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Budget Crisis Requires Simple Steps

By Mike Thompson

1/22/2010 – As Governor Bob McDonnell settles into his new office, counties and cities throughout the state continue their annual budget drafting process in earnest. Local governments rely heavily on state spending. Indeed, about 52 percent of the state budget goes to our counties and cities and these local jurisdictions will have to enact large budget cuts if local taxes and fees remain unchanged.

Our new Governor and the General Assembly must close a \$4 billion shortfall. Since former Governor Kaine's proposed budget used tax and fee increases of close to \$2 billion to eliminate the state's two year budget deficit and our new Governor has pledged not to raise taxes broader and deeper cuts are required.

First, let's make it very clear. Fueled by unrealistic increases in property values our state and local governments spent the last ten years growing the size and scope of their activities. These elected officials simply didn't want to believe that the "good times" would end and built government bureaucracy each and every year. They spent money as if the spigot would never slow down.

Just look at the largest jurisdiction in our state – Fairfax County. This county had to cut spending last year and this year by what could total \$400 million. When you look over the past ten years Fairfax spent itself into its current financial mess. In 1993 a group of noted business leaders, economists and community activists were part of the Cole Commission which said that government's annual budgets should increase no more than the rate of inflation and population growth. This formula allows government spending to reflect the ability of the taxpayers to pay for it without increasing the financial burden of government on our families.

Since fiscal year 2000, had Fairfax County spent at the rate of inflation and population growth the financial headache faced today would have been avoided. Even after the past three years of falling property values, this year's budget would only have been \$10 million out of balance instead of \$300 million or more. As for the school budget, had spending been kept within the suggested parameters, this year's budget would have been \$148 million in the black!

The same budget realities can be found at both the state and local level and unless strict budget discipline is permanently part of the government spending process we will be back here again in a few short years.

So what can be done in the short run to bring the state and local budgets into balance? This is the gnawing issue being faced by our state legislators and county officials from one end of our state to the other.

Finding large savings is difficult for sure. Across the board program cuts unfairly penalize the good programs and the poor programs at the same rate. But when governments have not prioritized their spending, to reduce spending in a logical way is difficult. Government agencies need to prioritize their programs now and let our elected officials know what those priorities are. These agencies all know that major cuts are coming and they need to participate in that decision-making process. This includes the schools as well. Core purposes of government and of education need to be protected as much as possible and everything else should be reduced and/or eliminated.

Governments normally face a personnel turnover of about eight percent a year. Carefully managed, this turnover can be used to reduce government in a responsible way over a couple of years. As employees leave (retire, move away, die, or take jobs in the private sector) only those in core government functions should be replaced. And if they can be replaced by those in non-core government programs, over a couple of years that will reduce government significantly.

In the meantime, governments must reduce spending this spring by some pretty large numbers. Employee costs are the single largest expense and that is the logical place to cut and this can be done without letting employees go during this difficult recession. A five percent cut in salaries and benefits will reduce spending significantly. Such an across the board reduction will likely allow all current employees to remain in their jobs while governments review its programs and prioritize its spending. These reductions should include retirement and health insurance benefits as well.

Everyone is hurting in this economic environment and if layoffs can be avoided, then reducing everyone a little makes good sense. Government employees should pay into their retirement programs and contribute to the cost of their health insurance, just like private sector employees. Recent studies show that public employees are paid better than the private sector and that simply must end.

Spending restraints, reviewing government staffing requirements and prioritizing programs are long overdue. The current spending crisis must be confronted, but we should learn from it. Let's shed unnecessary government programs, make those that remain more efficient, reduce the number of government employees in a way that does not require large scale layoffs and institute spending limits so that government no longer grows faster than the rate of the inflation of population.

Government can use the current economic recession to re-evaluate its purpose, prioritize its programs, re-structure its employee compensation and permanently restrict the growth of future spending. If it doesn't take these steps then nothing will have been learned from the past profligate spending and we will end up in a "budget crisis" again in a few short years.

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