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Planning Ahead for 2010

Since the end of the legislative session, Governor Markell has touted his “balanced” approach to reach a budget compromise for the fiscal 2010 budget.

In a weekly email he stated the following in summarizing his recent trip to a National Governors Association meeting,

“I was fortunate to attend the convention as Governor of a state with a balanced budget. There were a handful of Governors that were not able to make the conference because they were still working hard on fixing their budget woes. Having discussed these issues with other governors, **I am convinced, more than ever, that Delaware's fiscally responsible approach to our budget challenges will serve us well in the future.**” (emphasis added)

He continued, “Back at home, getting the economy going again and creating jobs is Job #1 and I am hopeful that working with this committee will provide economic development opportunities here in Delaware.”

Indeed the Governor advocated for many positive steps and programs that will benefit the state. These include his following through on the government performance reviews he implemented when he took office as well as creating the Limited Investment for Financial Traction program (LIFT).

However, there is also much to criticize when reflecting on what transpired during the waning days of the legislative session.

Most notably, the budget was balanced with over \$200 million in tax and fee increases. This is the wrong way to jump start an economy. For proof, we only need review comments made by the Chair of President Obama's Council of Economic Advisors, Christina Romer from a report released in March, 2007. The report concluded that each dollar increase in taxes reduces private spending by three dollars (*The Macroeconomic Effects of Tax Changes: Estimates Based on a new Measure of Fiscal Shocks*, by Christina D. and David H. Romer).

The public should be clued into this fact as well as the point that the budget was balanced in large part because of the \$218 million in stimulus funding received from the federal government. These funds represent a one-time infusion to help states balance their respective budget. Because American Recovery and Reinvestment Act funds (ARRA) played such a significant role in balancing this year's budget, the structural problems plaguing the state budget are masked – and are instead punted into future years.

The facade continues in that the expected \$55 million in new revenue from the legalization of sports betting and expansion of gaming to include table games is likely inflated (more so now that the rules governing table games will not be decided until even later in 2009). Given the nature of the economy and the continued cannibalization of Delaware's gaming revenues by Maryland and Pennsylvania, gambling revenues decline and the state will turn to other revenue sources. Better that these revenues come from an expanding economy rather than additional tax increases.

Bottom line: the public needs to be made aware of the problems that still fester in the state's structural deficiencies – next year will be a bigger disaster and the steps taken to balance the budget are not steps that help achieve the “#1 Job” of creating jobs.

The Caesar Rodney Institute is a 501(c)(3) non-partisan research and educational organization and is committed to being a catalyst for improved performance, accountability, and efficiency in Delaware government.