

# Response to Minnesota's Budget Deficit

The deficit is simply too large to be solved only by reducing the expenditure side of the state's budget. Revenue raising must be part of the state's solution to the budget deficit because the alternatives would be more damaging to our state's economy, communities, and people.

## 1. The deficit is too large to be solved through spending cuts alone

- In the 2001 legislative session, the deficit was largely addressed through one-time solutions, including using reserves and timing shifts. Those tools are no longer available to us.
- Solving the deficit through reducing spending alone would require cuts of a magnitude that would have a negative impact on every person in the state.
- Certain programs are intended to grow in economic hard times. Now is the time that these counter-cyclical programs — such as medical assistance and unemployment insurance — are most needed. The state should not turn its back on those who have been hurt most by the economic slowdown.
- Large budget cuts would put community services provided by nonprofits at risk — the combined impact of cuts at the state level at the same time that foundation resources have dramatically declined could potentially be devastating.

## 2. The state has the ability to raise revenues after five years of significant tax cuts.

- 53% of the surpluses allocated in the 1997 to 2001 sessions went to tax cuts and rebates. The fiscal conditions we now face show that some of these tax cuts were not sustainable. Just as we responded to surpluses by cutting taxes, it makes sense that we should raise revenues in response to a shortfall.
- Minnesota led the nation in tax reductions during the surplus years. Minnesota made the largest tax cuts in the country in 1997, 1999, and 2001; the 2<sup>nd</sup> largest in 2000; and the 7<sup>th</sup> largest in 1998.<sup>1</sup>
- We can raise taxes now and they will still be lower than in 1996. In 1996, before the surplus years, Minnesotans paid on average of 12.7% of their incomes in total state and local taxes. In 2003, the average tax burden drops to 10.7%.<sup>2</sup>
- In 2002, 16 states raised taxes by more than 1% of 2001 collections, and 5 of them raised taxes by more than 5%.<sup>3</sup>

## 3. Attention to Tax Fairness is Needed

In the past, states have cut their progressive taxes during good economic times but raised their regressive taxes in response to economic shortfalls. The result is that state tax systems become more regressive over time — that is, low-income persons pay a higher share of their incomes in taxes than do upper-income ones. Our choices in raising revenues should be informed by their impact on low- and moderate-income Minnesotans.

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<sup>1</sup> National Conference of State Legislatures, measured as a percentage of the previous year's collections.

<sup>2</sup> Minnesota Department of Revenue Tax Incidence Study.

<sup>3</sup> National Conference of State Legislatures, of 47 states reporting.