

Economy

Stretching Twin-size Revenues to Fit King-size Needs

By State Senator
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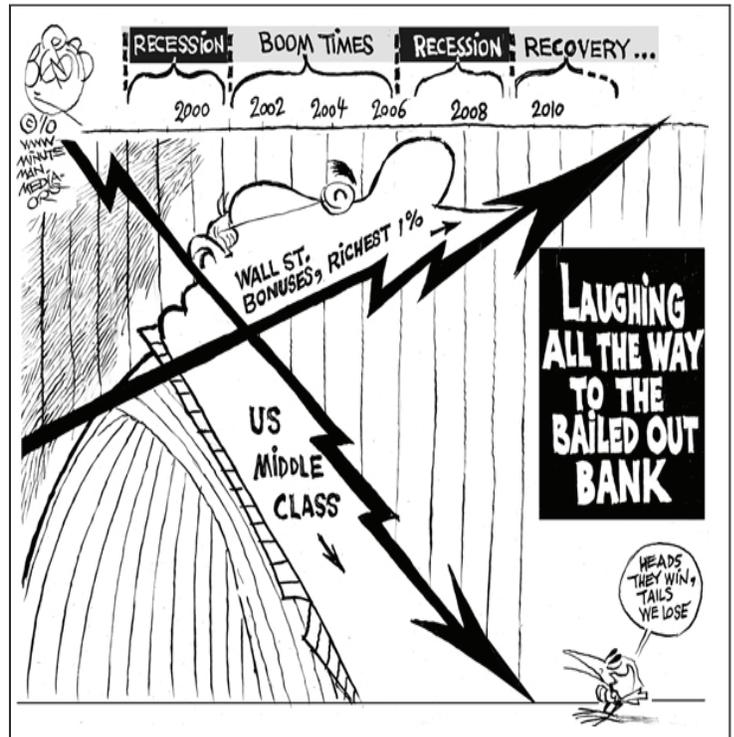
The 2010 session of the State Legislature is faced with a massive job...with little time to accomplish it. This year is a "budget" session, limited to

thirty days. Ordinarily that's ample time to rework a budget, starting with a previous year's revenues and expenditures and then projecting growth or slowdown. Not this year.

No, this year's session will be far more challenging; a lot like the task of covering a king-sized bed (our needs) with twin-sized sheets (our revenues)...except that we still aren't sure of the actual size of either the mattress or the linens. It's guaranteed to create headaches for those making-up the bed--and to leave the citizen-occupants of that fiscal futon shivering, sleepless under inadequate cover.

So how did we get into this financial mess so quickly? Remember, just 18 months ago Governor Richardson called the legislature into special session to deal with a different dilemma: how to get rid of an unprecedented bonanza of state revenues! So much tax money was flowing into State coffers in the summer of 2008 that New Mexico decided to return four hundred million to the taxpayers.

But, no sooner had those rebates and cuts been enacted than the economy hit the skids and within months we lawmakers were scrambling to fill a \$400 million gap (yes, the same amount



Transitions

by V.B. Price

American political culture has moved into a period of stagnation that has no end in sight. So has New Mexico's. The status quo won't budge. Nor will the dead weight of the recession.

It looks like we're in for a grinding transition from an old world of cheap energy, stable weather, and clean water, a world that's falling apart before our eyes, to a new situation perhaps of enriched opportunity in crisis -- for those with the capital to take advantage of it -- but also a conundrum of dead ends for the rest of us who work but have little money to keep body and soul together.

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we'd given back weeks earlier) in the 2009 budget... and to further reduce the 2010 budget (for the year that would begin on July 1, 2009) by another \$300 million.

But it gets worse: that slimmed-down budget (passed in March, 2009), even though it was based on revenue and spending projections that were \$600 million below the one passed in February of 2008 (\$5.5 billion compared to \$6.1 billion!) needed further pruning, so just three months ago the Governor called us back for another special session.

It produced more cuts in spending (we couldn't discuss increasing taxes) and some shifting of money from nooks and crannies in the treasury into operating budgets. Once the dust cleared the net effect was that the budget for the current year (ending June 30) had shrunk to \$5.1 billion—a full billion dollars (or 16%) smaller than the one in effect a year and a half ago.

That's dismal; but it will get worse before it gets better. There are at least three main reasons for this. Every New Mexican needs to understand them to interpret what will be going on in Santa Fe from now until the citizen-legislators head home in mid-February.

Reason # 1: the cuts imposed during October's special session were minimal, designed to cause the least amount of pain for a short time, until the long-hoped-for upturn in the economy kicks in and revenues get back to "normal". Unfortunately, the economy is not improving and tax revenues dip each month. This is because 10% of New Mexico's workforce is now laid off and not earning, buying or paying taxes. Unemployment benefits and food stamps provide survival but you can't grow an economy on them.

So October's "minimal" cuts won't get the job done in January. The gap (that metaphorical king-size mattress) for the year that starts July 1, 2010, the 2011 budget year, is fast approaching another \$1 billion! That's a 20% cut in a smaller budget, and together with the \$1 bil-

lion that's already been squeezed from our 2009 original budget, we are faced with what will be a 33% smaller state government than just two years ago...if we try to fill the gap completely by cutting spending. I know Republicans want frugality, but this is nuts!

Reason #2: the key to New Mexico's economic recovery is our home-building industry. At its peak, in the summer of 2008, before banks collapsed, we were producing 7,000 additional residences a year. Last year we didn't build 1,000. That's a lot of roofers, carpenters, electricians and plumbers not earning money. That's a lot of building suppliers, home furnishing stores and appliance salesmen not earning money. That's a lot of money not circulating through the economy. That's a lot of gross receipts and income taxes not being paid for government services. And it happened almost overnight!

Reviving our home building industry is not stalled because of lack of demand or because we have killed incentives for the builders. It's a consequence of the global banking crash and the resulting burnt-fingers syndrome by the bankers who finance home construction or purchases. In a word, until the credit squeeze eases, New Mexico's economy will continue to wallow. Housing is our number one economic driver. We won't get better until it gets better.

Reason # 3: things would have been much worse this year without the \$500 million in Federal "stimulus" funds which buffered the hits to Medicaid and public schools. Now, though, that windfall cushion has gone and a big chunk of the \$1 billion shortfall we face is due to needing to replace that temporary boost from the Feds.

The truth is that New Mexico is not spending wildly or foolishly as some conservatives would suggest. The reason our budget is short is not an excess of spending, but because our revenues went in the tank. And as we examine how to survive until the usual sources of State revenue get closer to their historic performance levels, we should be very leery of simply cutting back on an already-lean budget. Instead, we need first to consider restoring some of the billion a year in recurring tax revenues that have been trimmed

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I can hear Republicans and fat cats crooning away with a nasty smirk, “Oh that’s all just doom and gloom, doom and gloom.” That may be so, but how does one be both realistic and empowering at a time like this? The status quo is eating us alive. Ways exist to move it off our necks, but they’re all but dormant at the moment.

Nationally, health care reform, despite the prodding of millions of people, will be about as exciting as changing one pair of sneakers for another. The deep misery of joblessness has become chronic. Housing starts are all but dead. Food stamps keep more people alive than ever before. Corporate money controls political discourse and creates fewer and fewer jobs in America. Banks hoard taxpayer money and make virtually no loans. Peak oil looms, and alternative energy founders in mires of investor uncertainty and the petroarchy’s relentless PR assault on the competition. We’re locked into two wars, and into a war economy, that’s grinding down a generation of volunteer soldiers, flattening and terrifying civilian populations in numerous countries, and providing no jobs to speak of for America’s unemployed. The cost of education continues to grind down students. Our politics have descended into mad ankle biting; the Parties can carry out no new ideas; Big Business dominates and serves no one but itself. And America, along with most of the rest of the world, won’t get off the dime about climate change and widespread environmental pollution, thereby assuring unimaginable suffering for billions of people.

Locally, the status quo is like a big mono and matate, grinding optimism into a fine powder. The recession has clamped its jaws on the state. Major employers are faltering. State government is seriously cutting back on jobs; the state’s universities are too. Students are paying higher tuition, and going deeper into debt. The poor are poorer. The building trades are suffering with low housing starts. Businesses across the board are downsizing to keep afloat.

And worse, we have no sense of common purpose. We know the booms of the past won’t come again, and yet we keep hoping they will.

That’s where the politics of polarization has brought us. Into the pit of a dark transition with no consensus on how to get out.

Is there anything to be done? The old ways that have brought us here are not going to get us out. Where do we look for leadership? Right now, I think, there is only one answer - ourselves.

There is a new reality emerging, a complicated one that’s difficult to foresee or totally comprehend. But the keystone of this new reality is emerging from the fog. It has to do with decentralization, personal responsibility, and associations of like-minded people. Individual and small group action is about as decentralized as you can get.

I’m not suggesting some utopian or survivalist strategy of adapting to an uncertain future. I am suggesting that those who conceive of the good life as a tapestry of self-reliance and local community building do not have to wait for uncertainty to lift. We can start climbing out of the pit of this chaotic, malign transition right now.

Decentralization of energy is a telling example. It takes power away from the global corporations and industries. Personal energy resources, for instance - from conservation, to solar and wind power on our houses - contributes to a liberation from the suffocating status quo. All forms of decentralization

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does. Especially improving local conditions and supporting local businesses, schools and cultural institutions.

Buying locally grown food, cultivating local culture though support of local art, music and literature, keeping out of chain stores and restaurants and buying books, meals out, home repair items, and clothing from local businesses, finding common ground with neighbors, supporting local issue-based organizations - these all nurture local talent, local risk takers, and local advocates without descending into provincialism or succumbing to globalism.

Decentralization is not only a keystone to the future, but also a hallmark and a sign to follow. It's surely not an infallible strategy, but it's probably the least fallible at the moment. Why would anyone trust big banks, big oil, big chem, big insurance, big anything, after the unholy mess they've made for the rest of us. And why would anyone wait for them to revive and rescue us?

We all need to get agile, learn to trust ourselves again, stay curious, look for local solutions we can depend on, and wean ourselves from the cold comforts of the dead-end past, and get in shape to make good decisions in a hurry.

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away during the Richardson years.

If we increase the size of the sheets (revenues) then shrinking the mattress (spending) wouldn't be so damaging. And despite threats from conservatives that "a recession is not the time to increase taxes", we can easily find at least half the billion dollars we need by closing loopholes and corporate giveaways--without impacting the working families of New Mexico one bit. Here are a few ideas that add up to more than the \$500 million I'd like to see us enact.

Reinstate a progressive tax rate structure for personal income taxes. Successive cuts have flattened our tax tables so that now a couple earning \$30,000 a year in taxable income pays the same 4.9% rate that a couple earning \$300,000 or that a couple earning \$3 million pays. That flies in the face of common sense and the traditional concept that those who can afford more should pay more. That single step could generate over \$250 million a year in new revenue—without affecting most working families.

New Mexico, alone among western states, allows a double deduction for state and local taxes. California doesn't permit deductions for

New Mexico taxes paid on income....but we permit our tax filers to deduct California taxes before computing New Mexico's taxes. What purpose does that loophole serve? It could generate \$60 million a year or more, if plugged.

Then there are sin taxes we could pass: alcohol, tobacco, junk food and soft drinks. Making those indulgences taxed fairly could produce another \$100 million or more. New car sales could be made subject to the gross receipts tax... instead of the 3% excise tax now charged...and that would produce \$100 million. There's the \$500 million we need to finish making the bed.

Polls show New Mexicans are reluctant to cut school funding (60% of the budget) and support holding Medicaid spending (another 18%) as harmless as possible. Thus, new taxes have to be considered because we simply can't cut a billion dollars from the remaining 22% slice of the pie that amounts to just \$1.2 billion. You see the problem...and the solution. All it takes is some legislative backbone.