

Economists Urge Lawmakers to Consider All Options in Addressing State Deficit

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*To create a just and
prosperous Washington,
we develop progressive
solutions based on sound
research and work with
community partners to shape
the debate on budget and
tax reform.*

Olympia - As lawmakers wait to hear what is likely to be more troubling news about the state budget deficit, over 20 leading economists and public policy experts sent a joint letter to Governor Gregoire, Speaker Chopp, and Senate Majority Leader Brown urging them to "consider the full range of options, including revenue increases, when deciding how to close the state budget gap."

The economists and public policy experts come from across the state and include two former Deans of the Evans School of Public Affairs at the University of Washington.

Their letter is timely; later today a preliminary revenue forecast will likely show a greater reduction in expected revenue. The state budget gap, already considered the largest in decades, presents an unprecedented challenge to state lawmakers.

Economic theory can provide some guidance on finding solutions. "Changes in taxes have a weaker impact on the economy than do changes in government spending," said Marjolein van der Veen, Adjunct Professor of Economics at Bellevue Community College and Shoreline Community College, "In this economic downturn, we should do what we can to avoid making the downturn even worse. Therefore, raising revenue seems to be a wiser strategy at this time than deep spending cuts."

The recently passed federal economic recovery package does not take away local responsibility, according to Jeff Chapman, Research Director of the Budget & Policy Center and a member of the Governor's Council of Economic Advisors. "Governor Gregoire has taken national leadership in ensuring the federal stimulus plan would be timely and effective," he said, "but severe budget cuts at the state level could undermine those efforts."

The joint letter also points out the importance of investing in "education and opportunity, healthy people and environment, thriving communities and economic security." Katie Baird, Associate Professor of Economics at the University of Washington Tacoma said "We need to think beyond this recession. Achieving our state's long-term goals requires continuing to make investments for the future."

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Full text of the letter with list of signers follows.

February 19, 2009

Dear Governor Gregoire, Speaker Chopp, and Senate Majority Leader Brown,

Washington State faces unprecedented challenges in balancing the current and upcoming state budgets. We commend your leadership in making difficult decisions and urge you to consider the full range of options, including revenue increases, when deciding how to close the state budget gap.

Drawing upon economic theory, we believe reducing government spending will have a more deleterious effect on Washington State's economy than would increasing revenue. Although both cuts in government spending and tax increases have the potential to slow economic growth, cutting government spending would likely have the most immediate impact by directly reducing consumption. Tax increases are less problematic because individual consumers, especially those with higher-incomes, are unlikely to reduce consumption by the full amount of the tax increase.

Implementing deep cuts in government spending and declining to raise revenue through tax increases is not an effective strategy to guide Washington State out of this recession. The best strategy is to continue our long-term investments in education, health care, community vitality, and economic security.

Signed,

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Washington State University

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University of Washington

Alexander Rist
King County

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*(Affiliations are given for
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