Center on Budget and Policy Priorities

NEWS RELEASE

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Contact: Shannon Spillane, 202-408-1080, spillane@cbpp.org

MORE STATES ARE RAISING REVENUES TO HELP CLOSE BUDGET GAPS

New Reports Update State Deficits, Tax Increases, Program Cuts

As tax revenues continue to fall dramatically, making a prolonged budget crisis likely, more states are raising revenues, or considering doing so, to help maintain important services, according to one of a series of updated reports on state budget conditions that the Center on Budget and Policy Priorities issued today.

Sixteen states have enacted tax increases in 2009 in response to the recession, and another 17 are considering them, according to "Tax Measures Help Balance State Budgets." Although some of these measures are relatively small, others — such as packages enacted in California and New York and under consideration in Illinois — are quite significant. Meanwhile, at least 36 states have cut public services to reduce spending.

"State budget holes are leading to cuts in services like health care, education, and assistance for the elderly and disabled," said Nicholas Johnson, director of the State Fiscal Project and co-author of the report. "States are appropriately putting revenues on the table too. A balanced approach that includes tax increases is the best solution for state budgets and for the economy."

Tax increases can be less harmful for a state's economy in a recession than spending cuts, the report notes. As Nobel laureate Joseph Stiglitz, Office of Management and Budget Director Peter Orszag, and others have argued, some of the money collected from tax increases — especially on the highest income households — would have been saved rather than spent and so would not have entered the local economy immediately in any case.

Meanwhile, cutting services hurts both vulnerable families and the economy, noted Jon Shure, deputy director of the State Fiscal Project. "When a state lays off employees, cancels contracts with vendors, or cuts benefit payments to individuals, it weakens overall demand at the worst possible time."

New Revenue Data Show Budget Problems Worsening

Many states have reported a continued sharp decline in revenue collections for April. Monthly revenues were below last year's levels by roughly 40 percent in Connecticut, 35 percent in Massachusetts, and 30 percent in Arizona, for example.

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A new Center survey of state budget conditions finds that at least 47 states faced or are facing budget shortfalls for this year or next, and severe fiscal problems are highly likely to continue into the following year, as well. Combined budget gaps for the remainder of this fiscal year and state fiscal years 2010 and 2011 are estimated to exceed $350 billion, according to the report, "State Budget Troubles Worsen."

Those troubles will remain severe even if, as some recent data suggest, the national economy improves in the next few months. One reason is that state income tax receipts will not recover until unemployment — which typically continues rising well after the economy starts to rebound — returns to more moderate levels.

Public Service Cuts Widespread, Though Federal Fiscal Relief Reducing Harm

To help states weather the recession while minimizing cuts in public services that could harm vulnerable residents, Congress included roughly $140 billion in fiscal relief for state governments in the economic recovery package it enacted in February. At least 16 states have put those funds to work reversing or averting program cuts, according to the Center report "An Update on State Budget Cuts."

Even with these measures, however, to date at least 36 states have enacted cuts. At least 19 states have reduced low-income families' access to health insurance, for example, and at least 21 have cut medical, rehabilitative, or other services needed by low-income people who are elderly or have disabilities. Numerous states have also cut funding for K-12 and higher education.

Tax Increases Consistent With Past Recessions

Currently, states are weighing increases in sales, personal income, business, excise, and vehicle taxes. States often reduce taxes during economic expansions and increase them during downturns. In the recession of the early 1990s, some 44 states raised taxes. The record shows that these tax increases did not damage the states' subsequent economic performance.

An advantage of tax increases is that states can design them to avoid impacting low-income families and other residents who are having difficulty making ends meet.

"If tax increases are designed well, they can help states address the serious budget problems they face while also protecting their economies and their low-income and elderly residents," Johnson said.

The Center's reports are available at http://www.cbpp.org/research/?fa=topic&id=40.

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