



Federal Fiscal Relief to Minnesota Can Help Combat Budget Deficit and Aid Ailing Economy

Amid numerous signs that the U.S. economy was faltering, Congress quickly passed a \$168 billion federal economic stimulus package in January 2008. The bulk of the stimulus package was made up of tax rebates to individuals. Unfortunately, the final package neglected to address the budget deficits now faced by at least 29 states – including Minnesota – and the District of Columbia.¹

Unlike the federal government, most states must balance their budgets. This can be done through spending cuts or tax increases, but both of these options can depress the economy (depending on how they are done). In stark contrast, federal fiscal relief can both relieve the fiscal pressure on states to cut critical services to the state's most vulnerable citizens, and aid our ailing state economy.

Federal Fiscal Relief Can Help State Avoid Dangerous Cuts

After years of tight budgets, Minnesota policymakers are finding it increasingly difficult to trim the budget in ways that do not significantly interfere with our state's ability to support important priorities ranging from health care to affordable higher education. Minnesota just dealt with a \$935 million deficit in the 2008 Legislative Session, and it faces a \$945 million deficit in the next budget biennium (which expands to close to \$2.0 billion when the effects of inflation are included).²

Minnesota's budget shortfall comes as an economic slowdown has hit the state hard. In a departure from historical norms, Minnesota's seasonally adjusted unemployment rate in July was above the national average, hitting a 22-year high (5.8%).³ Household incomes have not kept up with price increases in basic necessities like food and utilities. Growing unemployment, increasing poverty and stagnating incomes make it exactly the wrong time for the state to cut services that help people get health care coverage or get and keep jobs. Federal fiscal relief can reduce the budget pressure on Minnesota to enact this type of dangerous cut.

In 2003, during another time of widespread state budget deficits, federal fiscal relief helped Minnesota cover a portion of its budget shortfall and avoid dangerous cuts to health care coverage for low-income Minnesotans. The fiscal relief to states totaled \$20 billion, which came from temporarily raising the federal government's share of Medicaid costs and grants to states for broader budgetary relief. Minnesota received \$342 million in federal fiscal relief.

Federal Fiscal Relief Can Help Boost the Ailing State Economy

Unlike the federal government, most states must balance their budgets. In the recent past, Minnesota has balanced its budget in part through painful spending cuts. But spending cuts take dollars out of our state economy: they reduce state spending on employees' wages as well as purchases of goods and services in the state. Earlier this year, the National Governor's Association wrote a letter, signed by then-chair Governor Tim Pawlenty and Governor Ed Rendell, urging support for federal aid for the states, saying that state spending cuts "will make the current downturn both longer and more severe."⁴

Federal fiscal relief would not only help ease state budget pressures, but it also meets the criteria for effective economic stimulus set by many experts: timely, targeted and temporary. The money would be

¹ Unless otherwise noted, the information from this document comes from the Center on Budget and Policy Priorities, *29 States Faced Total Budget Shortfall of at Least \$48 Billion in 2009*, www.cbpp.org/1-15-08sfp.htm, and Minnesota Budget Project, *How Did Minnesota Use its Federal Fiscal Relief?*, www.mncn.org/bp/fedfiscal.pdf.

² House Fiscal Analysis, *State General Fund Budget Situation*, www.house.leg.state.mn.us/fiscal/files/ibBudget0808.pdf.

³ Minnesota Employment and Economic Development, Labor Market Information, www.deed.state.mn.us/lmi/Home.htm.

⁴ National Governor's Association letter, January 23, 2008. For the National Governor's Association information paper on economic stimulus, see www.nga.org/Files/pdf/0801STIMULUSINFORMATION.PDF.

spent in a timely manner: according to Moody's Economy.com, "Additional federal aid to state governments would fund existing payrolls and programs and so provide a relatively quick economic boost."⁵ In addition, the federal dollars would be well-targeted, as they would be spent primarily in Minnesota. Finally, federal fiscal relief is also temporary in nature. For example, it can take the form of one-time grants or a temporary increase in the share of public health care costs borne by the federal government. This provides a short-term boost for the economy without contributing to counter-productive long-term deficits.

Next Steps

Congress may take up another round of economic stimulus in the coming months. Congress should include federal fiscal relief in any stimulus bill they consider. Federal fiscal relief would help Minnesota in addressing its impending budget shortfall, minimizing cuts to state services that make a real difference in our communities. It would also help avoid counter-productive spending cuts that would add to the state's economic troubles.

⁵ Mark Zandi, Moody's Economy.com, *Washington Throws the Economy a Rope*, www.economy.com/dismal/article_free.asp?cid=102598.