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“MEASURE 2” WOULD SET UP NORTH DAKOTA FOR FUTURE BUST, NOT LONG-TERM GROWTH

Little or No Short-Term Benefit for Most Families

A ballot measure to cut taxes that North Dakota voters will consider this November could create major budget problems and hamper investments needed for long-term economic growth, according to a new report by the Center on Budget and Policy Priorities, a nonpartisan policy research organization based in Washington, DC. The measure is among the most radical such proposals in any state in recent decades.

“Other states have experienced booms like the one North Dakota is currently enjoying, and they typically end in a dramatic bust,” said Nicholas Johnson, co-author of the report and director of the Center’s State Fiscal Project. “States that make large, sudden tax cuts during a boom tend to suffer the most when the boom ends.”

“To promote prosperity over the long term, North Dakota like any other state needs to invest in the good schools and sound roads and bridges that attract businesses and workers. But it cannot afford those improvements if Measure 2 passes,” he added.

State Can’t Rely on Current Boom to Fill Revenue Gap

Measure 2 would cut North Dakota’s personal income tax in half and its corporate income taxes by 15 percent. It would cost the state more than \$400 million in its first two years, increasing in later years.

Measure 2’s supporters argue that the state’s economic boom and recent spike in oil and gas revenues make the tax cut affordable. But North Dakota can’t count on these revenues to reliably fill the sizeable gap that Measure 2 would create in state finances, the report explains.

The volatility of energy prices means the state cannot control or accurately predict how much oil and gas revenue it will collect in coming years. And if Measure 2 were to prove unaffordable, the state’s hands would largely be tied, since the proposal makes it extremely difficult for lawmakers to undo or even modify the tax cuts for seven years.

Proposal Is Poorly Targeted and Would Hinder Long-Term Growth

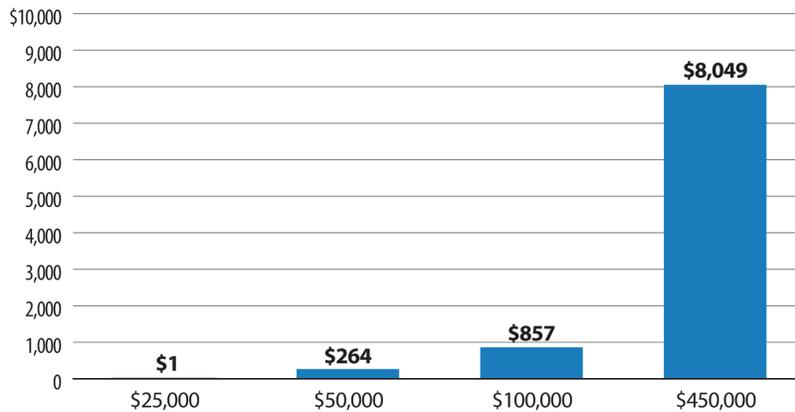
The report finds that the benefits of Measure 2 would be distributed very unevenly among the state’s families. As the graph below shows, Measure 2’s tax cuts would go mainly to a relatively small number of very high-income North Dakotans.

— more —

FIGURE 2

Measure 2: Uneven Benefit for North Dakota Families

Tax reduction amounts for married couples with two children, by annual income



Source: CBPP calculations based on text of Measure 2 and 2008 North Dakota tax calculations.

By devoting such large resources to people at the top of the income scale, the proposal would impair the state’s ability to address sales and property taxes — which affect middle-income families much more than the income tax does — or make other tax changes that would benefit more working families, senior citizens, and small businesses.

Measure 2 would also prevent North Dakota from using at least some part of its new revenues to make the kinds of investments that can extend the current boom into sustained growth, such as:

- **Better roads and bridges:** North Dakota could address transportation problems, such as the fact that nearly 1,000 of the state’s bridges are considered structurally deficient or functionally obsolete. The need for road repair and construction is growing due to increased use of state roads by heavy vehicles.
- **A more skilled work force:** North Dakota could help meet the increasing demand for skilled workers by making its public colleges and universities more affordable.
- **Improved education:** Businesses and skilled workers are drawn to states with strong K-12 education systems. North Dakota could increase its per-pupil spending, currently below the national average, to fund improvements such as increased teacher training and expanded student assessments.

Other possible uses for new revenues could include better health care services or other quality-of-life improvements. “Measure 2 would deprive North Dakota of the opportunity to even consider such approaches,” Johnson said.

The report, “North Dakota’s Measure 2 Is Imbalanced and Would Harm Efforts to Secure State’s Economic Future,” is available at <http://www.cbpp.org/9-18-08sfp.htm>.

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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. It is supported primarily by foundation grants.