

October 5, 2009

Dear Governor Richardson and Legislators,

We realize that elected officials face a difficult and crucial task in closing a projected \$433 million shortfall for the current fiscal year. As economics and business professors, we advise a measured approach to the budget that will help New Mexico emerge from the recession sooner rather than later.

Though it might appear simple and equitable to propose across-the-board cuts to government programs, the worst thing to do in a recession is to cut government spending. As the economy weakens and people lose or fear losing their jobs, they cut back on spending. When people spend less, businesses suffer, leading to lay-offs and creating a vicious circle that spirals into an economic downturn. Quite literally, when states reduce spending, they make the recession worse. Far from being equitable, spending cuts will hurt the low- and moderate-income families most at risk for losing their jobs. The worst thing to do in a recession is to make deep cuts in education, health care, public safety, or other state services that take dollars directly out of local economies. If you cut the salary of a teacher, firefighter or police officer, or if you cancel a contract with a local vendor or cut reimbursement rates to nonprofits—you remove money they would otherwise spend locally.

It is not nearly as harmful to the economy to raise taxes on those with high incomes. This is because the affluent typically do not spend all of their income—they save at much higher rates than their lower income neighbors. So reducing their income by a few percent does not reduce their spending by as much. The alternative—a corresponding budget cut that reduces the income of low and moderate income households—results in a much larger hit to the economy.

There are many options for raising revenue responsibly. One is to raise taxes only temporarily on the highest income group. Another is to close tax loopholes and make other adjustments to the tax code that would enhance efficiency in the future.

New Mexico is not alone in this predicament—every state is facing difficult choices on how to raise revenues. In fact lawmakers in all western states except New Mexico and Alaska have enacted or are considering increases to a variety of taxes and fees.

The glum budget outlook is forecasted to pass in a couple years, and revenue strategies that are no longer fruitful or necessary can be phased out. In short, we urge you to protect state spending, since spending cuts are sure to hurt the New Mexico economy more than a carefully designed revenue strategy.

Respectfully,

Melissa Binder
Associate Professor of Economics, UNM

Samuel Bowles
Professor, Santa Fe Institute

Kristine Grimsrud
Assistant Professor of Economics, UNM

David Hamilton
Professor Emeritus of Economics, UNM

Kate Krause
Associate Professor of Economics, UNM

Jim Peach
Regents Professor of Economics, NMSU

Christine Sauer
Professor of Economics, UNM

Richard Santos
Professor of Economics, UNM

C. Meghan Starbuck, Ph.D.
Assistant Professor of Economics and International
Business, NMSU

Affiliations listed for identification purposes only.