



For Immediate Release
December 4, 2008

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

STATE MUST TAKE A BALANCED APPROACH TO BUDGET SHORTFALLS

St. Paul, MN – The November Forecast released today showed a large budget deficit of \$4.8 billion in the upcoming budget biennium and smaller deficit of \$426 million in the current budget cycle as well. State policymakers must take a balanced approach to the state's budget deficit and avoid policy choices that make the economic downturn more painful.

"We need the state to balance the budget while doing the least amount of harm to the economy, which means a balanced approach to closing the deficit," said Nan Madden, director of the Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits. "The deficit is simply too large to take raising revenues off the table," Madden said. "We need to raise revenues and raise them fairly."

"Balancing this budget solely through spending cuts would make Minnesotans worse off and actually make the economic downturn deeper," said Madden. While both spending cuts and tax increases remove demand from the economy, Nobel Prize-winning economist Joseph Stiglitz and Congressional Budget Office director Peter Orszag wrote during the last recession that spending cuts can actually hurt the economy more during an economic downturn than tax increases.¹ When state spending is cut, that means less spent on employee wages and the purchase of goods and services in Minnesota's economy. In contrast, a focused tax increase on high-income earners is likely to have less of a drag on the state's economy, because those individuals are likely to maintain their levels of consumption, but compensate for the tax increase by saving less.

"We are in this budget crisis because our economy is in crisis," said Madden. "In these tough economic times, services that help Minnesotans get and keep jobs, and that help families make ends meet, must be allowed to work. That is not an area that the state should cut."

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)

###

¹ 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.