



## **PRINCIPLES FOR STATE FISCAL DECISIONS**

Tough choices are ahead in addressing the state's budget deficit, but they can be smart choices. We recommend that budget-balancing decisions be based on the following principles:

1. The state's budget-balancing decisions should not make the impact of the recession worse for those Minnesotans least able to weather the downturn, including low-income families, laid-off workers, and other vulnerable populations.
2. The state should use a combination of the three primary budget-balancing tools available: raising revenue, using reserves, and cutting spending.
3. Budget balancing should be informed by current need and past budget decisions, including how surpluses were divided between tax cuts and new spending, who benefited from tax cuts, and how certain programs were underfunded even in times of surplus.
4. Federal stimulus plans will impact the state's efforts to balance the budget. The state should work with federal decision-makers to promote revenue sharing, and to oppose federal tax cuts that make it more difficult for the state to balance its budget.

Regarding expenditure cuts, we recommend that the following principles guide decision-making:

1. Spending cuts should be done cautiously and deliberatively, taking into account the state's needs.
2. Counter-cyclical programs must be allowed to work. Programs such as Unemployment Insurance and Medical Assistance are intended to act as automatic stabilizers that expand their outlays in times of economic crisis and offset other contractionary activities the state must pursue to balance the budget.
3. Budget-balancing decisions should be informed by the economic or stimulus effect of the decision. Both spending cuts and tax increases take money out of the state economy. But each \$1 cut in government spending immediately removes \$1 from the state economy, whereas a \$1 tax increase is likely to be offset by a partial reduction of savings, rather than consumption.
4. The impact of cuts may be larger than the lost state funding, because state spending often leverages additional public or private funds and volunteer activities.

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