



Testimony — House Tax Committee
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The Minnesota Budget Project is an initiative of the Minnesota Council of Nonprofits. We provide independent research, analysis, and advocacy on budget and tax issues, with particular attention to the impact that fiscal decisions have on low- and moderate-income Minnesotans.

Since the state first faced budget deficits in the 2002 Legislative Session, the Minnesota Council of Nonprofits has consistently argued for a balanced approach to the state's budget. We have called on decision-makers to use all of the budget balancing tools available to them: judicious use of reserves and other one-time measures, reducing spending, and raising revenues.

In past legislative sessions, deficits have been addressed largely through one-time measures and spending cuts. This does not mean, however, that revenues have not been raised. They have been raised through a patchwork of increases in fees, copayments, and tuition. Significant cuts in local government aid have brought about both service cuts and property tax increases in our local communities.

In 2003, there were those who argued that we should not ask Minnesotans to pay any more in state taxes. But many families would have been better off with a modest tax increase than with the budget choices that were made. To cite just a few examples:

- Students looking to start their careers and incumbent workers seeking to gain new skills have faced double-digit tuition increases at our state colleges and universities at the same time that financial aid grants have been cut.
- Parents who receive services to enable them to care for their disabled children at home have seen fee increases as much as several thousand dollars per year.
- Families working their way from welfare to work lost \$1,500 a year in cash assistance for each severely disabled family member present in their home.
- Families receiving child care assistance are paying copayments that are an average of 57% higher – an additional \$936 dollars a year.

And there are many other examples, which are described in the handout entitled "Consequences." There is a better and fairer way for the state to raise revenues.

The state has already made considerable reductions in spending, and Minnesotans are feeling the impact of these cuts. While no one likes to pay taxes, we do like the things that taxes pay for, including quality schools, safe communities, and taking care of the most vulnerable members of our society.

It's time for a more balanced approach, and it's time to put taxes on the table. Minnesota cut tax revenues significantly during the surplus years, acting as if the boom

economy would last forever. Our ongoing budget deficits prove that these tax reductions went too far. Minnesota can roll back a portion of these tax cuts to address the state's critical needs, while still having lower taxes than we did in 1996.

While there are many revenue-raising options that this committee could consider, we think that making changes to the income tax is the best way to raise revenues while taking into account Minnesotans' ability to pay. And in this bill, the amount of additional tax is reasonable, with an average increase of \$242 when the changes are fully phased in.

The recent release of the *Tax Incidence Study* supports the need to pay attention to how we raise revenues, to ensure that the responsibility for funding government services is not falling disproportionately on low- and middle-income Minnesotans.

Some will argue that the state cannot raise taxes without dramatic harm to the economy. But the evidence does not support this assertion. As shown by Peter Orszag of the Brookings Institution and Joseph Stiglitz, recipient of the 2001 Nobel Prize in Economics, both spending cuts and tax increases take money out of the state economy. While each \$1 cut in government spending immediately removes \$1 from the state economy, a \$1 tax increase is likely to be offset by a partial reduction of savings — for example, consumption may fall by 90¢ and savings reduced by 10¢. Therefore, a tax increase may be less of a drag on the economy than an expenditure cut of the same size.¹

In addition, in the 1990s, Minnesota had higher taxes than we do today and yet had stronger economic growth than our neighbors and the nation as a whole. A modest increase in taxes can be done without damaging our economy.

¹ Center on Budget and Policy Priorities, *Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?*, www.cbpp.org/10-30-01sfp.htm.