

## Laboratories For Deficits

Ohio is lucky among the states. The Buckeye State dodged a deficit budget bullet in the first half of its current two-year fiscal cycle. But now comes Year Two – and the deficit revolver is NOT loaded with a silver bullet for fiscal salvation.

Thanks in large part because of the utilization of \$8.4 billion in one-time funds, Ohio finished the first year of the current budget cycle on June 30, 2010, in the black. But even in the fantasy fiscal world of spending what you do not have, there are no “two-time funds.” Today in Ohio they are projecting a shortfall exceeding \$8 billion for the next two-year budget that starts July 1, 2011.

That will happen even after state government spending was reduced by an additional \$2.5 billion. The budget also leveraged \$5.8 billion in federal stimulus funds to avoid further job loss and further cuts to services and shifts a number of programs and agencies.

So the luck has run out and reality has hit hard. Eight months into the fiscal year, Ohio's general revenue fund tax revenues were below estimates by 0.7% -- costing the state \$75.3 million and forcing a delay in a 4.25 percent income tax rate reduction.

How Ohio's officials handle the crisis could make or break the state's economic future, say nervous observers who think it's time to start tackling the issue now. "It's the biggest issue that we've ever faced in terms of growing our state," said Joe Roman, executive director of the Greater Cleveland Partnership.

Ohio, of course, is not alone in their fiscal calamity.

As of March 2010, 49 states faced budget deficits totaling \$174.1 billion. The problem is unsustainable spending, not the gap between revenues and expenditures. The recipe is almost always the same: spending money you don't have on projects you really do not need. States and cities find this easy to do, at first, because of federal grants. But as the Mercatus Center at George Mason University reported, temporary spending is never temporary. When federal dollars go away, the programs stick and states or cities must pay for them.

In charting this economic course, cities and states are following the federal government's poor fiscal lead. According to OMB estimates, the federal deficit will

reach \$1.47 TRILLION dollars this year – 10 percent of the entire economy. That is roughly \$43,000 per American.

Our founding fathers considered our states the “laboratories for democracy.” They have now become our laboratories for deficit discovery – not refusing one federal dime in a principled stance AGAINST deficit reduction but, instead, spending like there is no tomorrow.

There is a tomorrow and it already is very cloudy.

States are entering their third fiscal year of a sustained economic and revenue contraction. Tax revenues have been declining since the first quarter of 2009 and are likely to continue their slide through 2012. Between FY 2009 and FY 2012 state budget deficits will total \$300 billion in the states over the next three years. In FY 2011, states face a cumulative budget gap of \$89 billion. Federal stimulus funds will be largely exhausted in the coming fiscal year with state source revenues unlikely to return to their pre- recession levels.

Americans are starting to understand that the rapid rise in federal spending and the associated increase in federal deficits is a matter of great concern. More than a decade of irresponsible fiscal policy has created an unsustainable, uncertain fiscal situation for the United States. The longer we delay serious consideration of meaningful solutions, the larger the problem will become.

It is now time for governments to get their fiscal houses in order. For years governments have been promising more than they can deliver and delivering more than they can afford. That has to end. You can't spend what you don't have and if you do, you are in trouble. We need responsible government now.

