

Guest column / Michael Busler / Budget fights call for new look at government's role

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This year, 2011, will probably be remembered as the year of the government budget battles. While it seems that almost every year budgets are difficult to pass, 2011 will likely see battles seldom raged before. And the battles will occur at every level from local to state to federal.

At the federal level, where a balanced budget is not required, the battle will concern how much to reduce the deficit and how to do it. Almost all Americans recognize that an annual deficit of \$1.6 trillion is not only unsustainable but counterproductive to a long-term healthy economy. The battles will be fierce and will test Americans definitions for the role of government and how much of a safety net is necessary. Entitlement programs such as Social Security, Medicare and Medicaid will have to be re-evaluated on a cost/benefit type basis. This will lead to spirited arguments on social responsibility and will question our definition of fairness.

One side will argue that we have a responsibility to ensure that all Americans not only have their basic survival guaranteed but also that they have access to a certain quality of life that includes a basic education, a minimum income and at least some health care coverage. The other side will argue that they are severely overtaxed and while they generally support a minimum safety net, reducing the deficit without raising taxes is their top priority. That means reductions in spending must be accomplished in all areas of government and are justified because giving people handouts just results in a greater demand for more handouts.

The recently signed federal government budget deal for fiscal 2011 did show how tough these battles will be. In the next month or so, the fight will intensify as the debt-ceiling issue and next year's budget are debated. In the end, we are likely to have a clearer definition for the role of government in the future.

On the state level, and particularly here in New Jersey,

the battle could get ugly. Gov. Chris Christie has taken a very firm position on the budget, which the law requires to be in balance annually. Since tax revenues are relatively stagnant and since he refuses to raise any taxes, spending will again have to be cut. The cuts will be in addition to the severe cuts made last year.

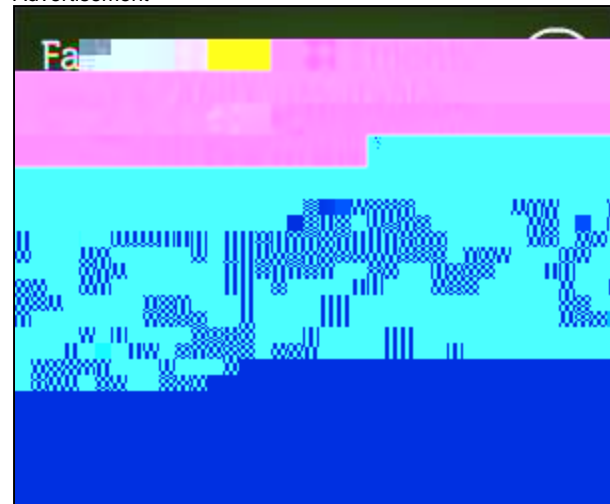
Christie says that since government is a labor-intensive operation the real way to balance the budget is to reduce labor cost. As such, he wants the workers to give up some of their negotiating privileges and reduce, or at least hold steady, their wages. The workers argue that they have already given in to a wage freeze and furlough days in previous budgets and are entitled to keep the privileges that they have earned. This battle is likely to get very ugly.

Then there is the local level. In New Jersey large reductions in state aid to municipalities coupled with declining property-tax revenue due to falling real estate values have caused serious problems. Add to this a state-imposed cap on their ability to raise taxes, along with their citizens already feeling overtaxed, and the problem becomes severe. The choice usually comes down to freezing (maybe even reducing) wages or laying off municipal workers. Either way a battle will be there.

Is there a way out of this?

Fortunately there is. The solution lies in determining the definition of fairness. We first have to recognize that in our system a person is paid according to the value of his or her output. And we generally deem this to be fair. While the determination may be difficult in some instances, it is usually fairly easy to

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see when people are being paid more than their contribution suggests that they should be paid. That's not fair.

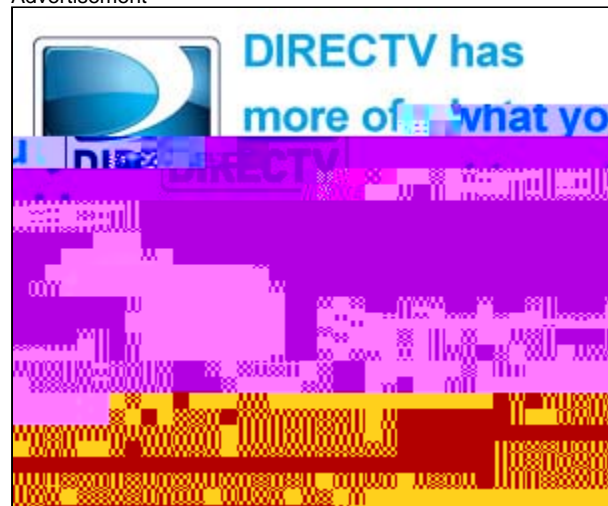
The second part of the solution is to determine the definition for the role of government. Usually we say that government should provide public goods like defense of the country, a legal system and education through high school. But we need a clear definition for what constitutes a public good. Is health care a public good?

The other function of government is to redistribute income away from those who have earned it and give it to those who, for whatever reason, have not earned it. We need a consensus on how much of this should be done.

In the meantime get ready for some severe budget battles.

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