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## Many options for state's budget crisis

Times are tough for the Kentucky state budget.

In such times, essential questions emerge. Is it preferable to cut budgets or increase revenues? How can Kentucky balance its budget with the least possible harm to an already damaged economy? As the Governor, Senate President and House Speaker agree, any solution demands a hard look at both spending efficiencies and incoming revenues.

This is a challenge not only for the legislature but for the Kentucky community at large, which should let lawmakers know how it feels about the options.

The short-term challenge cannot be overstated. Even after last year's massive cuts, the state faces a budget shortfall of over \$456 million. In an already lean budget, making up the shortfall with nothing more than cuts in spending will cause serious, and in some cases permanent, harm to Kentucky's residents and infrastructure.

A recession is no time to cut government spending. Nobel-winning economist Joseph Stiglitz and incoming Director of the Office of Management and Budget Peter Orzag, agree that spending cuts are actually more harmful for a state's economy during an economic downturn than tax increases. Direct spending reductions generate more adverse consequences for the economy in the short run than a tax increase. Raising taxes is not the popular stance, yet it is the necessary one.

So where do we stand at the moment? The Governor has taken imperative first steps toward closing the shortfall by tapping into the rainy day fund and proposing an increase in the state tax on cigarettes. Unfortunately, these are not sufficient for long-term sustainability.

If the Governor's recommendations are fully enacted, the state will still face cuts in 2009, shortfalls in fiscal year 2010 and continuing problems in the years to follow. Even before the recession, Kentucky's annual revenues were not adequate to meet its annual expenses, and Frankfort balanced the budget by using gimmicks.

It's time to move past the quick fixes, to strip away the romantic mythology of anti-tax rhetoric and to give Kentucky's tax structure a comprehensive overhaul that will allow the Commonwealth to have a budget that is adequate, sustainable and equitable. The state's leaders can meet the challenge of increasing revenue by acting on a range of options with demonstrable track records in other states.

In times of budget crisis it makes sense to slightly increase taxes on the wealthiest citizens rather than cutting essential human services. Adding a 1 percent surtax on incomes of \$500,000 or more would raise \$56 million. Alternately, adding a 1 percent surtax on the richest 1 percent of taxpayers in Kentucky would raise an additional \$76 million.

Kentucky also can follow the example of some 20 other states and close corporate tax loopholes so that multi-state corporations operating in Kentucky can no longer avoid paying state taxes by setting up subsidiaries in other states.

If the Commonwealth makes its own tax law, instead of blindly following federal law, we can "decouple" some of our tax policies from the federal tax code, especially in taxing domestic production. That alone would produce an additional \$30 million dollars in 2010.

Finally we can broaden the tax base by enacting an equitable way of taxing services to provide sustainable revenue, particularly during economic slowdowns when the manufacturing sector slows. Including only a small group of services that are largely commercial, such as security services and chartered air flights, would raise \$35.1 million annually.

If the fundamental issue we face as a state is the budget, then the fundamental action required is to reform our tax system to ensure that we have revenues that are sufficient to maintain needed services for years to come. Kentucky has many options if Kentucky's leaders have the courage. Let's start the discussion.

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