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Guest column: Maintain critical services, or risk deeper recession

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The Iowa General Assembly gets back to business this week, but not to business as usual. Like most states, Iowa faces large deficits for this year and next as a result of falling revenues.

While the fiscal challenges confronting the state are large and provide a sobering backdrop to the upcoming session, they are not insurmountable.

Gov. Chet Culver moved over the past two months to address budget shortfalls, but his options were limited. Returning legislators must carefully address Iowa's budget problems in ways that minimize the risk of a longer or deeper recession in Iowa.

Above all, lawmakers must act to mitigate the effects of the recession on those most affected by it. Critical services to those in need must not be sacrificed to protect benefits for the most well-connected. Lawmakers need to consider the following five factors in budgeting.

1. Iowa lawmakers must incorporate federal economic-recovery measures in their state decisions. A recovery package being discussed in Washington includes substantial fiscal relief to the states. New federal funds for infrastructure construction could soon be available and boost Iowa's job climate.

In addition, Iowa could receive more than enough new help to cover recession-driven increases in Medicaid expenditures. Cutting Medicaid could threaten Iowa's ability to maximize access to federal increases.

2. Lawmakers must review strategies for "rainy day" funds to address budget deficits. These funds can help the state provide services that are in greater demand in a difficult economy.

3. Lawmakers must minimize actions known to contribute to prolonging or deepening the recession. The nation's foremost economists agree: State spending cuts and

layoffs can seriously damage an economic recovery. Obama budget chief-designee Peter Orszag, former head of the Congressional Budget Office, and Nobel laureate Joseph Stiglitz say "basic economic theory" warns that direct spending reductions will cause more short-term economic harm than would tax increases on higher-income families.

At the federal level, noted economist Mark Zandi, who advised Sen. John McCain's presidential campaign, has cited the value of federal economic boosts by making direct transfers to low-income people and providing support to states for services and infrastructure projects. Such expenditures, according to Zandi, generate \$1.36 to \$1.73 in economic activity for every dollar invested. By contrast, tax "incentives" to wealthy individuals and corporations return only 27 cents to 37 cents per dollar invested. Similar state-level analyses are needed to make sound budget decisions.

4. When lawmakers promote state fiscal "belt tightening," they must consider spending in the tax code besides direct appropriations. "Economic development" tax credits have grown much faster than general-fund expenditures in recent years, contributing significantly to structural weaknesses in Iowa's revenue system. Business tax incentives are projected to exceed \$405 million in fiscal year 2010 - up 350 percent in just five years. These always deserve greater scrutiny, but especially in tough times.

5. Iowa's leaders must recognize that voters have definite priorities for budget choices.

In a recent survey commissioned by the Child and Family Policy Center and conducted by Selzer & Co., Iowa voters placed services to vulnerable neighbors at the top of the list for protection from across-the-board cuts - and placed cash incentives to businesses at the top of the list to cut.

More than three-fourths of Iowa voters wanted to see services for abused or neglected children and health care for low-income children protected from cuts. Two-thirds wanted to protect nursing-home care for low-income seniors and funding for K-12 public schools.

By contrast, only 27 percent prioritized protecting economic-development grants to businesses from cuts, and even fewer (15 percent) wanted to protect cash incentives for business research.

While a budget crisis brings challenges, it also provides an opportunity to position Iowa for the future and should prompt our leaders to ask hard questions about tax policy as well as spending choices.

Additional Facts

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