MBPC Montana Budget & Policy Center

Talking Points
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Dispelling Myths and Misconceptions about State Government, the Budget, and Federal Stimulus Dollars during a Recession

Myth #1: "Families and businesses are seeing a decline in revenue; state government should cut spending too."

- **Cuts in government services harm the economy and could extend the recession. Government spending and government jobs are *more* important when private demand for goods and services and private jobs are contracting**. One of the basic tenets of economic policy is that money circulating through the economy is needed to move out of a recession. This is true whether the money is from private businesses or government. Governments pay salaries, buy goods and services, and generate jobs, which is particularly important during a recession, when individuals and businesses are spending and investing less in the economy. Statements that state government should "tighten its belt" because local families and businesses are having to cut spending reflect a fundamental misunderstanding about the importance of government spending during times of economic downturn.
- Just as importantly, hard working Montanans all across this state will experience increased suffering during this recession and will need to rely more heavily on government programs in order to get by. The Montana Legislature should use every dollar available to ensure that these essential programs are funded adequately during this economic crisis.

Myth #2: "Montana should cut government during this biennium in order to avoid a structural imbalance."

- **If the economy and, as a result, Montana revenue have not rebounded by the next Legislative Session, the Montana Legislature may be forced to make difficult cuts in spending. Those cuts should not be made prematurely, at a time when the MT economy and MT families need government the most.**
- Understanding the distinction between *structural imbalance* and *cyclical imbalance* in the budget is critical to understanding the importance of maintaining government programs through HB2 and HB645. A structural imbalance occurs when ongoing state spending exceeds ongoing state revenue. In contrast, a cyclical imbalance is a *temporary* imbalance due to economic forces. A cyclical imbalance occurs during a recession when state revenues go down while demand for state services goes up. A cyclical imbalance is temporary in nature. Using one time only funding, like the ending

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fund balance and funding provided in the federal stimulus act, for ongoing funding during an economic downturn is not only acceptable, it is good public policy.

Myth #3: "Maintaining government programs and services will not stimulate the economy. The Montana Legislature needs to choose between fiscal stabilization and creating jobs."

- **Maintaining governmental services and assisting those most impacted by the recession are critical mechanisms for creating jobs and stimulating the economy.** The current discourse focuses almost entirely on the direct impact of stimulus funding on job creation, such as when government dollars are used directly to maintain or create construction jobs through highway and other infrastructure projects. However, the indirect impact of stimulus funding on job creation can be even more important. Indirect job creation occurs when organizations, businesses, and individuals have increased income and resources to spend in the economy, which in turn maintains and creates jobs. For example, an increase in food stamps benefits results in an increase in spending at local grocery and convenience stores, which in turn provides for increased business and profit which maintain or increase local jobs.
- The effect of indirect job creation measures are so great that an initial analysis of the American Recovery and Reinvestment Act estimated that temporary increases in safety net programs such as unemployment insurance and food stamps will generate one-fifth (or 549,000) of the jobs created under the Act even though the funding for these programs only represents 10% of total funding under the Act.1 In other words, **economic stimulus proposals are often focused on direct job creation, but may actually create fewer jobs than proposals that focus on low and moderate-income families.**
- Quote from the non-partisan Congressional Budget Office: "The most effective types of fiscal stimulus… are those that direct money to people who are most likely to quickly spend the bulk of any additional funds provided to them…. Lower-income households are . . . more likely to be among those with the highest propensity to spend. **Therefore, policies aimed at lower-income households tend to have greater stimulative effects**."[2]

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[1] Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 9, 2009, at http://otrans.3cdn.net/45593e8ecbd339d074_l3m6bt1te.pdf.

[2] Congressional Budget Office, "Options for Responding to Short-Term Economic Weakness," January, 2008.

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