

Déjà Vu All Over Again

June 15, 2009

by Dr. G. Terry Madonna and Dr. Michael Young

"It's like déjà vu all over again." These weighty words from the well known philosopher Lawrence Peter "Yogi" Berra nail precisely the way most Pennsylvanian's feel as they approach yet another ominous impasse over state spending, taxing, and program cuts.

Vacation plans have been put on hold. State employees are heading to financial institutions for a quick loan. Lobbyists of every stripe are frenetically pressuring legislators for their favorite cause. And the state's press corps will soon be camping outside the General Assembly's star-chamber like conference rooms, while a handful of legislative leaders haggle it all out amid the splendor of their semi-secret legislative sanctuary.

Bad as this might seem, it is nothing new. It has happened over and over again with monotonous regularity for the last six years. Through deficits and surpluses, the legislature has made a mess of the June 30 constitutional deadline. Not a single budget of Gov. Ed Rendell has been passed within the time frame of the state constitution.

This year, however, really is different. Previous stalemates were mostly political theater driven by the competing priorities of various legislative leaders and their supporters. Excepting 2003, the revenues were available without the necessity of using a general tax hike - the budget fight was about how to spend state money, not where to get it. But this year the revenues have fallen off sharply and the state has a projected deficit of \$3.2 billion and possibly more.

Moreover, the budget debate this year takes place under the direst fiscal circumstances since the Great Depression - setting the stage for a knock-down drag-out donnybrook of a fight between the governor and most Senate Republicans.

Both of these putative combatants are facing a set of nightmarish options involving huge expenditure cuts, large tax increases, or both. So far the governor has announced several rounds of budget cuts, but he and the Republican controlled Senate remain about \$1.2 billion apart.

What's a bewildered citizen to make of this mess? What is likely to happen? And what should we watch for? As the aforementioned philosopher Yogi Berra sagely warned, "It's difficult to make predictions, especially about the future." With that wisdom in mind, here are several possible outcomes.

- Probably the really bad news is that state fiscal conditions are likely to grow worse before they improve. In fact, they may be worse than we know. Historically, states have been poor at estimating future revenues. A recent report issued by the National Conference of State Legislatures asserts that some 30 states had overestimated revenues from their income tax or sales taxes in the current year. Moreover, state fiscal conditions typically worsen as the economy begins to recover. That's because job creation lags other economic events, placing heavy burdens on the states for aid to those without employment or health insurance. Bottom line: if you think this year is bad, wait until next year.

- An income tax hike in 2009 is likely if not certain. That pattern was firmly established during the last three recessions (1983, 1991, and 2003) when the Pennsylvania legislature raised the state income tax to balance the budget. Since this budget deficit is substantially larger than the three previous ones, a tax hike is all but inevitable. To make it palatable to legislators, it will probably be proposed as temporary and include a rescission component that will reduce the new rate after the emergency is over.
- There will be significant expenditure cuts before a new budget is inked. Rendell has already announced major cuts from his original budget, and Republicans who control the state Senate have already proposed even deeper cuts. Where the final reduction will be made is not yet clear, but in other states education, corrections, and health care, including Medicaid, are bearing the brunt of the cutbacks.
- Many painful concessions will have to be made to settle this year's budget. Senate Republicans have their own budget - a \$27.3 billion spending program passed along party lines. Meanwhile, House Democrats can neither get the Rendell budget adopted or an income tax increase passed without Republican votes. The Democratic House and the Republican Senate seem hopelessly divided, but inevitably, time worn Pennsylvania horse-trading tactics will be on display. But even that may not be enough. The rhetoric coming from both sides this year is sharp and divisive. Unusual political leadership will be needed to broker the necessary compromises.

Finally, a little good news: Pennsylvania's budget crisis is bad but not as bad as it could be. The drop in revenues has actually been modest compared to many other states. Sales tax revenues are down less than two percent. Similarly, income tax revenues are down about the same. Compare this to states like New York (sales down 20%) or California (sales down 15%). Ultimately the current budget battles will end, as have earlier budget battles. But it probably won't be soon, it surely won't be easy, and it definitely won't be quiet.

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