



Associated Press, July 6, 2008

2008 will test the wisdom of Pa. 's budget strategy

By Marc Levy

HARRISBURG Pa. — When Gov. Ed Rendell floated his budget proposal in February, Pennsylvania's economic forecasting consultant said the slack economy would rebound in the second half of 2008.

Then the firm, Global Insight, grew more pessimistic as the economy worsened and issued another opinion to its client. It said things might begin turning around in the first half of 2009.

"I'm not going to tell you that we are absolutely certain that things won't get worse," Michael Masch, the chief budget adviser to Gov. Ed Rendell, said Thursday. "The best advice we can purchase is telling us they're not going to get dramatically worse, based on the what the smartest people in America who study this stuff are telling them."

Such are the vagaries of trying to predict how the economy will behave, and how the state should prepare a spending strategy when it counts on tax revenues that can stall in economic quicksand.

On Friday, the state Legislature approved a \$28.3 billion budget, capping a week in which the economy looked increasingly bleak: The stock market weakened considerably and the government reported that U.S. employers have now slashed nearly a half million jobs this year.

Amid worries in some Senate offices that Pennsylvania is headed for a deficit year, legislators approved a budget with a 4 percent spending increase. They raised no broad-based taxes or fees, but are relying on one-time budget maneuvers to prop up spending.

Two-thirds of the \$1 billion that Rendell and legislators added to the budget went to the Depart-

ment of Public Welfare, which administers services for the poor, elderly, disabled and neglected. The other third went to public schools and charter schools, as Democrats pressed to close an education spending gap identified by a recent legislative study.

The Legislature also approved billions in borrowing, with proponents arguing that interest rates are low and commodities are only rising in price. Besides, the badly needed spending on bridges, water and sewer systems, local redevelopment projects and alternative energy ventures will inject life into the economy, they said.

For now, Pennsylvania seems to be escaping the worst of the rough economy.

The Keystone State registered a small surplus at the close of the just-ended fiscal year, while numerous other states struggled with deficits. Foreclosures are relatively muted, May's unemployment figure was lower than the national rate and, although hiring is stagnant, the nation's job losses are occurring elsewhere.

Problem is, the state's biggest sources of revenue are tanking, meaning that the gap between Pennsylvania's newly approved spending figure and its tax collections could be widening.

And conventional wisdom says that using one-time cash grabs such as scrapping a \$138 million statutory transfer of money into the state's "rainy day" budgetary reserve simply delays a need to cut spending or raise taxes to balance the budget.

It's also questionable whether the budget approved Friday accounts for the lousy economic signs of recent days and weeks.

"It's difficult for any forecaster ... to keep up with this kind of news," said Donald Boyd, senior fellow at the Rockefeller Institute of Government of the State University of New York, in Albany.

“If you were to kind of look at economic forecasts over time, you’d see that very few people got it right over six months ago.”

If the economy rebounds in early 2009, as many analysts predict it will, the state’s budget reserves should manage to fill a deficit, Senate budget negotiators said.

Thus far, Rendell and legislators credit their fiscal responsibility for keeping Pennsylvania out of the deficits that have plagued many other states.

But it seems clear that this year not last will be the real test: A Federal Reserve economic index based on labor market conditions, such as payroll and wages, shows Pennsylvania badly lagging the country in 2008.

“It’s a hugely broad measure of the economy,” said Boyd, “and when that does poorly, it’s not good.”