



**For Immediate Release
March 3, 2009**

Contact: Katherine Blauvelt, policy analyst
Phone: 651-757-3089, cell 612-816-4465
Email: katherine@mncn.org

Nan Madden, Minnesota Budget Project director
Phone: 651-757-3084, cell 612-709-6948
Email: nan@mncn.org

TWIN PROBLEMS OF DEFICIT AND RECESSION REQUIRE BALANCED SOLUTION

St. Paul, MN – Today's February Economic Forecast is expected to show a large uptick in the State of Minnesota's projected budget deficit. The higher budget deficit is due to a much poorer economic outlook than previously predicted. Confronting the twin problems of a deficit and a recession are the formidable tasks ahead for state policymakers. The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, notes that a balanced solution to close the budget deficit, which provides for reasonable tax increases and spending cuts, is the most sensible course of action.

"As policymakers work to balance the budget, they should pay attention to the impact of their decisions on the state's already bad economy," said Nan Madden, Minnesota Budget Project director. Minnesota's unemployment rate jumped to 7.6 percent in January 2009 – the highest unemployment rate in over twenty-five years.

"State and local governments play a critical role in our economy, buying goods and services in Minnesota and paying the wages for teachers, nursing home workers and other important jobs in our communities," said Madden. "State spending cuts take those dollars out of the economy and puts jobs at risk."

"The state should not cut funding for services that help people get and keep jobs, that families use to make ends meet, at the time when they are most needed," said Madden.

Economists including Nobel Prize-winning economist Joseph Stiglitz and Office of Management and Budget director Peter Orszag have argued that spending cuts may be more harmful to a state's economy during a recession than tax increases. That's because if state spending is cut by a dollar, that is likely to take a dollar out of Minnesota's economy. That is particularly true if cuts are made to resources going to low-income families, who spend virtually every dollar they receive, and usually spend it locally.

In contrast, a focused tax increase on high-income households is likely to have less of a drag on the state's economy, because those households are likely to maintain their levels of consumption, and simply save less. (See 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.)

The federal economic recovery package is helpful in the short-term. Mark Zandi, chief economist at Moody's Economy.com, estimated that each dollar of federal aid to the states will result in \$1.36 in economic activity. But the federal assistance will not help the state with its long-term mismatch between revenues and spending.

The state's tax system has become increasingly regressive, shifting more of the responsibility for funding government services on to low- and middle-income Minnesotans. "Policymakers have the opportunity in the 2009 Legislative Session to create a better tax system that is more fair and raises the revenues needed to fund the state's priorities," said Madden.

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 1,950 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)

###