



**For Immediate Release**

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## Enough is enough: It's time to start acting beyond the current crisis

St. Paul, MN – The February Forecast to be released this morning is expected to show the State of Minnesota's projected budget deficit has grown significantly since last fall. It was only last February, however, that we were reportedly enjoying a large surplus.

"It's time for legislators to start making budget choices that look well beyond the current crisis," said Nan Madden, director of the Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits. "We need to balance the budget for the current biennium, but we should also be sure those decisions are sustainable in the next biennium."

In order to solve our immediate fiscal problems in a long-term way, policymakers should:

- Raise revenues in order to sustain current levels of public investments to help our economy through the current economic downturn.
- Use the state's budget reserves in a restrained way to buy time to implement a long-term solution.
- Restore inflation in the forecast to ensure that everyone understands the future implications of today's choices.

### **Sustain current levels of public investments**

"Some will argue that in a recession, the state must first cut spending to bring the budget back into balance," said Christina Wessel, deputy director of the Minnesota Budget Project. "But the most important tool the state has to help Minnesota's slowing economy is to keep funding services so that money stays circulating in the state's economy."

Nobel Prize economist Joseph Stiglitz and Congressional Budget Office director Peter Orszag have argued that, during an economic downturn, it is better for the economy to raise taxes on higher-income households than to reduce government spending.\*

"When the state funds services, those dollars are generally spent in the state. If the state cuts spending to fix a deficit, those dollars are no longer spent in our economy. If we raise taxes on higher-income households, those folks are likely to keep spending the same amount, but compensate by saving less," said Wessel. "The best thing we can do at this time is maximize both government and consumer spending."

### **Use our budget reserves strategically**

The state's budget reserves can be used as a bridge to a more comprehensive solution. Whether the state's plan to balance the budget ultimately includes raising revenues and/or cutting spending, it will take time for the state's financial picture to reflect the results.

"Our budget reserves shouldn't be used just to delay the tough decisions until the next legislative session," said Madden. "Policymakers need to come up with some smart long-term solutions and reserves can be used to buy the time needed to implement those ideas."

### **Restore inflation in the state's economic forecasts**

The ability to come up with responsible long-term solutions depends on access to good information. One key piece of information was taken away when the 2002 Legislature passed a law prohibiting including the influence of inflation on state spending when calculating the state's economic forecasts.

"We need to get the impact of inflation on spending back into the state's economic forecasts," said Wessel. "Including the cost of inflation forces policymakers to consider whether the budget choices they are making today are going to be sustainable in the future. Leaving inflation out gives us false hopes about what we can afford with our current level of revenues."

"It's a serious challenge to come up with a budget that looks beyond our current crisis," said Madden. "But the state needs that kind of discipline."

*The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, provides independent research, analysis and advocacy on budget and tax issues emphasizing their impact on low- and moderate-income Minnesotans. The Minnesota Council of Nonprofits (MCN) is the statewide association of 1,900 nonprofit organizations. Through its Web site, resource publications, workshops and events, cost-saving programs and advocacy, MCN continually works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector, [www.mncn.org](http://www.mncn.org).*

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\* Peter Orszag and Joseph Stiglitz, *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](http://www.cbpp.org/10-30-01sfp.htm)