

Shortchanging Working Poor Won't Balance Budget

By Donald G. Simonson

New Mexico Voices for Children

There is little disagreement that our state is facing a serious economic crisis. The question is how to come up with the most effective and equitable way of getting our economy back on track and our state's budget balanced. One thing should be clear — we cannot balance the state budget on the backs of working families or our state's most vulnerable population — our children.

To ensure the fairest solutions to the current crisis there are three important elements that should be included in a state-level economic recovery plan:

- Maximize federal dollars that buoy our state economy;
- Close tax loopholes that zap state revenues;
- Draw down our rainy day funds.

The most painless and obvious element to addressing our current fiscal crisis is that we must maximize the federal dollars we receive for work and family supports such as Medicaid, unemployment insurance and food stamps. The Medicaid program offers health care to more than 40 percent of New Mexico's children. The program is funded jointly by the state and the feds, and for every dollar we spend on Medicaid, the federal government spends \$2.90.

With the likelihood that federal reimbursements to states will increase, the state would be foolish to short-change its own investment in Medicaid, because the more we invest, the more we receive. At its current funding level, Medicaid delivers some \$3.36 billion in new state economic activity.

Another federal program that helps struggling families while boosting the economy is food stamps. While food insecurity is high in New Mexico, our participation rates for food stamps are lower than they should be. Unlike Medicaid, there is no state match required for food stamps. If we raised the participation rate of eligible families with children from 62 percent to 80 percent, the state economy would get another \$41.8 million in federal funds.

One of the most effective stimulus programs during an economic downturn is unemployment insurance. That's because a weak economy leads to job losses, which lead to less spending. Both the state and the federal government do well by their citizens when they increase jobless benefit amounts and the length of time a person is eligible to receive them. At its current levels, unemployment insurance puts \$150 million a year into the hands of struggling families, who spend it on necessities like food and heating bills.

Maximizing federal dollars is only part of the solution to our current economic woes. We need to revisit some of the current tax policies that are costing the state hundreds of millions of dollars in lost revenues. One clearly needed tax change is to make sure that big multistate corporations are paying their fair share of income taxes. We can do that by enacting mandatory combined reporting, which would allow us to collect corporate income taxes from some of the most profitable businesses operating here.

The out-of-state corporations currently do not pay income taxes here, rather they shift their New Mexico profits to out-of-state subsidiaries. The same corporations, by the way, pay income tax on the profits they make in almost all of our neighboring states, because every state west of the Mississippi that collects corporate income taxes — except New

Mexico and Oklahoma — already makes them pay their fair share. It would bring in an estimated \$90 million in revenue.

Finally, we could safely tap into the state's operating reserve, which is currently 10 percent of the state's general fund budget. That's double what it's been in the past, and by knocking it back to 5 percent, the state could free up \$200 million. It was designed to be a rainy day fund. With the worst recession in a generation, these are the times we need to draw down the fund.

Balancing the state budget and boosting our local economy will require some tough decisions and shared sacrifice. By maximizing federal program dollars, making our tax system a little fairer for working families, and by using our current savings in the operating reserve, we can help our state and its most vulnerable citizens weather the current economic storm.

Donald G. Simonson is New Mexico Bankers Chair Emeritus in Finance at the University of New Mexico and a member of New Mexico Voices for Children's board of directors.