

# ON POINT: Better Choices for Economic Security

Making the right investments now can minimize the effects of the economic downturn on families, communities and the regional economy. Rather than knee-jerk reactions such as budget cuts, there are better choices that are known to foster economic security.

Olympia is nervously awaiting the official projection of how much revenue will be available for public priorities in the next few years. That forecast will be made public on Friday afternoon, but it is widely expected to be bad news. Since the last revenue forecast, in November, economic prospects have dimmed and economists are only arguing over whether a national recession is imminent or already here.

Exactly how bad the news will be is unknown, but it is already past time to discuss how the state should respond. The choices for dealing with a negative forecast should not be limited to cuts.

Choices made in the current budgeting process will have a real effect on how the recession affects Washingtonians because of the relationship between the economy and state government spending.

State spending has a significant impact on the economy. Budget cuts can exacerbate the economy-wide effects of the recession by further lowering the total demand for goods and services. In addition, cyclical reductions in state spending often have the most severe effect on the most vulnerable households.

There are more productive policy responses that the state should consider, including:

- **Using the rainy day fund.** The recently implemented “rainy day fund” was put in place for exactly this purpose—to smooth over the effects of an economic downturn. It can and should be used to continue funding current commitments during a temporary dip in the economy.
- **Speeding up needed public infrastructure projects.** Capital projects such as school construction, bridge repair, housing, and environmental clean-up provide needed jobs and increased economic activity. Moving more quickly on planned investments may be the best option for the state to actually stimulate local economies.
- **Providing additional weeks of unemployment insurance (UI) eligibility.** The state could extend access to UI for workers whose benefits will expire during the recession and yet are unable to find work in a weak economy. The evidence is clear that such extensions are one of the most powerful ways to stimulate the economy. The funding would come from the dedicated UI trust fund and would not affect the ability of the state to fund other priorities.
- **Considering changes to our revenue structure.** Nobel Prize winner Joseph Stiglitz and Peter

Orszag, the current director of the Congressional Budget Office, stated “Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families.”<sup>1</sup>

- **Advocating for federal assistance.** State leaders should not be satisfied with any stimulus package being considered in Congress that does not include sufficient funding for state governments. Governor Gregoire has already taken leadership on this issue along with a bipartisan group of 38 other governors.

By pursuing these options, we can avoid drastic budget cuts that would further restrict access to health care, food, and income supports during the time of greatest need. The state can further provide needed

help to those suffering from the economic downturn by implementing the Working Families Credit, a program that has proved successful at the federal level and in 23 other states. This proposal would boost the income of low-income families by providing a tax exemption of up to \$470.

The 2008 legislative session is already halfway over, but the most important decisions remain. Choices made in the next 30 days will play a significant role in determining our shared economic prosperity in the coming years.

*Jeff Chapman is research director at the Budget & Policy Center. ON POINT is a series of columns by staff and guests.*

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1. The full statement is available at <http://www.cbpp.org/10-30-01sfp.htm>.