

# The Providence Journal

## Kate Brewster: A reasonable revenue solution

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Op-Ed: KATE BREWSTER

RHODE ISLAND'S state budget got a mid-fiscal-year checkup last month at the Caseload and Revenue Estimating Conference and the prognosis is not good. The state is facing a current year budget shortfall of more than \$350 million — 11 percent of the general fund — the largest mid-year budget gap of the 31 states reporting shortfalls.

According to Governor Carcieri's budget office, two-thirds of the gap is due to declining corporate, income- and sales-tax collections, as well as shrinking lottery revenues. The rest of the gap owes primarily to the inability of the administration to realize savings proposed in last year's budget and the requirement to repay the "rainy day fund" for money borrowed to cover the fiscal 2008 budget shortfall.

Revenue problems require revenue solutions. Like most states, Rhode Island is suffering from the economic crisis. Historically high unemployment, the stock-market and credit crises, and foreclosure fiasco play a prominent role in Rhode Island's budget deficit. But so too has our outdated and misdirected tax code.

Revenues include the taxes and fees that we collectively invest in the public services and structures Rhode Islanders have come to enjoy and expect — public safety, education, parks and recreation, transportation infrastructure and work-support programs such as child-care assistance and health insurance that help low-wage workers meet basic needs.

There are several reasonable steps policymakers could take to improve both the fiscal health of our state and generate adequate revenues to fund the services and infrastructure that will make the Ocean State a first-class place to live and do business.

First, the sales tax should be brought into the 21st Century by broadening the base to include services, which have come to replace many of the goods we once purchased. Second, Rhode Island should level the playing field between small and large business by joining the 22 states (including Massachusetts and New York) that have enacted combined reporting that prevents large, multi-state corporations from using tax-avoidance schemes to reduce their liability. Third, we must end several unaffordable and unproductive tax-credit programs that provide little or no economic benefit to the state, such as the motion-picture tax credit. Finally, policymakers should reinstate the capital-gains tax to its previous rates and repeal (or at least freeze) the flat tax, as these recently enacted tax cuts are very costly and primarily benefit only a small number of wealthy households.

Policymakers must resist the temptation to balance the state budget by cutting spending on programs that help families balance their own budgets. As the recession looms large over Rhode Island, work- support programs such as RIte Care Health Insurance, Child Care Assistance and the Earned Income Tax Credit are needed now more than ever. The administration should be doing all it can to ensure timely processing of applications for these and other programs that will both help low-wage families make ends meet and stimulate the economy — including unemployment insurance, Food Stamps and child support.

According to leading economists, it is better to raise taxes on high earners than to cut spending during economic downturns. The Center on Budget and Policy Priorities cites two well-respected economists — Nobel Prize winner Joseph Stiglitz, of Columbia University, and Peter Orzag, the recently announced director of the Office of Management and Budget — who during the last recession asserted that tax increases on high earners are less harmful than spending cuts. Raising taxes may result in money not saved, but cutting programs for low-income families will result in money not spent which has a more dramatic impact on the economy.

As policymakers weigh options for closing an overwhelming budget deficit, we hope the primary strategy they choose is to enact policies that strengthen our ability to raise revenues and hold harmless the work-support programs that help low-wage workers stay afloat.

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