

# GBPI

Georgia Budget and Policy Institute

# STATE BUDGET FACTS

## SPENDING CUTS HARM GEORGIA'S ECONOMY MORE THAN TARGETED TAX INCREASES

### TAX INCREASES VERSUS BUDGET CUTS

States that raised taxes significantly during the 2001 recession were just as fast, on average, to rebound from the recession as states that did not.

For example, North Carolina, which raised taxes significantly during the years of the downturn, experienced 6.7 percent average income growth annually, compared to the national average of 6.2 percent. Its employment grew 2.5 percent each year compared to the national average of 1.7 percent.<sup>i</sup>

### ON THE CONTRARY

Leading economists agree that in order to address large budget deficits, such as Georgia's, targeted tax increases are less harmful to states' economies than cuts:

1. Mark Zandi, chief economist and cofounder of Moody's Economy.com, as well as an advisor to Senator McCain during the 2008 presidential election, made the following recommendation to the nation's governors during a February 22, 2010 National Governor's Association meeting: States should close their deficits through a combination of budget cuts, tax increases, and economic growth.<sup>ii</sup>
2. Spending cuts are likely to be more damaging to a state's economy during a recession than certain tax increases, according to Nobel Prize winner in economics, Joseph Stiglitz of Columbia University, and Peter Orszag, until recently director of the

<sup>i</sup> Nicholas Johnson, Andrew C. Nicholas, and Steven Pennington, "Tax Measures Help Balance State Budgets: A Common and Reasonable Response to Shortfalls," Center on Budget and Policy Priorities, updated July 9, 2009, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2815>.

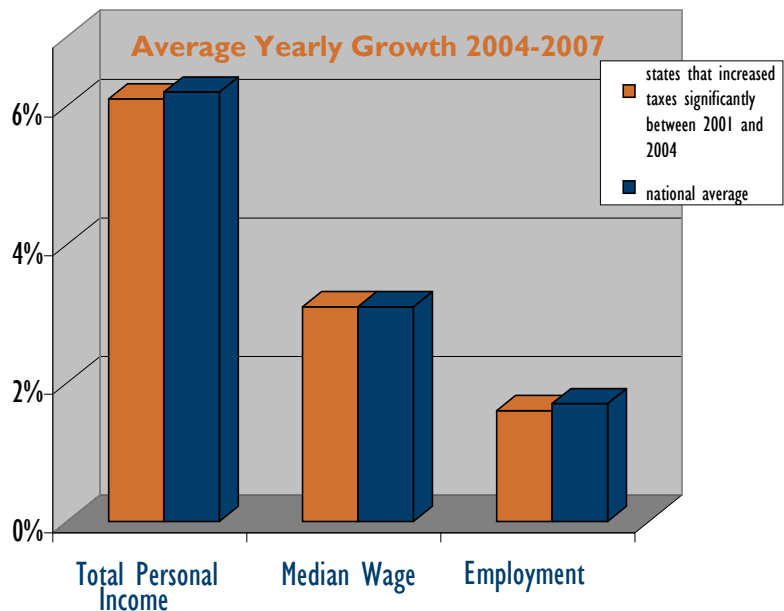
<sup>ii</sup> John Buhl, "Economist Tells Governors to Consider Tax Increases to Balance Budgets," *Tax Analysts*, February 23, 2010.

### R E C O M M E N D A T I O N

#### LAWMAKERS SHOULD CLOSE THE DEFICIT AND PROTECT LOCAL ECONOMIES BY RAISING MORE REVENUES:

"It is important not to crush state budgets by relying solely on spending cuts," said Zandi of Moody's Economy.com.

### STATES THAT RAISED REVENUES DID NOT HURT THEIR ECONOMIES



Congressional Budget Office and now the director of the Office of Management and Budget.<sup>iii</sup>

3. A letter to Governor Patterson of New York, signed by 120 economists, states: "Raising taxes during a downturn — particularly taxes that affect only higher income families — is generally better for a state's economy, and better for its citizens, than sharp budget cuts."<sup>iv</sup>

<sup>iii</sup> Peter Orszag and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the other during a recession?" Center on Budget and Policy Priorities, revised November 6, 2008, <http://www.cbpp.org/archiveSite/10-30-01sfp.pdf>.

<sup>iv</sup> Letter dated December 13, 2008, available at [http://www.fiscalpolicy.org/Letter\\_EconomistsOnFiscalPolicy\\_December2008.pdf](http://www.fiscalpolicy.org/Letter_EconomistsOnFiscalPolicy_December2008.pdf).

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