



Budget Points

Taking a Balanced Approach to Meet Pennsylvanians' Needs

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Recession-Driven Budget Challenges

The Great Recession has taken a toll on Pennsylvania and the nation, contributing to a historic decline in tax revenue and growing demand for public health care, food stamps and other services. This challenge is not unique to Pennsylvania. Forty-eight states across the nation have faced recession-driven budget shortfalls, according to the Center on Budget and Policy Priorities.¹

As Goldman Sachs observed, for most states, the “Great Recession has put a serious dent in the tax base and saddled the economy with the highest jobless rate in almost 30 years.”² As a result, state costs for health care, unemployment and other services will remain high for years to come, while “tax receipts – whenever they start to grow – will do so from depressed levels.”

The loss of state tax revenue puts Pennsylvania in the precarious position of balancing fiscal realities and increasing demand for vital services due to the stubbornly sluggish economy. But if policymakers resolve this dilemma by further cutting back on the services that state government offers – without balancing that with other actions, including raising revenue – Pennsylvania’s families and economy will suffer.



Taking a Balanced Approach to the State Budget

State lawmakers resolved the 2009-10 budget by relying heavily on cuts to services. Rather than relying on further cuts that will add to families’ hardship and undermine schools, universities, health-care systems, and infrastructure, Pennsylvania lawmakers should take a more balanced approach to our budget challenges. This means finding efficiencies, increasing accountability and raising new revenues.

¹ Elizabeth McNichol and Nicholas Johnson, "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," Center on Budget and Policy Priorities, February 25, 2010. <http://www.cbpp.org/cms/?fa=view&id=711>

² Ed McKelvey, "State and Local Update: The Drag Persists," US Economics Analyst, Goldman Sachs Global Economics, Commodities and Strategy Research, December 11, 2009. <http://www.scribd.com/doc/24003585/Goldman-Sachs-Research-State-and-Local-Drag>

This is the path being taken by most states during the current recession, as 33 states have raised taxes in addition to considerably reducing spending.³ Raising taxes in a recession not a new approach to addressing budget shortfalls, as the majority of states did so as a result of the 1990-91 and 2001 recessions – and state economies recovered. State leaders recognize that these types of budget challenges are much too big to solve with any one approach. By taking a balanced approach, lawmakers can ensure Pennsylvania's long-term fiscal health and allow us to maintain vital investments in health care, education and our economy.

Cuts-Only Approach Hurts Pennsylvania Families

Lawmakers promised that past service cuts would not hurt Pennsylvanians, but that goal has proven elusive. As a result of cuts made in the 2009-10 state budget:

- Low-income seniors, the blind and people with disabilities saw a reduction in tiny state payments that they rely upon to buy food and medicine.
- Last-resort health coverage was put out of reach for potentially thousands of uninsured Pennsylvanians as adultBasic premiums jumped 80% – nearly \$300 a month.
- Job training programs were shuttered just when they were needed most.
- Public libraries had to reduce hours and close branches.
- Environmental stewardship and conservation efforts were severely hampered.

Steep cuts also threaten to derail our economic recovery. Every dollar that state government spends goes back into local economies across the state. Big reductions create a ripple effect. State worker layoffs, for example, hurt local businesses that those workers patronize. Reductions in social services force nonprofit providers that contract with the state to cut jobs.

Planning for Future Growth and Financial Stability

Pennsylvania faces major fiscal challenges in the years ahead. Policymakers should take steps now to address those challenges, preserve our long-term financial stability and put the state in a good position when the economy recovers. Investments in job training, education, quality health care, well-maintained roads and bridges, public safety, and strong local communities will make Pennsylvania competitive in a global market.

The vast majority of state funding is used for these very types of services, which Pennsylvania needs to prosper this year and in the future. In order to adequately fund these vital services, Pennsylvania needs to take a balanced approach to balancing the budget.

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of policies on working families.

³ Nicholas Johnson, Catherine Collins, and Ashali Singham, "State Tax Changes in Response to the Recession," March 8, 2010. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3108>