

The Phony-Baloney Budget

August 4, 2009

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

What do you call a budget that isn't really a budget? Or what do you call a budget bill that isn't to be taken seriously? And what do you call a budget process shot through with sham, hypocrisy, and cynicism?

Phony is one word that comes to mind. Baloney is another. And that largely sums it up. With Governor Rendell's expected approval this week of his "bridge" budget, Pennsylvania is now the sole proprietor of a phony-baloney budget.

How we got our phony-baloney budget is a painful story already too often told. Now into August, the Pennsylvania budget crisis continues with little prospect for an early resolution. The state still has no real budget long after the constitutional deadline has passed and long after other states with far more serious budget problems have passed their own budgets. Pennsylvania now remains only one of three states without a budget.

The fury and frustration now blazing across the state capitol compel us to see this sorry situation for what it is. Pennsylvania's budget process is badly broken. Happily, however, this raging crisis also offers a rare opportunity to see just what the problems are and what can be done to fix them.

- **Problem: The Inexorable Pressures to Spend** - Budget impasses are aggravated by many factors including a lack of responsible political leadership and the endless political posturing that characterizes Harrisburg. But they are not caused by these factors. They are caused by the innate pressure to spend as much as possible while raising taxes as little as necessary. Legislators believe that spending boosts their political popularity back home while taxing erodes it. Consequently, they are loath to vote for taxes, but lusty to spend on programs. Over the past six years, for example, state spending has risen at twice the rate of inflation. Virtually all of Pennsylvania's real fiscal crises have occurred when legislators chose to spend more than they are willing to tax. This practice is the root cause of protracted budget struggles.
- **Problem: Too Little Saving** - Unless we abolish capitalism, business cycles are going to continue, and states will always find that revenues rise when the economy expands and fall when it contracts. But our politicians ignore this obvious economic fact. Instead they gorge in the prosperous years leaving taxpayers to pick up the tab when the economy sours. The solution is a straightforward one: in flush times the state should put more money into reserve, such as in the Rainy Day Fund, as a hedge against the lean years sure to follow. Protracted budget impasses will continue into the future unless we build adequate reserves against the bad times that always come.
- **Problem: No Effort to Pass a Budget on Time** - The state constitution requires a balanced budget by July 1. Yet, it took 21 days beyond the constitutional deadline to even move the budget process forward to serious discussion, much less to actual votes or a conference committee. Work that could have been done in April and May is left undone in August, and so far not a single agreement on substance had been made. Instead we have a phony-baloney "bridge budget" that importantly pays state employees but solves little of the huge budget differences that remain. The legislature must treat the constitutional requirement seriously. Failure to do so again for the seventh straight year makes a mockery of the fundamental law of the state.

- **Problem: Passing the Buck to Local Government** - For years state authorities have used local government and school districts as the "fall guys," imposing unfunded mandates on them for services the state won't pay for but wants delivered. Hypocritically, these same state government officials complain about unfunded federal mandates but then revert to the very same practice. These unfunded mandates create enormous pressure on local officials to raise taxes, cut other services, or both. In short, the state balances its books by unbalancing the books of local governments and school districts. This is nothing short of a cynical shell game foisted on voters, and it's part and parcel of the chronic tax and spending issues confronting Pennsylvania. Passing the buck isn't the solution. In fact it's a big part of the problem.
- **Problem: State Government Needs a Check-Up** - Over the past 30 years the state legislature and the executive branches have grown government haphazardly, creating and expanding hundreds of programs and providing a myriad of services to the state's residents. Many and perhaps most of these programs are needed, but some probably are not. And few if any in Harrisburg know the difference. The state's budget in this century has grown exponentially, in the process creating a long term structural deficit that, left unsolved, almost guarantees future protracted budget battles. The time is long overdue for a comprehensive review of state programs - perhaps a modern day little "Hoover Commission" to identify program redundancies, to reevaluate main functions, and to measure the efficiency of services provided. The Commonwealth can no longer simply add "the trees" to state government without talking a good look at the forest it is growing.

And finally one last problem: this crisis is far from over. Indeed, it may only be beginning. The phony-baloney budget now passed keeps government on life support but does nothing to settle the underlying issues which precipitated the crisis: Pennsylvania still has a massive revenue deficit, the question of new taxes is yet unresolved, and there remains no consensus on overall spending.

And next year may be worse. The state's revenue profile may have taken a permanent dive as Pennsylvanians, like Americans across the country, are cutting consumption. Ominously, state revenues are heavily reliant on consumption taxes.

Likewise, current national studies now indicate continued growing deficits across the country. It's anyone's guess how big next year's state deficit could be but the outlook seems unpromising. State fiscal conditions often continue to deteriorate even after the national economic recovery begins.

The bottom line: the stage could be set for a budget battle in 2010 that will make this year seem like the good old days.

*Politically Uncorrected*TM is published twice monthly. Dr. G. Terry Madonna is a Professor of Public Affairs at Franklin & Marshall College, and Dr. Michael Young is a former Professor of Politics and Public Affairs at Penn State University and Managing Partner at Michael Young Strategic Research. The opinions expressed in this article are solely those of the authors and do not necessarily reflect the opinions of any institution or organization with which they are affiliated. This article may be used in whole or part only with appropriate attribution. Copyright © 2009 Terry Madonna and Michael Young.