



CENTER ON BUDGET AND POLICY PRIORITIES

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CONTACT: Michelle Bazie
202-408-1080

MISSOURI BUDGET SQUEEZED BY FEDERAL POLICIES

Cost of Policies Exceeds State Budget Gap During Fiscal Crisis

Federal policies that impose new costs on Missouri and restrict state revenues have been a major contributor to the state's recent fiscal crisis and are likely to cost Missouri more than \$1 billion per year over the next several years, according to a report issued today by the Center on Budget and Policy Priorities and the St. Louis-based Missouri Budget Project.

“These harmful federal policies have forced Missouri to impose bigger budget cuts over the past few years than would otherwise have been needed to deal with the fiscal fallout of the economic downturn,” said Nicholas Johnson, director of the Center's State Fiscal Project and a co-author of the report. “And because those federal policies are ongoing, they will continue to make it harder for the state to provide residents with the services they need.”

State Budget Cuts Harming Tens of Thousands of Missourians

The report is a case study of how certain federal tax and budget policies that exacerbate state budget problems are affecting families and communities across the country. As a result of the budget cuts Missouri has been forced to make, for example, some 37,000 parents with low-paying jobs have lost eligibility for state-subsidized health insurance. Many are likely to wind up uninsured, since few of these jobs provide health coverage and private coverage can be prohibitively expensive for these families.

Also, some 88,000 Missouri families with children attending state colleges and universities are paying higher tuition — up to \$630 more per year at two-year colleges and up to \$1,743 more per year at four-year colleges — and property owners and renters in roughly one-fifth of the state are facing higher property taxes, as school districts seek to offset substantial losses of state aid.

Instead of pursuing more equitable policies toward Missouri and other states, which could have ameliorated those painful budget cuts, the federal government has enacted large tax cuts aimed primarily at high-income households. (In 2004, households making \$1 million or more will receive tax breaks averaging about \$124,000, or 191 times as much as the average household in the middle of the income spectrum will receive.) As a result, many lower- and middle-income Missourians likely have lost more from the cuts in services the state has imposed to balance its budget than they have gained in federal tax cuts.

“In essence, lower- and middle-income Missourians have been paying for

820 First Street, NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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very generous federal tax cuts for the highest-income Americans and will continue to do so unless federal policies are changed,” Johnson said.

Only Three States Hit Harder by Federal Policies

In fiscal years 2002 through 2005, federal policies cost Missouri a total of \$3.6 billion. That is significantly more than the state’s combined budget gap over this period (\$2.3 billion). The \$3.6 billion cost of federal policies represents roughly 13 percent of Missouri’s general revenue, a greater percentage than in all but three states (Florida, Mississippi, and Nevada).

Federal policies are imposing two broad types of costs on states:

- **Added spending obligations.** Most of the added costs result from “unfunded mandates” in areas such as educating disabled children and the No Child Left Behind education law, where the federal government has imposed new requirements on states without providing the needed funding. Also, in recent years the cost of prescription drug coverage for low-income elderly and disabled people has increasingly shifted from Medicare (which is fully federally funded) to Medicaid (where states pay nearly half of all costs).
- **Lost revenue.** Two Supreme Court rulings bar states from taxing purchases made over the Internet, even though states can collect sales taxes if the same items are bought in a store. Similarly, federal law bars most states from taxing the fees charged for Internet access, even though states can tax the fees charged for telephone service.

Because of the linkages between state and federal tax codes, Missouri and other states also are losing revenue as a side effect of two recent federal tax cuts related to the estate tax and business depreciation rules.

For Many, Pain of State Budget Cuts Outweighs Gain of Federal Tax Cuts

To cope with the fiscal effects of these harmful federal policies and the recent economic downturn, Missouri has cut services and raised taxes and fees over the past several years. “Low- and middle-income families have borne the brunt of these measures because they generally rely more on the services that are being cut than upper-income families do,” said Amy Blouin, a co-author of the report and executive director of the Missouri Budget Project.

In fact, for many lower- and middle-income Missourians, the costs of the state’s belt-tightening measures outweigh the benefits of the federal tax cuts enacted since 2001. For example, the average federal tax cut in 2004 for taxpayers in the middle fifth of the income spectrum (\$846) is only half of the average tuition increase for a University of Missouri student. Similarly, the average federal tax cut for the poorest 60 percent of households (\$458) is a fraction of what it would cost a working parent who has lost state-funded health coverage to buy a year’s worth of coverage in the private market.

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. The **Missouri Budget Project** is a statewide nonpartisan, nonprofit organization that analyzes and informs the public about Missouri budgetary and fiscal policy options.