

THE JEFFERSON JOURNAL

...a commentary from

THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

State Budget Reflects Current Economic Times

By Michael W. Thompson

4/7/2010 -- To maintain his commitment to voters to not raise taxes, Governor McDonnell cut two billion dollars over former Governor Kaine's proposal. Some business taxes were raised, but hopefully these will be mitigated during the last steps of the process as the Governor goes through the budget line by line. Some fees were increased and as long as those fees actually cover the cost of government services they probably should be supported. However, fees for one service to cover costs in another should always be avoided.

There are some who complain that bi-partisan budget cuts will have a detrimental impact on our economy. For instance, the Commonwealth Institute, a Virginia organization tied to several national unions, released a study that says 37,000 government jobs will be lost due to this year's state budget – namely in the education and health care sectors. That analysis, however, doesn't take into consideration the negative consequences of the private sector having to adjust to \$2 billion in tax increases or the job losses that would have resulted. Those who believe in government as the employer of last resort, as this report seems to do, rarely weigh state budget cuts against the impact of increased taxes. They don't seem to understand that long-term economic health is based on jobs in the private sector and not jobs in government. And as the federal government vacuums up more and more financial resources from the private sector to pay for the ever-increasing national debt, it is all the more important for Virginia to keep its taxes low.

And since governments lose eight to ten percent of its workforce every year, government jobs lost in the subsequent two year budget can be significantly ameliorated through closing out jobs no longer needed when folks move on, or through moving folks from unnecessary jobs to core functions. At the state and local level, this eight to ten percent annual turnover accounts for many more than the 37,000 jobs touted by those who believe in tax increases rather than reforming/reducing government.

Had we increased taxes by \$2 billion as advocated by the Commonwealth Institute these monies would have come from only one source – the private sector, the only sector that creates wealth in this country that can be taxed to run government. The Commonwealth Institute doesn't discuss the number of jobs that would have been lost in the private sector.

Long term economic growth is nurtured during recessions when government does not increase taxes. The goal is for the private sector to hire more folks, not the government. The more money sucked out of the private sector depletes potential hiring and harms long term economic growth.

The McDonnell Administration and the General Assembly must now take the next step and carefully examine our state government and see how programs can be better prioritized, how services can be made more efficient, what departments and agencies can be combined, how to carefully cut the number of state employees to match what is needed in a more streamlined government structure.

Let's rid state government of unnecessary activities. Let's combine agencies and programs where possible and see what jobs can be done by the private sector. Let's find out how expenses can be reduced and if there are state assets (land, buildings, vehicles, etc) that can be sold. Let's see if there are public private partnerships that can be crafted that will allow us to build needed infrastructure without having to raise taxes. Let's see if we can end the 30 percent additional cost of building structures on our higher education campuses than similar buildings off campus. The list goes on and on.

Government is the lagging industry in Virginia in terms of modernization. The number of employees at 102,000 is simply too many as previous studies have shown. Let's learn from the private sector as to how to reduce employees, combine services, use technology to streamline processes and save money.

The currently approved two year budget saved the taxpayers of Virginia \$4 billion by cutting government rather than raising taxes. There are some minor changes that could make the budget better and hopefully those will be made.

But those who advocate more taxes to protect state jobs are stuck in the past. That scenario simply won't stand under the current economic conditions nor is it the budget management that should be used as we encourage the private sector to bring more jobs to our state.

-30-

Michael Thompson is Chairman/President of the Thomas Jefferson Institute for Public Policy, Virginia's premier independent public policy foundation. These views are his and do not necessarily reflect those of the Institute or its Board of Directors. He can be reached at info@thomasjeffersoninst.org.