

PERSPECTIVE

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UK economist: Address budget process with sound principles, common sense

The U.S. and Kentucky economies are closely intertwined, and much of our present economic and business climate is dependent on the health of the national economy and federal policy.

But there are some fundamental undertakings of state and local governments that support individuals and companies in their private endeavors, and having functional government at these levels is important.

Getting their budgets under control is crucial in this regard. Several principles and ideas bear keeping in mind when dealing with this.

- Accept that government expenditures will be reduced.

Recessions mean that incomes are lower, meaning fewer goods and services are being produced. There is less to go around. It is not appropriate to shield government from this.

In this regard, discussions of government budget cuts are often misleading. Budget "cuts" frequently mean reductions from an enacted budget but still can involve more spending than in years prior.

Kentucky's General Fund budget for 2010 called for \$9.3 billion in spending. Even after the "cuts" of last year, spending is on pace to be as high or higher than the roughly \$9.1 billion spent in 2009. General fund spending evidently was lower in 2009 than in 2008, however.

- To guide reductions in spending, it is important to keep government anchored to its core functions and focus cuts elsewhere.

It's unfortunate that sometimes government officials suggest cuts in police budgets and release of prisoners at the first sign of budgetary difficulties. This is simply bad government.

Though there might be inefficiencies in police and prisons, don't look first for cuts in the most important functions of government. Look to the least important.

- To assist in addressing ineffective and inefficient programs, implement a "program closing commission" modeled after the federal military base closing commission.

The latter determined which military bases were not worthwhile and made recommendations of base closings and consolidation of functions among bases. To avoid excessive politicking, the findings were presented to Congress as a single up-or-down vote. A similar procedure can be used for state programs.

- Look for feasible ways to implement privatization and outsourcing for services performed for and by the state.

Outsourcing is quite common among states and municipalities and includes such

By John Garen, Ph.D.

Summary

(Word Count 650)

University of Kentucky economist John Garen suggests reducing state spending by implementing a 'program closing commission' modeled after the federal military base closing commission.

Continued on Reverse



services as property, vehicle and grounds maintenance; legal services; data processing; financial services; waste disposal, and health services. When done properly, it invariably lowers cost.

Kentucky does some of this, but it is worth examining whether more might be done.

- Look to other states for reforms that work.

Two immediately come to mind. One is charter schools. Charter schools have been shown to educate children at least as well if not better than regular public schools and do so at lower cost.

The second is elimination of state prevailing wage laws that cost the state more than needed for labor services in its construction projects.

- Don't use tax reform as a cover for raising taxes.

Kentucky's tax structure does need reform. But raising the tax burden is not the answer to our budget woes.

Taxes discourage economic activity, further reducing the availability of goods and services. And while more tax-financed spending might result in more

government jobs, the taxes come out of private hands, meaning less private-sector employment. The projected tax revenue shortfall of \$890 million (with the possibility of more) during fiscal 2011 and 2012 apparently is based on the assumption of \$9.1 billion in general fund expenditures each year.

The politics of reducing spending is quite difficult, especially during recession with its pressure on the unemployment insurance budget.

However, note that General Fund spending in fiscal 2007 was \$8.8 billion. Simply returning to that level of spending would address much of the shortfall and could hardly be called draconian.

Additionally, downsizing and improving the efficiency of state government as discussed above yield the benefits of better government with a lower tax burden.

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