creative places suitable for the recent boom in online food purchases. Sending updated “to-go” menus to potential customers may be especially useful for restaurants that didn’t previously have delivery or curbside pickup options. Such actions may even serve as a bellwether for a permanently greater role for takeout and delivery in the industry going forward. However, most restaurants cannot rely on takeout sales alone to remain profitable.

Many establishments have found stable business selling other products and services in higher quantities during the quarantine. Among the most clever are those hosting online cooking classes featuring restaurant staff, which occasionally take the form of hangouts with famous chefs or “cook-along” events featuring meal kits sold by the restaurant. Others have kept customers engaged by releasing individual recipes and selling pre-made products at supermarkets. Some have moved beyond food entirely, expanding their merchandise to include coffee mugs and apparel.

Gift cards are a more traditional alternative that restaurants have leveraged during this crisis. Some digital gift cards sold via third parties even allow restaurants to capture the revenue from the gift card sale before the customer actually purchases anything at the restaurant. An April 2020 analysis found that year-over-year e-gift sales are up 44 percent, and gift cards could help establishment owners pay fixed costs like rent while in-person business remains well below capacity.

In another example, several Western Massachusetts restaurants have banded together to sweeten the deal on their gift card program, offering gift cards valid at several establishments and bonus vouchers for larger purchases. This approach allows the gift cards to retain their value even if some of the restaurants go out of business, which is quite possible in the present business climate.

For other restaurants, special offers have taken on a more charitable connotation. Dozens of restaurants across the country have partnered with tax-free “gift-a-meal” programs that allow customers to buy a restaurant meal to be delivered to someone else. With the recent surge of unemployment due to COVID-19, these programs will help make restaurants appear more socially conscious while boosting revenue.

**Format and seating adaptation**

While some of the above special offers and additional service ideas have the potential for a lasting impact as the pandemic subsides, perhaps a more worthwhile investment for restaurants would be to actively adapt sit-down restaurant spaces to the evolving needs of consumers. In 2018, food eaten away from home (often in restaurants) accounted for 54 percent of food expenditures in the U.S. Creative approaches to outdoor table space and alternative sales models could help customers feel more comfortable returning to these establishments.

Restaurants should prepare to maximize their outdoor seating capacity in anticipation of the long-term relevance of public health guidelines. As total capacity limitations remain in place, restaurants will likely need fewer parking spaces for customers and staff, thus creating more space for seating in suburban locales. In more urban areas, such as Boston’s North End, seating has replaced on-street parking, with planters and whiskey barrels separating diners from traffic lanes.

Seating in waiting areas also deserves special consideration. Many restaurants may find it helpful to implement reservation systems for the first time, if only to manage crowding in waiting areas and parking lots. Expanding the size of the waiting area, especially those outside the establishment, and updating wait times regularly online may help allow for social distancing.

There’s also the potential for restaurants to do more to strengthen existing ties with local farmers, even using their parking lots as sites for farmers’ markets or community-supported agriculture (“CSA”) signup initiatives. Local Massachusetts farms and CSAs have ballooned in popularity...
during COVID-19 as consumers grow wary of grocery store supply chains. Restaurants can capture this demand by acting as a middleman, as many farmers regularly sell excess seasonal products to restaurants regardless of the pandemic.

Meanwhile, ancillary services like valet parking will likely prove unpopular in the midst of the pandemic. While valet parking operations don’t take up much space in and of themselves, the employees involved could be repurposed as hosts for the new outdoor seating sections.

**Safety measures**

The above format adaptations will only help the restaurant industry rebound if they encourage the public to come to restaurants in greater numbers. In an unprecedented public health crisis, there’s good cause to believe that people will return to restaurants sooner if it feels safer to do so.

Thus, restaurants could possibly benefit from providing masks, gloves, and small bottles of hand sanitizer at the door, for use by both customers and employees. Where possible, encouraging employee testing is also desirable, and making safety adaptations transparent on bathroom posters, waiting area bulletin boards, and online could help boost the public image of the establishments. Efforts to minimize contact between customers and employees, such as implementing touchless payment options, could also stem the spread of the virus.

**Reforming specialty restaurants**

While the above reforms apply to most dining establishments, others (such as indoor food courts) may find it harder to adapt to the unique demands imposed by COVID-19. There are also instances of groups of Chinese restaurants seeing reduced business since well before the pandemic was widespread in the United States.

Observers have devoted particular attention to the impact of COVID-19 on Chinatowns throughout the United States. But if Asian restaurants are particularly vulnerable to fears related to the virus, they also may be more able to rally grassroots support around close-knit ethnic communities. Such restaurateur groups may especially benefit from gift card programs and ad campaigns that allow several establishments to pool their resources, all while keeping a cohesive target audience of ethnic food enthusiasts and pro-immigrant activists. There’s also the potential for such restaurants to meet demand for culturally appropriate food among school lunches and at food pantries. Creating coalitions of independent restaurants would help make locales with culturally significant restaurant scenes, such as Chinatowns, more resilient than the establishments could be on their own.

There are also restaurants that are especially vulnerable due to their geographic location. Restaurants in tourist areas like Cape Cod and the Berkshires often depend on the hospitality sector, which is itself projected to contract by 45 percent nationwide in 2020, for their business. The seasonal nature of this restaurant work is especially important in Massachusetts, which typically adds 30,000 jobs at eating establishments each summer. Restaurants in these areas could consider partnering with nonprofits that provide food services to needy year-round residents. Regular vacationers and people with second homes may also be willing to support individual restaurants that they would frequent under normal circumstances, whether through gift card programs, gift-a-meal initiatives, or otherwise. Targeted advertising campaigns that identify areas with large concentrations of second homes and timeshare units could go a long way towards reaching potential customers.

It also may be significantly more difficult to adapt food courts, buffets, or cafeterias in the same manner as sit-down full-service restaurants. A lot of eating establishments have collective eating arrangements in one form or another, from silverware and napkin dispensers to shared coffee and water pitchers to lazy susans. Format adaptations that aim to improve safety from COVID-19 could be especially expensive for such establishments. Many of these restaurants are located inside institutions like shopping malls and art museums, and in some cases they remain closed even while their parent institution is open. For such establishments, perhaps the ultimate enabler for a profitable reopening is an increase in demand.
Public Policy Adaptations

Barring production of an effective COVID-19 vaccine, many reforms may be ineffective if initiated only by individual restaurants. This is especially true for the types of restaurants mentioned in the previous section. Thus, below we explore methods by which governments can incentivize the rapid financial recovery of the restaurant industry, especially via tax reform.

May 2019 and May 2020 month-over-month state sales tax collections from restaurant meals in Massachusetts fell by over 60 percent. In such an unprecedented health crisis, the principal reason is the lack of demand for these services. However, consumers of restaurant meals tend to be relatively sensitive to price changes, and temporary meals tax reductions may help bolster the industry in the long run, at least for restaurants historically reliant on local populations. However, this conclusion assumes that businesses will not raise their prices after the tax cuts lower the sticker price of restaurant meals. While competitive pressures may discourage price increases, there’s also evidence that such a meals tax cut would have minimal benefits to consumers. This latter fact compounds concerns that demand for services may not respond to tax incentives as readily in the midst of a global pandemic. Perhaps it’s more likely that consumer demand will return to pre-pandemic levels after public investments in the health and safety of such establishments. Such reforms have been discussed extensively above.

At the same time, restaurant meals may be a good test case for whether traditional economic stimulus is effective at spurring consumption during COVID-19, as demand for goods in other hard-hit industries—hospitality, tourism, and retail, for example—tends to be less sensitive to price shocks. Economic theory also posits that businesses bear more of the tax burden than consumers for purchases like restaurant meals, and thus tax cuts may be an especially pertinent form of relief for businesses in this sector.

By the same token, payroll tax relief for employer contributions, similar to a demand-side reform that temporarily reduced employee contributions in 2011 and 2012, could facilitate an expedited restaurant industry recovery. Tax relief for employee contributions could also help stabilize the labor market in the restaurant industry and others. However, the federal government should conduct an in-depth analysis of such a policy particularly as it pertains to the restaurant industry to ascertain whether budgetary losses are worth the potential benefits to restaurants.

Other potential financial measures include allowing higher limits for interest deductions on corporate debt, delaying tax payment due from restaurants, and implementing “meals tax holidays” similar to the “sales tax holidays” already practiced in Massachusetts. However, all these approaches are short-term solutions projected by tax experts to be “insufficient and ineffective” in the face of a major public health crisis. Delaying payments is most prudent when the delays last only as long as the industry is struggling, which in this case could be years, as recent projections suggest.

As an alternative, governments may consider other forms of financial assistance that are carefully targeted to benefit COVID-19’s hardest-hit industries. Some industry representatives have advocated for a low-interest bond package that functions as a grant to the restaurant industry, to be repaid with a temporary increase in the sales tax rate on restaurant meals. A potential long-term reform to boost restaurant finances in Massachusetts includes allowing small businesses to charge customers a service fee when they use a credit card, which is already legal in 40 states.

More urgent is the need for restaurants to negotiate rent payments with commercial landlords. However, any government involvement should be limited and not merely pass the financial burden from restaurants to real estate owners. Incentivizing negotiations that give landlords a stake in their tenants’ businesses (such as a percentage of sales) is one solution that helps tie rent payments more closely to real-time economic value.

Ultimately, non-financial adaptations could prove to be a more effective way of stimulating consumer demand, and government policy can help facilitate these adaptations. For example, food trucks have been touted as an effective way to maintain social distancing while bringing restaurant food directly to consumers. There appears to be high demand for online ordering from

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food trucks, which eliminates the need to wait in line amid a crowd of people. If restaurants were permitted to take their operations on the road, they could maximize consumer convenience and safety while avoiding reliance on DoorDash and other often-predatory delivery services. The state Legislature should consider fast-tracking licensing for food trucks operated by restaurants. By the same token, occupancy permits related to other use adaptations (such as allowing a farmers’ market or whole food sale model in restaurants) should be expedited, including with virtual inspections as applicable. Some cities, including Boston, have even allowed restaurants to compete with grocery stores more directly by selling fresh produce, meats, and other whole foods without official license. Missouri has passed similar legislation on the state level. Looser permitting requirements for alternative seating arrangements could also expedite the restaurant industry’s COVID-19 recovery. In areas with wide sidewalks, or restaurants adjacent to public space or vacant land, jurisdictions should seriously consider lifting bureaucratic barriers to allowing outdoor seating—such as additional parking requirements—as Boston has already done. Some locations have even closed sidewalks or even entire streets to make way for restaurant seating. In the event that social distancing is necessary into the winter season, policymakers should also be prepared to streamline processes for adding heating elements and other cold-weather amenities to these outdoor dining spaces.

Cities and towns can also do more to make food delivery and drive-through arrangements easier for restaurants. In some cases, traffic lanes or parking lots could be closed along shopping strips to facilitate curbside pickup. Local officials could also allow institutions such as hotels, airports, and shopping malls to add restaurant seating in lobbies or along walkways to both facilitate social distancing and increase capacity.

At the same time, restaurants have increasingly relied on third-party delivery services to serve customers during the pandemic. Some observers have called for crackdowns on alleged malpractice that allows these third-party services to capture most of the restaurant industry’s profits. New York City even imposed a cap on commissions and sign-on fees required for restaurants to use these services, with an eye towards aiding small businesses rather than large companies like Grubhub and DoorDash. In Massachusetts, recent legislation that would impose a similar cap has stalled in the state Senate.

Regardless of the role of third-party services, one of the most salient opportunities for boosting restaurants’ profitability is in loosening the regulation of alcoholic beverages. Not only are alcohol sales among the most reliable profit generators for restaurants, but the demand for alcohol is much less elastic than that for restaurant meals as a whole. Perhaps the most straightforward approach to expanding restaurants’ capability to sell alcohol is to increase the number of liquor licenses available in a given city or state. However, in Boston that approach has been met with staunch opposition even from industry leaders, who are concerned that “devaluing” the licenses would hurt well-established businesses that are themselves trying to recover from COVID-19. Representatives of the Massachusetts Restaurant Association have argued that expansions in the number of liquor licenses available in Boston may hinder efforts to keep existing businesses solvent. However, market distortions caused by the Commonwealth’s present liquor licensing system might cost the economy jobs during the COVID-19 recovery period. Reforming this system could help fast-track the restaurant industry’s resurgence and improve consumer convenience, and a gradual, phased approach may simultaneously keep the business climate predictable for current restaurateurs.

The COVID-19 quarantine period has also highlighted the potential for alcohol sales to play a greater role in takeout and delivery services. Even as restaurants reopen, they could benefit enormously from looser restrictions on to-go beer and wine purchases. Ideas for such initiatives include allowing restaurants to sell alcohol without food at any time the restaurant is open and in greater quantities than previously permitted. Alcohol takeout could potentially displace would-be customers of bars and other drinking establishments, but takeout is generally more conducive to following safety precautions than on-site consumption, especially given alcohol’s tendency to lower inhibitions. Beyond beer and wine, there’s also great potential for increased sales if mixed drinks could be included in takeout orders, as is currently allowed in Texas, as the skill required

Some industry representatives have advocated for a low-interest bond package that functions as a grant to the restaurant industry.

The state Legislature should consider fast-tracking licensing for food trucks operated by restaurants.
to make such beverages tends to boost their value.\textsuperscript{138}

Marketing programs for local businesses constitute another example of a state resource for restaurants recovering from COVID-19. The Massachusetts Office of Travel and Tourism, for example, could use its platform to advertise locales with notable restaurant scenes, such as Boston’s North End, Chinatown, and parts of Cape Cod. In orchestrating this advertising campaign, it should bear in mind that restaurants that rely on business from students, tourists, sports spectators, and businesspeople have been hit especially hard by the COVID-19 shutdown.\textsuperscript{139}

Finally, allowing restaurants to operate for extended hours could enable them to better respond to COVID-related demand shifts, as some customers will likely want to avoid “peak hours” at dining establishments for safety reasons. Similar state-orchestrated safety measures include requiring restaurants to report COVID-19 cases among their employees, which could incentivize them to make necessary safety adaptations and address concerns among potential customers.\textsuperscript{140}

Disclosing safety measures with third-party verification may help protect restaurants from lawsuits if the incentive structure is arranged in a certain way. There is potential for COVID-19 victims and their families to pursue settlements from restaurants perceived to violate public health guidelines during this crisis. Restaurants that can show they require workers to wear masks, improve cleaning procedures, and post their COVID-19 policies online and in bathrooms and waiting areas could be rewarded with legal immunity from COVID-19-related cases by the government. At a more grassroots level, review aggregation websites such as Yelp and Zagat, in addition to regional publications like Boston Magazine’s “Best of Boston” series, could add separate categories for reviewing the COVID-19-related precautions of these establishments. This provides restaurants with a direct incentive to comply with necessary safety measures and holds them accountable for lapses while simultaneously limiting the potential for abuse.

**Recommendations: Business Practices**

* Partner with other restaurants on gift card programs and promotional offers
* Partner with local farmers and distributors to host community events on restaurant property
* Partner with charitable organizations to provide nutritious, culturally appropriate meals to needy families
* Initiate targeted advertising campaigns to reach customers at their homes, including via interactive activities like cook-alongs
* Offer additional products and services, such as cooking classes, pre-made dishes, and t-shirts
* Expand seating into parking lots and onto sidewalks as permitted
* Make wait times, seating capacity, safety measures, and other pandemic-related changes as transparent as possible, and use the opportunity to increase presence on social media
* Invest in touchless payment options, personal protective equipment for staff, and other reforms that respond to COVID-19 concerns among customers

**Recommendations: Public Policy**

* Reform the process for obtaining liquor licenses by shifting control over the number of licenses available to the local level and away from the state Legislature
* Allow alcoholic beverage takeout and delivery on a permanent basis and with fewer restrictions
* At the state level, allow restaurants to sell fresh produce, meats, and other whole foods by-right during the pandemic to compete more directly with grocery stores. Expedite occupancy permits for related endeavors through prioritization and virtual inspections
* Prioritize local permitting for food trucks owned by restaurants
* Impose a cap on commissions and sign-on fees for restaurants to use delivery services to get food to customers
* Allow outdoor seating in parking lots and on sidewalks by-right, with some restrictions to ensure sufficient mobility and safety in the area

Market distortions caused by the present liquor licensing system in Massachusetts might cost the economy jobs during the COVID-19 recovery period.
* Allow food delivery, curb-side pickup, and drive-through arrangements by-right, giving authority to local officials to alter street design to facilitate these uses
* Incentivize institutions (hotels, airports, malls, etc.) that have restaurants to add seating for diners in common spaces (lobbies, walkways, etc.) to facilitate social distancing
* At the state level, investigate the benefits of providing legal immunity from COVID-19-related liability to establishments that demonstrate compliance with public health guidelines, implement touchless payment options, provide customers and staff with PPE, and make testing information available to workers
* Investigate the costs and benefits associated with suspending the federal employer-side payroll tax for a distinct period of time, especially as it would affect the restaurant industry

Retail Trade Industries

Background
Retail Trade has been disproportionately affected by shutdowns in response to the COVID-19 pandemic, especially as most brick-and-mortar stores deemed non-essential had been ordered to close across the country, although reopening is underway for many outlets. While online ordering technologies and curbside pickup allowances may have provided a lifeline to some businesses in this industry, many are faced with an arduous road to recovery as social distancing and hygiene requirements, capacity restrictions, and reduced hours may limit businesses’ ability to recoup significant losses incurred during the last several months of the shutdown. As described above, retail employment in Massachusetts decreased by 20 percent between February and May 2020.\(^{141}\)

A U.S. Census monthly retail trade report showed that adjusted overall retail sales (excluding food services) dropped by 17.2 percent between February and April 2020.\(^{142}\) In a report released for the month of May, overall sales appeared to rebound by about 16.8 percent compared to the April report. This increase shows some positive trends in recovery for the retail sector, and May 2020 total sales are nearly within 1 percent of total sales for May 2019. The upward trend continues in a newly released report, which shows June 2020 sales clocking in 5 percent higher than sales in June 2019.\(^{143}\)

Despite the rebound in overall retail sales, the industry is split between establishments considered essential, and those that have suffered due to being deemed non-essential (see Figures 11 and 12). For example, food and beverage stores had 14.5 percent higher sales in May 2020 than in May 2019, while health and personal care stores (like CVS) are down by 10.3 percent and motor vehicle and parts dealers are down by 3.9 percent over the same period. Other types of retail locations are facing much more significant drops in sales compared to this time last year—clothing and accessories stores were reported down 63.4 percent, electronics stores were down 29.9 percent, and furniture stores were down 21.5 percent from sales records in May 2019. The figures for these sectors are, however, substantial improvements from April 2020, which saw an 87.3 percent decrease in sales for clothing stores, a 53.1 percent decrease for electronics stores, and a 58.7 percent decrease for furniture stores compared to April 2019.\(^{144}\) In the new June retail sales report, sales in these hardest hit sub-industries were still below last year’s numbers, but the gap has begun to close. For example, June 2020 clothing and accessories store sales are only down 23.2 percent, electronics store sales are down 12.7 percent, and furniture store sales are down 3.5 percent compared to last June.\(^{145}\)

These figures do not distinguish between brick-and-mortar and online sales for businesses with brick-and-mortar locations. However, non-store retailers, which include businesses with a very limited presence in traditional storefronts (like Amazon), have seen increases this year even compared to 2019, with 30.8 percent more sales in May 2020 than May 2019 according to the May report, and 23.5 percent more sales in June 2020 than June 2019, according to the June report.\(^{146}\) While phased reopening in Massachusetts and across the U.S. has allowed some types

Retail employment decreased by 20 percent between February and May 2020 in Massachusetts. Despite the rebound in overall retail sales, the industry is split between establishments considered essential, and those that have been suffering due to being deemed non-essential.
of businesses to make these sales jumps in May and June, there is still a significant gap between current sales levels and pre-shutdown levels. This gap is most apparent among retail sub-industries that were not considered “essential,” those containing a high number of brick-and-mortar stores, and those that do not lend themselves easily to sales through online channels.

Figure 11. Change in retail sales by sub-industry in the United States, March–May 2019 and March–May 2020
Risk factors cited by top retail companies as part of required financial disclosures to the SEC provide an indication of concerns faced by the retail industry as a whole as it looks to reopen and recover. In addition to more general concerns about demand, retail companies cited unique risk factors that can speak to the plight of businesses across the industry.

JC Penney Company, Inc. (JCPNQ) filed for bankruptcy on May 15, after decades of decline punctuated by the devastating effects of the pandemic. A handful of other large retailers also announced that they were filing for bankruptcy, indicating the probability of a similar plight for many smaller retailers. Documented in a risk assessment as part of their annual 10-K form released on March 20, the company cites many risks to their future performance, but notably financial concerns:

“Continued impacts of the pandemic could materially adversely affect our near-term and long-term revenues, earnings, liquidity and cash flows, and may require significant actions in response, including but not limited to, employee furloughs, reduced store hours, store closings, expense reductions or discounting of pricing of our products, all in an effort to mitigate such impacts.”

Other companies have also cited financial concerns, specifically as they relate to cash flow and liquidity. Such issues have been the logical result of budget cuts, reducing staff and store hours, closing establishments, and discounting merchandise to mitigate the effects of the economic shutdown. However, as reopening occurs throughout Massachusetts and the nation, cash-strapped companies may find it difficult to reopen their stores.

Home Depot (HD) cited a lot of general risks related to the impacts of COVID-19 on its businesses, and specifically stated concern over financial performance. The company also documents its transition to online order fulfillment, suggesting that such a reliance on “internal and external information technology infrastructure” could result in future inefficiencies and impacts
in sales and customer relations in the event of technology failures. In addition, Home Depot expresses concerns over the impact of new requirements for operation after COVID-19 on business, including social distancing and hygiene protocols, as well as government programs to create incentives to keep employees on the payroll: “the actions that we have taken in response to the pandemic have resulted in significant incremental costs, and we expect that we will continue to incur additional costs due to the pandemic going forward, which in turn will have an adverse impact on our results of operations.” This risk analysis also notes that the government expansion of worker compensation, particularly impactful for businesses deemed essential by state and local governments, may also cause barriers to financial recovery, as claims for compensation and insurance may rise as a result.

Companies like Bed Bath and Beyond (BBBY), which recently disclosed it would close 20 percent of its stores, included additional concerns that customers would remain anxious about returning to brick-and-mortar stores due to general fear of contracting the coronavirus. This particular concern is key, as smaller retailers may not have the same capacity as larger, more well-known establishments to fulfill online orders or build a sustainable online customer base. Another theme found in many retailers’ assessments of risks posed by COVID-19 was the potential for supply chain failure, often involving third-party companies on which retailers rely for business as well as the companies’ own ability to support other business partners. Companies like this state the need for suppliers and banks, among other businesses, to remain in business to ensure their success. Likewise, other companies rely on them to maintain positive credit ratings and contract agreements, as well as lease obligations.

Risks articulated by top retail companies offer a glimpse into the post-COVID-19 realities many retail businesses, large and small, face due to the economic shutdown in Massachusetts and the U.S. While some retailers, including those primarily operating online and those providing essential goods, have seen less negative impact and even some sales gains, there are still many retailers, including those reliant on their brick-and-mortar establishments, that are suffering and may see a longer road to recovery.

Adaptations to COVID-19: Best Practices

In the wake of the COVID-19 economic downturn, retailers have also had to adjust to risks and consumer qualms that have evolved quickly since March. For some, like grocery stores and other essential businesses, adjusting to shutdown consumption behaviors has proved profitable. However, as brick-and-mortar locations of non-essential businesses were shuttered as part of Massachusetts’ stay at home advisory, many businesses have seen historic downturns in their sales, giving those with online order capabilities a limited life line and leaving those without such infrastructure left to wait for traditional store reopenings.

Changes in consumer behavior and expectations

Coverage of the economic plight of businesses across the state continues to indicate that consumer behaviors have been changed by fears regarding the COVID-19 outbreak and the economic shutdown that followed. A survey conducted by McKinsey & Company also indicated that many of the consumer behavioral changes adopted during the economic shutdown may remain in the long term. The so-called “new normal” for retail may include increased demand for online streaming services, virtual fitness offerings, and store-brand loyalty while hurting higher price brands (especially in grocery stores) and in-store sales overall.

In addition to consumption trends, four out of five participants in the McKinsey & Company survey indicated that they desire to see specific milestones beyond store reopenings to signal safety to participate in their normal retail activity. Some of these milestones include the lifting of social distancing restrictions and stay-at-home advisories as well as recommendations from national and state medical authorities that it is safe to engage in such activities. Implementing clear safety measures in retail establishments and developing an effective vaccine will expedite this process. Similar to expectations of consumers in other industries, the survey recounts: “as consumers
contemplate returning to shopping in stores, cleaning and sanitization is the number-one priority, followed by usage of masks and installation of barriers. As retail trade establishments begin to reopen, they should pay attention to customer concerns and strive to implement and publicize efforts to make stores safe for normal business activity.

The McKinsey and Company U.S. consumer sentiment survey highlighted a few key areas where retailers can make adaptations that incentivize demand. First, there has been a significant shift toward online purchasing of goods traditionally found at retail locations. Many businesses have either expanded existing online ordering platforms or rapidly developed them to maintain some level of business activity during stay-at-home orders. For those businesses that could not develop such capabilities, respondents said that “creating in-store experiences that are unique (and perceived to be safe) is key to survival.” Second, retailers that already had or recently implemented touchless, contactless capabilities across all operations will have an advantage regarding the perceived safety of consumers. Businesses developing increased automation, contactless payment procedures, and online ordering for delivery and pickup may be on the rise as consumers remain relatively wary of places where coming into close proximity with strangers is common or unavoidable. Third, scarcity of products during the shutdown and limited inventories have incentivized consumers to try new brand alternatives, creating shocks to pre-existing brand loyalty. This may be a result of proximity to open stores, availability of products at different stores, ease of use and navigation online, and safety considerations.

Sales
In adjusting to changes in the actual sales volume during the shutdown period, many stores have limited their merchandise available for purchase to anticipate decreases in demand. Certain retailers have implemented deep sales of “aged seasonal” products that may have been in stock before the shutdowns, but may be out of season when physical stores reopen. Reducing inventory-to-sales ratios has been key to avoiding excess expenses associated with storing unsold items, even if that means limiting supply even more than anticipated demand. While phased reopening is still underway in Massachusetts, some retailers may continue to offer limited arrays of products when demand for products and in-store experiences start to rebound. Wherever possible, clear advertising of clearance sales on out-of-season inventory may provide increased exposure to brick-and-mortar and online businesses. Significant markdowns of inventory, which in many cases may have been stored since March, may help businesses make room for new inventory and increase cash flow. Sales of this nature may also drive consumption, especially if they include online purchasing options. However, deep cuts may result in lower profit margins or losses, which may in turn impact loan covenants and the retailers’ ability to maintain credit availability from banks.

To maintain some revenue streams during business shutdowns, many companies have been able to provide curbside pickup. According to analysis by the National Retail Federation (NRF), half of consumers have used BOPIS (“buy online pickup in store”) because of changes due to COVID-19. Implementation of this procedure varies by establishment, but NRF data suggests that 90 percent of those who have engaged in this method of purchase felt it was convenient. Some retailers have even simplified the process by allowing customers to pick up their purchases from a clerk in the store parking lot. Other processes are more sophisticated and reduce face-to-face contact between customers and employees. Processes like these may be new to some customers, and it is key for retailers and employees to communicate new procedures to their customers at every step of the order, confirmation, and pickup process.

Other adaptations may include alternatives to in-store product displays and purchases that help customers feel safer when browsing and purchasing. For example, commissioners of Rehoboth Beach, Delaware, unveiled a plan to allow area businesses to use city sidewalks for outdoor dining and retail activity from June 1 through July 31. During this period, the city is allowing retailers to have outdoor product displays up to three feet from their establishment without applying for any permits. As long as displays maintain compliance with ADA standards and
current social distancing requirements, businesses in these categories should be able to cater to customer concerns while also advertising their products. Retail establishments should be allowed to set up outdoor displays and work with insurers to expand ability to conduct business activities on all parts of their property. Rental managers should have the freedom to work with tenants to determine acceptable alternative outdoor displays on managed property, and individual retail establishments should comply with all state and local reopening and ADA guidelines. However, companies may face restrictions related to liability insurance policies.

During a time of deep uncertainty, constantly evolving updates, and increased regulations on businesses, adapting to these changes necessitates that authorities remove as many obstacles as possible to adapting business practices that fit new COVID-19-related standards.

Public Policy Adaptations

Due to decreases in consumer demand, the resulting abysmal sales, and companies’ assessments of their own financial risks and ability to move product during this time, organizations like the American Apparel and Footwear Association (AAFA) are calling for certain financial measures to be put in place to protect struggling businesses. For example, contracts between wholesale manufacturers and retail businesses have become strained as concerns regarding shipping and supply needs, end-of-chain product demand, and cash flow loom for retailers. Insurance on these contracts is also limited, as uncertainty and risk in fulfilling contracts has increased exponentially during this time. According to the AAFA: “just three months ago, a wholesale supplier with a $1 million contract from a major retailer could have bought insurance on $800,000 of that business. Today, the wholesaler might secure only a $100,000 guarantee on the same $1 million, making the order too risky to complete.”

AAFA has called for the federal government to provide “credit insurance backstops” to maintain that contracts can continue to be insured. This would potentially provide more stability between suppliers and retailers and would allow for increased inventory.

In addition, The Washington Post documents that credit insurers themselves have been very risk-averse during this period of unprecedented shutdowns, as agencies like Moody’s Analytics and Standard & Poors Global Ratings have downgraded credit ratings for many struggling retailers. This has reduced access to certain financial lifelines, like corporate bonds or government stimulus programs designed to incentivize companies to maintain their financial health. These slashed credit ratings also keep struggling businesses from borrowing through other means, and will inevitably take a toll on companies’ future ability to recover from pandemic-related challenges.

The temporary suspension of payroll taxes paid by retail employers, specifically for hourly workers, also has the potential to spur economic recovery in the retail sector. Reducing barriers to hiring back employees will be essential to industry recovery, especially those who are paid hourly and may have been harder hit during the COVID-19 shutdown. New sales data indicate that many retail industries are beginning to rebound as phased reopening across the nation continues and retail businesses become more technologically capable of handling orders online. Demand for retail is vastly different from demand for hospitality-related businesses, as retail stores theoretically require less time and less contact with other people, and do not require reservations or similar commitments. In this time of hesitant recovery due to COVID-19, demand for retail may be more predictable than that for hospitality. If demand continues to rebound to pre-outbreak levels, this may incentivize companies to rehire for previously eliminated positions, and reducing payroll taxes may further drive this incentive. The federal government should conduct an in-depth analysis of such a policy, particularly as it pertains to the retail industry, to understand tradeoffs between budgetary losses and potential impacts on retail business recovery.

Many states have issued extensions on sales tax payments owed by businesses, with some implementing policies that would allow for installments of the tax to be paid over a number of months. Moreover, California Governor Gavin Newsom proposed a measure that would allow for

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Reducing barriers to hiring back employees will be essential to industry recovery, especially those who are paid hourly.
small businesses to keep their first $50,000 in sales tax revenue as a bridge loan. What is somewhat overlooked by these policy suggestions, however, is that the burden of the tax ultimately falls on consumers, and incentivizing the return of demand for retail goods may be more effective at spurring an economic recovery.

To that end, an additional policy adaptation could include an extended sales tax holiday for retail consumption. The National Federation of Independent Businesses argues that sales tax holidays raise consumer spending and boost the purchasing power of low-income families. Holiday weekends like Labor Day or even Black Friday/Cyber Monday are prime targets that tend to feature sales at many outlets regardless of government policy. Massachusetts remains one of only a few states that has an annual sales tax holiday, this year occurring on August 29–30. Overwhelmingly, evidence suggests “that sales-tax holidays are associated with significant shifts in the timing of purchases by consumers,” meaning consumers will wait for such holidays to maximize savings on large purchases. Short-term suspensions of sales tax, however, do not seem to result in long-term changes in spending habits, which are vital to the state’s economic recovery. A 2019 Tax Foundation report even dismisses them as “political gimmicks.”

However, a longer-term sales tax holiday or reduction may limit the incentive to save a large portion of purchases for a single weekend. If scheduled sooner rather than later, it could also theoretically stimulate additional spending at businesses that desperately need increased cash flow. As a long-term sales tax freeze could cause a large loss in state revenue that is already depleted from reduced economic activity, Massachusetts should investigate these tradeoffs to determine the impact of temporarily suspending sales taxes on consumers, businesses, and state finances.

Federal and state governments could also investigate implementing refundable income tax credits based on consumption to stimulate consumer demand for purchases at brick-and-mortar stores related to these hard-hit industries, thereby potentially increasing sales, revenue, and cash flow for recovering accommodations and tourism establishments, retail businesses, and restaurants. While such a stimulus policy hinges on long-term benefits for consumers’ short-term purchasing behavior, an incentive that allows for a specified dollar amount of retail consumption to be used as a refundable credit may generate some demand that aids the recovery of these industries. As seen in the May 2020 U.S. Census report, retail sales have already begun to rebound, and the addition of a monetary incentive to make purchases may further stimulate demand for retail goods.

However, as some consumer fears linger regarding restaurant dining and travel, demand for purchases in these industries may not be as readily affected by a tax credit offering. Studies also claim that credits do not provide the sort of immediate relief presented by rebates and direct cash payments, and therefore the impact of these tax credits hinges on consumers’ willingness to spend, which is difficult to predict in an unprecedented economic climate. One solution to this immediacy problem would be for governments to issue rebate credits for consumption based on income, filing status, and dependents in the short term, which would allow individuals to receive cash before submitting tax filings and awaiting the final credit amount after the end of the tax year.

Including a longer period than just a weekend for the Massachusetts sales tax holiday may limit incentives to wait for a specific time to buy from retail outlets. However, the state should only explore such a policy if it has a substantial role in expediting Massachusetts’ long-term economic recovery from COVID-19.

Other long-term reforms could include making local permitting requirements less restrictive. Removing time and paperwork barriers to engaging in practices that increase retail sales should incentivize more in-store businesses to innovate. In addition, such purchasing options allow both employees and customers to avoid the perceived risks of shopping in close quarters, and may be a transitional step to re-engaging COVID-19-risk averse consumers. Provided establishments can demonstrate compliance with state and local retail guidelines, businesses should not have to wait for local or state approval to engage in innovative adaptations. The default should be allowance of such activities, as it has been for many restaurants that have operated takeout food activities deemed “essential” since March 2020 in Massachusetts.
Recommendations: Business Practices

- Develop and rely on order confirmation messaging that allows stores to notify customers when and how to receive their order and allows customers to notify the retail establishment when they have arrived to pick up the order
- Develop and prioritize touchless points where possible (payment, self-checkout, online inventory lists and menus, etc.)
- Hold and advertise clearance sales for out-of-season inventory
- Set up specific areas on third-party customer review websites to allow retail customers to comment on in-store experiences and how stores are implementing COVID-19 safety measures

Recommendations: Public Policy

- Incentivize businesses to use BOPIS and expand delivery infrastructure through by-right delivery
- Reduce or eliminate local permitting requirements for outdoor product displays and points of sale on business property
- Explore the effectiveness of an extended state sales tax holiday for retail trade purchases for stimulating long-term economic growth
- Explore the viability of temporarily eliminating employer-side state payroll taxes for retail businesses, including comparing the cost of tax revenue losses with the multiplier effect of increased spending
- Investigate the costs and benefits associated with suspending the federal employer-side payroll tax for a distinct period of time, especially as it would help the retail trade sector

Conclusion

Each of the sectors and related industries analyzed in this report have been uniquely affected by the coronavirus crisis. While the economy as a whole has seen devastating impacts related to the virus, accommodations and tourism, restaurants, and the vast variety of retail trade businesses are arguably some of the hardest-hit based on unemployment figures and sales reports.

This report has provided analysis of the innovations and adaptations by those in each of these industries to aid their survival in an uncertain business climate, and has encapsulated some key recommendations for policies and best practices that could potentially aid businesses in all sectors on their path to financial recovery. Ultimately, there are some significant forces that will continue to play an important role as we attempt to overcome the coronavirus.

The role of local, state, and federal governments to disseminate critical information regarding the initial spread of COVID-19 in the United States, undertake necessary responses to mitigate the outbreaks, and implement phased reopening has been a key factor driving individual behaviors. Particularly as we learn more about the virus, clear and consistent evidenced-based guidance is essential going forward. Governments must take the advice of public health officials who monitor state caseloads and new hot-spots, and factor this information into reopening timelines.

In the meantime, the Paycheck Protection Program’s extension in early June to cover 24 weeks of small business expenses will likely prevent many businesses from closing, as very few were allowed to fully reopen when the original eight-week coverage period expired. Strengthening the Paycheck Protection Program and ensuring adequate controls over it could also help limit employee turnover, which many companies in the hardest-hit industries, especially restaurants, struggled with long before COVID-19.

Long-term reforms could involve restructuring the tax code to tax commodities that tend to retain their value even in a harrowing recession, but evaluating the effectiveness of such a complicated task is beyond the scope of this paper. In emerging from the COVID-19 crisis, tax policy must balance the need to incentivize business activity among those who are marginally most likely to increase their consumption (i.e., lower- and middle-income people) with the need to limit the volatility of future state revenues.

The impact of these tax credits hinges on consumers’ willingness to spend, which is difficult to predict in an unprecedented economic climate.

The role of governments to disseminate information regarding COVID-19 in the U.S., undertake necessary responses, and implement phased reopening has been a key factor driving individual behaviors.
Both the Massachusetts and United States economies will see industry adaptations that last well beyond the period of recovery from coronavirus-related shutdowns. The recommendations and analysis provided in this report represent some of the innovative ways in which businesses are striving to remain relevant, competitive, and functional during this time. Existing and future changes specifically within the accommodations and tourism, retail, and restaurant industry groups will leave a mark on the Massachusetts economy for decades to come.

In emerging from the COVID-19 crisis, tax policy must balance the need to incentivize business activity among those who are marginally most likely to increase their consumption.
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