

Rendell's Magical Budget

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"Nothing focuses the mind like a hanging," English lexicographer Samuel Johnson famously proclaimed.

That's probably so! But before this year's state budget battle is over, Pennsylvania's political establishment might be tempted to amend Johnson's adage to say nothing focuses the mind like having a multi-billion dollar deficit hung over your head. Indeed by July 1, when the next fiscal year officially begins, a nice quiet hanging might seem preferable to confronting a budget none will love, many will hate, and most will want to forget. Certainly the recent history of state government grappling with deficits has been a rocky one, filled with secret back-room dealings, late budgets, employee furloughs, pay-less pay days, and even once, a 20-man melee on the House floor.

Rendell kicked off this year's annual slugfest, his seventh, to a joint session of the legislature with a piece of budgetary legerdemain that might make Houdini blush. He proposed what purports to be a draconian plan that, on the one hand, includes no major tax increases, cuts many state programs, and anticipates the layoff of several thousand state employees, but on the other hand, recommends an increase in spending of four percent - roughly \$1 billion.

So what happens next? Conventional wisdom declares that Rendell's fiscal conjuring becomes the "budget from hell," doesn't get passed before the end of summer at best, and threatens to end state government as we know it. In other words, budget Armageddon is upon us.

Well, maybe. But this might also be a good time to sit back and recall what we have learned through the past 40-odd years or so of budget making in Pennsylvania. Back through six years of Rendell, eight years of Ridge/Schweiker, eight years of Casey, eight years of Shapp, back to Shafer and even to Scranton. It's a lot of history - much of it was expensive to learn, and most of it is valuable to remember.

From that history, five points bear keeping in mind as this year's budget process unwinds:

1. **The State is Struggling with an Operating Deficit and Not a Structural Deficit.** The distinction is crucial. An operating deficit occurs when projected revenues for a fiscal year are less than projected expenditures. Operating deficits are temporary and self-correcting when business conditions improve. Operating deficits "go away" much as common colds go away with rest and time. But structural deficits present much greater threats to a state's fiscal health. A structural deficit is present when projected revenues will never match budgeted expenditures unless either revenues are permanently increased or expenditures are permanently decreased. Structural deficits untreated only become worse over time. The state has experienced structural deficits before - in 1971 under Shapp and again in 1991 under Casey. But this one is not structural, it is an operating deficit and it requires no major tax increases or permanent expenditure cuts.
1. **Rendell's Recession Budget is Conservative Compared to Budgets Proposed by His Predecessors.** Only twice in the last forty years - 1971 and 1991 - has the state confronted fiscal challenges comparable to those today. But Rendell's budget can't be compared to either Casey's 1991 budget that proposed a billion dollars in new taxes or to Shapp's 1971 budget that proposed a progressive income tax.

Both Casey and Shapp, like Rendell today, were responding to severe fiscal crises. Under Shapp, the state faced literal bankruptcy; under Casey, the consequences of inaction would have been catastrophic. But Rendell, in eschewing major new taxes, is following neither of these benchmarks. The difference between these earlier budgets and now is the anticipated federal stimulus funds in Rendell's budget. Without these augmentations there would be a need for deeper cuts or new broad based taxes to balance the budget.

1. **The Budget May Not be Very Late.** A protracted budget stalemate conjures up policy and personal nightmares. Thousands of workers would be laid off. The funding for state programs would be halted. Education dollars would be held up, and public confidence in state government would plummet. But none of this may happen. Most really late budgets occur in recessions that produce both program cuts and large tax hikes. Such conditions make late budget adoption virtually automatic and highly predictable. But the 2009 budget proposals include only modest narrow base tax increases along with program cuts. Great political battles are usually fought over raising taxes, not temporarily lowering expenditures.
1. **Conflict Over this Year's Budget May be Muted but It Won't Disappear.** Legitimate political, ideological, and institutional differences exist among Pennsylvanians and they tend to play themselves out in the budget process. This year several factors are likely to work against an easy resolution to the budget battle. Republicans in the state Senate have already thrown down the no tax gauntlet. And they want less spending too. They hold a 29 to 20 edge in the upper chamber, and no budget will be adopted without Republican support. They will be joined by the dozens of recently elected, reform-minded, no tax increase members who increasingly populate the legislature. Moreover, on many of the big issues that remain to be resolved, such as healthcare insurance and tuition assistance, Republicans and Democrats are on different planets. In addition, several of Rendell's initiatives, including the legalization of video poker and the county sales tax proposal will further stoke the fires of ideological debate.
1. **The Proposed Budget Might be the Wrong Budget to Worry About.** The projected \$2.3 billion deficit is only an estimate of how large the shortfall might be by the end of the current fiscal year, ending June 30. And of course beyond that is anyone's guess. The recession seems to be worsening - indicating that the deficit could actually enlarge over time. The projected deficit for the next fiscal year could add another \$2.5 billion or more to the cumulative price tag - conceivably creating in 2010 a gubernatorial election year budget impasse that might make 2009 seem like a quiet day in the country.

There is an overarching theme in the state's ongoing saga of budget imbroglios, and it is that annual budgets are best understood as single chapters comprising a very long and yet unfinished book. Filled with drama and suspense, they often amuse us, sometimes instruct us, and always surprise us. But ultimately they make sense only as part of a long running story. And it is that story and what it portrays about us, who we are, and where we are going as a state that matters most.

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