

Belt-Tightening Is Not a Crisis

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Unlike the federal government, state governments are generally required to balance their budgets every year. That is a good thing, but it does require state policymakers to make difficult budget trade-offs, especially when the economy is poor.

Under Gov. Rick Perry, state spending jumped 69 percent from 2000-01 to 2008-09.

As in other states, the recession hit the Texas budget. A [new report from the Texas comptroller](#) shows that tax revenues fell 9 percent in the current (2010-11) biennium budget — but an influx of federal “stimulus” funds means total revenues will be up 3.5 percent.

As the stimulus funds peter out in coming years some claim Texas will face a giant budget gap of up to \$27 billion. But the comptroller’s new data projects that tax revenues will grow 7 percent in the coming cycle, and overall state revenues will remain essentially flat.

A flat budget is not a crisis. During recessions, just about every family and business has to trim their budget, so why not governments? Indeed, being occasionally forced to cut the least useful spending is a much-needed exercise for private and public organizations alike.

Under Gov. Rick Perry, the Texas government feasted before its current recession-induced diet. Total state spending jumped 69 percent from the 2000-01 budget to the 2008-09 budget. So while the budget is flat now, it’s after a large run-up.

Texas and many other states are said to still have budget “shortfalls” going forward. But partly these shortfalls just reflect bad forecasting. If a state plans on a 5 percent increase in revenues and spending next year, but revenues come in at a two percent increase, they are said to have a “shortfall” of three percent. The problem is that the state should have been more conservative in its estimates.

If there is a real fiscal crisis in the states, it is not due to the economic slowdown. Instead, it is the huge unfunded obligations that state and local governments have built up in their pension and retiree health plans that will take major changes to fix. Balancing their current budgets — that’s easy. Reforming employee compensation plans — that’s the real heavy lifting.