6-9-2016

An economist's argument against calling a special session

Louis D. Johnston
College of Saint Benedict/Saint John's University, ljohnston@csbsju.edu

Recommended Citation

Johnston, L.D. 2016. "An economist's argument against calling a special session." *MinnPost*, June 9, 2016. https://www.minnpost.com/macro-micro-minnesota/2016/06/economist-s-argument-against-calling-special-session.

MINNPOST

An economist's argument against calling a special session

By Louis D. Johnston | 06/09/16

Original MinnPost photo by Briana Bierschbach

"Session implodes at midnight over roads and public works"

That headline from the Star Tribune pretty much sums up the most important parts of the legislative session from an economics perspective. The Legislature made no progress on long-run issues such as infrastructure spending and pre-K education and probably worsened the medium-term budget outlook.

But as an economist, I'm especially disturbed by the tax and spending bills passed by both chambers. Minnesota's budget outlook is cloudy and these bills add more uncertainty to the situation. My advice is that the governor and the legislature stand pat and forget about meeting again this year.

Here's my reasoning. Start with the current budget forecast for FY 2018-2019:

Planning estimates, FY2018–19 General Fund Budget

Forecast comparison. Dollar amounts in millions.

	November 2015 forecast	February 2016 forecast	$ change	% change
Forecast revenues	$46,600	$45,703	$(898)	(1.9)%
Projected spending	44,555	44,519	(36)	(0.1)
Difference	**$2,045**	**$1,184**	**$(861)**	
Estimated inflation (CPI) applied to projected spending	*$1,694*	*$1,742*	*$48*	

Source: Minnesota Management and Budget

According to these data, we can expect a $1.2 billion surplus for FY 2018-2019, a bit over half of what Minnesota Management and Budget (MMB) thought it would be in November 2015. Most economists see economic growth of 2 percent or less, so it's likely this figure will shrink further but let's begin with this.

[Note: I say "according to these data" because MMB is quite careful about *not* using these data to make a projection about the surplus/deficit. In their words, "the planning estimates are not intended to predict surpluses or deficits several years into the future (p. 44)." I understand where they are coming from as they don't want these data to constitute an official forecast. Short version: this isn't MMB's *official* forecast, so don't blame them for how I use their numbers.]

Gov. Dayton signed the spending bill. Fortunately, this only affects the current fiscal year by about $180 million. It's likely that the state will still run a surplus, but given the slowdown in state-level and national economic growth there's a chance that we'll be cutting it close come June 30, 2017. Further, I'm doubtful that those who receive these one-time funds will accept this situation. No matter which party controls the legislature in 2017, there will be pressure for extensions and expansions in 2018-2019, thus reducing projected future surpluses.

The governor pocket-vetoed the tax bill because of a misplaced conjunction and a missing tax exemption. I'll let the politicos debate the pros and cons of that move from an electoral perspective, but as an economist I'm happy with the result.

The question an economist always asks is: what are the benefits of a given set of changes in tax policy compared to the costs incurred? On the benefit side, the tax bill contained a variety of good things such as property tax relief, tax credits for student loans, and expansions of the working family and childcare tax credits.

However, the headline cost of these goodies is to reduce forecasted revenues in 2017-2018 by about $550 million. This would have brought the surplus down to about $650 million.

Now, let's go back to the table above and notice the line in italics. This tells us that if spending simply increases at an inflation rate of 2.5 percent, then the projected spending estimate is low by $1.7 billion. Inflation has been running below that, but knowing about the one-time spending increases and their potential effects, let's use that as an upper bound on spending increases.

The result is that when the February 2017 forecast arrives it will likely show a deficit for FY 2018-2019, perhaps one in the range of $1 billion. Even without the tax cuts, we could be facing a potential deficit of $500 million or so.

This is why I'm glad that Governor Dayton vetoed the tax bill and urge that he not call a special session to pass a revised version. Rather than using the projected surplus for 2015-2016 as a down payment on permanent tax cuts, we should put aside whatever shows up as a surplus in anticipation of projected deficits in the coming biennium.

Keeping state spending and taxation at its current level or less versus allowing each to grow is the central issue that separates Republicans and Democrats. This is the kind of impasse that can only be decided by the voters — and perhaps not even by them given our current legislative districts. The prudent course is to wait until next year for a legislative session and, in the meantime, let the voters have their say about our state's fiscal course.

ABOUT THE AUTHOR:

Louis D. Johnston
Louis Johnston writes Macro, Micro, Minnesota for MinnPost, reporting on economic developments in the news and what those developments mean to Minnesota. He is Joseph P. Farry professor in the Eugene J. McCarthy Center for Public Policy and Civic Engagement at Saint John's University. He is also a professor of economics at the university.