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## **Top Economists Weigh In: State Budget Cuts vs. Tax Increases**

In tough economic times, working families depend on state programs and services more than ever. Illinois' \$11.5 billion budget deficit and unprecedented payment delays have already left many struggling to get the quality health care, education, and vital public services they depend on. Cutting our way out of the budget hole would put services for these families in greater jeopardy while threatening critical workforces throughout the state. There is a better way.

Nobel prize-winning economist Joseph Stiglitz and Peter Orszag, now White House budget director under President Obama, studied the comparative value of state budget cuts to tax increases during the last recession. The evidence was clear – the damaging economic impact of cutting state spending in an economic crisis is more harmful to a state's economy than raising income taxes. As Stiglitz reiterated in a March 2008 letter to New York Governor David Patterson:

- **In a recession you want to increase or maintain current levels of household, business, and governmental spending.** In Stiglitz's words this "keeps people employed and buying things," maintaining consumer demand and businesses' interest in investing to satisfy it.
- **Budget cuts reduce the total level of spending within a state's economy** – making the recession and resulting job loss worse. Every dollar of state spending goes directly back into the state economy right away so increases in state spending actually stimulate the economy while cuts only serve to weaken it.
- **Raising taxes and maintaining public spending help America meet the long-term need to resolve the issue of inequality.** Poor and low-income families depend on state services – especially in tough economic times. Deep cuts to state spending and the programs they count on will destroy their safety net.

Stiglitz also defines the economic benefit of making sure that an income tax increase is paired with provisions to ensure fairness for working families. In fact, he argues that increasing taxes on low-income families hurts the economy by identifying two key factors:

- **Tax increases for higher-income families – those who tend to spend a fraction of their income and save more – will generally result in them saving less while consuming the same amount.** Even though spending could be reduced some, there won't be an equivalent loss for the state economy. Budget cuts, on the other hand, result in a dollar-for-dollar loss for the state.
- **Increasing taxes on lower-income families will generally result in reduced consumption** because these families don't make enough to save – less money coming in means less money going out and less spending to stimulate the economy.

Full text of the Stiglitz and Orszag report is available from the Center on Budget and Policy Priorities: [www.cbpp.org/10-30-01sfp.htm](http://www.cbpp.org/10-30-01sfp.htm). Stiglitz's letter to Governor David Patterson can be found at: [www.fiscalpolicy.org/StiglitzLetter\\_TaxesVsCuts\\_March2008.pdf](http://www.fiscalpolicy.org/StiglitzLetter_TaxesVsCuts_March2008.pdf).