CENTER ON BUDGET AND POLICY PRIORITIES

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States Would Lose Under Administration "Growth Plan"

The full report can be viewed at http://www.cbpp.org/1-8-03sfp.htm

On January 16, the Center on Budget and Policy Priorities released *Bush "Growth Plan" Would Worsen State Budget Crises.* The report examines the effects the Administration's proposed "growth package" would have on states, which face their greatest fiscal crisis in half a century. As the Center's report explains, the plan not only provides *no* fiscal relief to the states, but also would:

- **Cost states more than $4 billion a year.** The plan's largest effect on states would come from excluding corporate dividends from the taxable income of individuals. This would reduce revenue in most of the 39 states and the District of Columbia that link their tax systems to the federal taxation of dividends and/or capital gains income; it also might reduce revenue in some other states as well. Preliminary estimates suggest that the changes would cost states between $4 billion and $4.3 billion a year.

- **Force states to institute deeper spending cuts and/or tax increases.** States are struggling with deficits likely to total at least $60 billion for the fiscal year beginning in July. Since states must balance their budgets each year, the revenue loss caused by the Administration proposal will require states to make deeper spending cuts (in areas like health insurance for working families, K-12 education, and public higher education) and/or to raise state taxes to a greater degree.

- **Undercut efforts to spur growth and create jobs.** The program cuts and tax increases states would have to institute to compensate for the loss in revenue would further slow the economy and reduce employment, undercutting efforts at the federal level to stimulate the economy.

- **Raise the cost of state and local borrowing.** The dividend tax cut would draw funds away from the bond market by making dividend-paying stocks more attractive investments. To compete for investor dollars, state and local governments would have to offer higher interest rates on the bonds they use to finance public investments such as schools, transportation, and clean water.

- **Add to state revenue losses from other recent federal actions.** States already have lost billions in revenue as a result of the 2001 federal tax cut and the 2002 stimulus package. For example, changes in the estate tax enacted in 2001 will cost states $16 billion from 2003-2007 and more in years after that. Yet despite this fact, and despite the worst state budget crises in 50 years, the Administration is proposing measures that would make the problem still more acute.