



ECONOMISTS' LETTER ON STATE BUDGETS

ECONOMIC ANALYSIS AND RESEARCH NETWORK

MARCH 2009

Dear Governors and Legislators:

As economists, we urge state and local governments to maintain the public services that are critical to the health of the economy and the well-being of working families. Cutbacks at this time would further slow the economy and harm those already hardest hit by the downturn.

We understand that the law requires a balanced budget, which forces officials to make difficult decisions. But even when options are limited, some choices are better than others. Economic theory and historical experience both show that 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.

The reasons are simple. Almost every dollar that states and localities spend on aid for the needy, salaries of public employees, and other vital services enters the local economy immediately. So if states cut their spending in these areas, overall demand suffers at a time when demand is already too low and support services are most needed.

The alternative—raising taxes—also reduces spending, but by less than budget cuts of comparable size. And by targeting these taxes appropriately, their negative effects can be minimized. For example, high-income households typically spend only a fraction of their income and save the rest. As a result, each \$1 increase in taxes on high-income households will reduce their spending by much less than \$1. According to Peter Orszag, Director of the Office of Management and Budget, and Nobel Laureate Joseph Stiglitz:

“... tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run.”

Keeping budget cuts to a minimum can also benefit the states in another way. Well-designed investments in education, health care, transportation, the environment, and other areas strengthen the economy over the long term. States with educated, healthy workforces, strong infrastructure, and a high quality of life will be best positioned to benefit from the economic recovery.

In short, we believe that maintaining many of the services provided by state governments is critical to an economic recovery, and that cutting those services would harm those who are most in need. We urge legislators to consider this when planning budgets for this year.

Signed,

First Name	Last Name	Organization	State
Christopher	Brown	Arkansas State University	AR
Gary	Latanich	Arkansas State University	AR
Sylvia	Allegretto	IRLE, University of California, Berkeley	CA
Robert M.	Anderson	University of California, Berkeley	CA
Daniel	Blakley	University of San Francisco	CA
Betty	Blecha	San Francisco State University	CA
Paul D.	Bush	California State University, Fresno	CA
Susan	Carter	University of California, Riverside	CA
Kevin	Danaher	Global Citizen Center	CA
Paul A.	David	Stanford University	CA
James	Devine	Loyola Marymount University	CA
Matthew	Drennan	University of California, Los Angeles	CA
Gary	Dymski	University of California, Riverside	CA
Steven	Goldman	University of California, Berkeley	CA
Peter	Hammond	Stanford University	CA
Raul	Hinojosa	NAID Center, University of California, Los Angeles	CA
Sanford M.	Jacoby	University of California, Los Angeles	CA
Lovell	Jarvis	University of California, Davis	CA
Pascale	Joassart	San Diego State University	CA
Lori	Kletzer	University of California, Santa Cruz	CA
Douglas	Larson	University of California	CA
Stephen	Levy	Center for Cont. Study of the California Economy	CA
Mark	Maier	Glendale College	CA
Erika Weis	Mcgrath	California State University, Monterey Bay	CA
Peggy B.	Musgrave	University of California, Santa Cruz	CA
Roger	Noll	Stanford University	CA
Michael	Perelman	California State University, Chico	CA
Steven	Pitts	University of California, Berkeley Labor Center	CA
Marshall	Pomer	Macroeconomic Policy Institute	CA
Michael	Reich	University of California, Berkeley	CA
Harley	Shaiken	University of California, Berkeley	CA
Frederica	Shockley	California State University, Chico	CA
Chris	Tilly	University of California, Los Angeles	CA
Mayo	Toruno	California State University, San Bernardino	CA
Robert	Wassmer	California State University, Sacramento	CA
Carol	Zabin	Center for Labor Research and Education, University of California, Berkeley	CA
Henry	Zaretsky	Henry W. Zaretsky & Associates, Inc.	CA
Lyuba	Zarsky	Monterey Institute of International Studies	CA
Charles	Howe	University of Colorado	CO
Tracy	Mott	University of Denver	CO

First Name	Last Name	Organization	State
Yavuz	Yasar	Dept. of Economics, University of Denver	CO
Jane	D'arista	Financial Markets Center	CT
Wendy	Rayack	Wesleyan University	CT
Ron	Blackwell	AFL-CIO	DC
Rebecca	Blank	Brookings Institute	DC
John	Cavanagh	Institute for Policy Studies	DC
Bill	Cunningham	American Federation of Teachers	DC
Thomas	Dernburg	The American University	DC
Ernie	Englander	George Washington University School of Business	DC
Kai	Filion	Economic Policy Institute	DC
Maria	Floro	American University	DC
Mary	Gable	Economic Policy Institute	DC
Caren	Grown	American University	DC
Sue	Headlee	American University	DC
Harry	Holzer	Georgetown University	DC
Edward	Hurley	National Education Association	DC
John	Irons	Economic Policy Institute	DC
William	Kandel	U.S. Department of Agriculture	DC
Monique	Morrissey	Economic Policy Institute	DC
John	Schmitt	Center for Economic and Policy Research	DC
Elliot	Schwartz	Committee for Economic Development	DC
Robert E.	Scott	Economic Policy Institute	DC
Robert	Shapiro	Former Under Secretary of Commerce	DC
Heidi	Shierholz	Economic Policy Institute	DC
Stephen	Silvia	American University	DC
Jacqueline	Simon	AFL-CIO	DC
Mark	Weisbrot	Center for Economic and Policy Research	DC
John	Williamson	Peterson Institute for International Economics	DC
Catherine	Elliott	New College of Florida	FL
Peter	Thompson	Florida International University	FL
Philip	Shapira	Georgia Institute of Technology	GA
Peter	Fisher	University of Iowa	IA
Nick	Gomersall	Luther College	IA
Dan	Kovenock	University of Iowa	IA
William	Ferguson	Grinnell College	ID
Ramiro	Atristain	Vice President, Harris Bank	IL
Robert J.	Gordon	Northwestern University	IL
Walter	Mcmahon	University of Illinois at Urbana-Champaign	IL
Joseph	Persky	University of Illinois, Chicago	IL
Paul	Pieper	University of Illinois, Chicago	IL
Samuel	Rosenberg	Roosevelt University	IL

First Name	Last Name	Organization	State
Joyce	Burnette	Wabash College	IN
Martin	Spechler	Indiana University	IN
Martin	Wolfson	University of Notre Dame	IN
Peter	Meyer	The E.P. Systems Group, Inc.	KY
Michael	Ash	University of Massachusetts, Amherst	MA
Lee	Badgett	University of Massachusetts, Amherst	MA
Barry	Bluestone	Northeastern University	MA
Jim	Campen	University of Massachusetts, Boston	MA
Michael	Carter	University of Massachusetts, Lowell	MA
Jens	Christiansen	Mount Holyoke College	MA
James	Crotty	University of Massachusetts, Amherst	MA
David	Danning	University of Massachusetts, Boston	MA
Peter	Diamond	Massachusetts Institute of Technology	MA
Rashi	Fein	Harvard Medical School	MA
Nancy	Folbre	University of Massachusetts, Amherst	MA
Neva	Goodwin	Tufts University	MA
Russell	Janis	University of Massachusetts, Amherst	MA
Supriya	Lahiri	University of Massachusetts, Lowell	MA
William	Lazonick	University of Massachusetts, Lowell	MA
Charles	Levenstein	University of Massachusetts, Lowell	MA
Frank	Levy	Massachusetts Institute of Technology	MA
Stephanie	Luce	Labor Center, University of Massachusetts, Amherst	MA
Devon	Lynch	University of Massachusetts, Dartmouth	MA
John	Miller	Wheaton College	MA
S. M.	Miller	Commonwealth Institute	MA
Philip	Moss	University of Massachusetts, Lowell	MA
Richard	Murnane	Harvard University	MA
Julie	Nelson	University of Massachusetts, Boston	MA
Laurie	Nisonoff	Hampshire College	MA
Eva	Paus	Mount Holyoke College	MA
Jean	Pyle	University of Massachusetts, Lowell	MA
Tom	Riddell	Smith College	MA
Juliet	Schor	Boston College	MA
Gar	Alperovitz	University of Maryland, College Park	MD
Stephen	Baldwin	Synergy Enterprises Inc.	MD
Jim	Klumpner	George Washington University School of Business	MD
Robert	Lynch	Washington College	MD
Peter	Murrell	University of Maryland, College Park	MD
Arnold	Packer	Western Carolina University	MD
Susan	Feiner	University of Southern Maine	ME
Michael	Murray	Bates College	ME

First Name	Last Name	Organization	State
David	Arsen	Michigan State University	MI
Dale	Belman	School of Labor and Industrial Relations, Michigan State University	MI
Michael	Belzer	Wayne State University	MI
Lydia	Fischer	UAW Research Dept	MI
Martha	Hill	University of Michigan	MI
Sherrie	Kossoudji	University of Michigan	MI
Margaret	Levenstein	University of Michigan	MI
Daniel	Luria	Michigan Manufacturing Technology Center	MI
Leslie	Papke	Michigan State University	MI
Ian	Robinson	University of Michigan	MI
Allan	Schmid	Michigan State University	MI
Howard	Stein	University of Michigan	MI
Michael	Vogt	Eastern Michigan University	MI
Thomas	Weisskopf	University of Michigan	MI
Douglas	Bowles	UMKC Center for Economic Information	MO
Peter	Eaton	University of Missouri-Kansas City	MO
Steven	Fazzari	Washington University in St. Louis	MO
Thomas	Kruckemeyer	Missouri Budget Project	MO
Timothy	Mcbride	Washington University	MO
Bruce	Petersen	Washington University	MO
Arthur	Benavie	University of North Carolina, Chapel Hill	NC
Arne	Kalleberg	University of North Carolina, Chapel Hill	NC
Ann Mari	May	University of Nebraska-Lincoln	NE
Karen	Conway	University of New Hampshire	NH
Janice	Fine	Rutgers University School of Management and Labor Relations	NJ
Norman	Glickman	Rutgers University	NJ
Jeffrey	Keefe	Rutgers University	NJ
Cordelia	Reimers	Hunter College, City University of New York	NJ
Melissa	Binder	University of New Mexico	NM
Jeff	Waddoups	University of Nevada, Las Vegas	NV
Teresa	Amott	Hobart and William Smith Colleges	NY
Lourdes	Beneria	Cornell University	NY
John	Bishop	ILR School, Cornell University	NY
Howard	Chernick	Hunter College, City University of New York	NY
Paul	Christensen	Hofstra University	NY
Ronald	Ehrenberg	Cornell University	NY
William	Goldsmith	City and Regional Planning, Cornell University	NY
Christopher	Gunn	Hobart and William Colleges	NY
Richard	Hurd	Cornell University	NY
Elizabeth	Jensen	Hamilton College	NY

First Name	Last Name	Organization	State
Timothy	Koechlin	Vassar College	NY
Oren M.	Levin-Waldman	Metropolitan College of New York	NY
Patrick	Mcguire	Hobart and William Smith Colleges	NY
Thomas	Michl	Colgate University	NY
Shaianne	Osterreich	Ithaca College	NY
Michael	Pendleton	Buffalo State College	NY
John	Roche	St. John Fisher College	NY
Frank	Roosevelt	Sarah Lawrence College	NY
Dominick	Salvatore	Fordham University	NY
Elliott	Sclar	Columbia University	NY
William	Waller	Hobart and William Smith Colleges	NY
Mildred	Warner	Cornell University	NY
Edward	Wolff	New York University	NY
Mark	Cassell	Kent State University	OH
Charles	Chittle	Bowling Green State University	OH
Paulette	Olson	Wright State University	OH
Steve B.	Steib	University of Tulsa	OK
John	Walker	Portland State University	OR
Helen	Youngelson-Neal	Portland State University	OR
Robert	Drago	The Pennsylvania State University	PA
Lonnie	Golden	Penn State Abington	PA
Don	Goldstein	Allegheny College	PA
Paul	Heise	Lebanon Valley College	PA
Stephen	Herzenberg	Keystone Research Center	PA
Janet	Knoedler	Bucknell University	PA
Michael	Moohr	Bucknell University	PA
Stephen	O'connell	Swarthmore College	PA
Mark	Price	Keystone Research Center	PA
Willard	Radell	Indiana University of Pennsylvania	PA
Jean	Shackelford	Bucknell University	PA
Nancy	White	Bucknell University	PA
Richard	Mcintyre	University of Rhode Island	RI
Doug	Woodward	University of South Carolina	SC
Scott	Brunger	Maryville College	TN
Anne	Mayhew	University of Tennessee	TN
Lloyd	Dumas	University of Texas, Dallas	TX
Ray	Marshall	University of Texas, Austin	TX
Emily	Northrop	Southwestern University	TX
Roberton	Williams	University of Texas, Austin	TX
Cihan	Bilginsoy	University of Utah	UT
Thomas	Maloney	University of Utah	UT

First Name	Last Name	Organization	State
Norman	Waitzman	University of Utah	UT
David	Breneman	Batten School of Leadership and Public Policy, University of Virginia	VA
Bruce	Brunton	James Madison University	VA
Andrew	Kohen	James Madison University	VA
Joseph J.	Minarik	Committee for Economic Development	VA
Carolyn	Craven	Middlebury College	VT
Peter	Matthews	Middlebury College	VT
Stephanie	Seguino	University of Vermont	VT
Jim	Starkey	University of Rhode Island	VT
Peter	Dorman	The Evergreen State College	WA
Daniel	Underwood	Peninsula College	WA
Donald	Hester	University of Wisconsin, Madison	WI
Peter	Schaeffer	West Virginia University	WV

* Organizations listed for identification purposes only.