



Sunday, January 25, 2009

Economists hope huge spending package offsets cutbacks in state budget

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TALLAHASSEE — The federal government is preparing a historic economic recovery program that will pour billions of dollars into Florida to help revive the economy.

But at the same time, Florida lawmakers have cut more than \$8 billion from state spending over the last two years, with more cuts likely when they meet in March to write a new state budget.

Some critics say the efforts are at cross purposes, with the state cuts worsening Florida's recession. Others argue that the federal money will help offset the state's cuts, help stabilize the economy and put some of Florida's 752,000 unemployed residents back to work.

Randall Holcombe, an economics professor at Florida State University, said the scope of the federal recovery efforts dwarf any of the actions taken by the state.

"I don't think there is very much we can do here in Tallahassee to stimulate the state's economy," Holcombe said. "Anything we do would be a drop in the bucket."

Holcombe said the federal aid already includes an \$825 billion economic recovery bill pending in Congress, a \$700 billion rescue plan for the financial industry and the Federal Reserve's monetary policies to revive the economy.

"It's unreasonable to look at the state budget and think we can do anything in comparison to the trillion dollars that the federal government is doing," Holcombe said.

Sean Snaith, an economist and director of the Institute for Economic Competitiveness at the University of Central Florida, said the actions taken by both the state and federal governments are reasonable responses given the economic problems.

Snaith said one of the reasons the state is struggling with its budget is because Florida's tax structure, which relies heavily on the sales tax and property taxes, is prone to the "boom and bust" cycles in the economy.

"I hope in some sense some good can come out of this, some recognition that we need to think a little more deeply about tax policy and about what our objectives are in terms of the state, whether it's for education, infrastructure or public safety and so forth," he said.

Major business lobbyists said they welcome the federal support. "Make it as big as you can and send it as quick as you can," said Barney Bishop, president of Associated Industries of Florida. "It's not going to mean that we still don't have to cut, but every penny in mitigates how much of a deficit we have in the future."

Bishop said he hopes the recovery plan offsets some of the problems Florida has had historically with federal aid, with the state generally described as a "donor" state, meaning the federal government takes more money out of Florida than it returns in financial support.

Bishop said provisions like the House recovery bill, which dramatically increases, at least temporarily, the federal support for Medicaid by \$4 billion, will help in that regard.

He also said the business community would like see a good portion of the federal help in the form of spending for new roads, bridges, school buildings and other infrastructure. "That's tremendously important and puts people back to work," he said.

But Florida road builders and some business groups said the federal recovery plans now pending in Congress appear to be falling short at least in terms of the potential for new infrastructure projects in the state.

"Where's the beef?" asked Doug Callaway, a lobbyist for Floridians for Better Transportation, a coalition that includes the road builders, airports, ports and other business groups.

Callaway noted the state Department of Transportation has prepared a list of potential projects totaling \$7 billion that could be started quickly and provide some economic relief if the federal government provides the funding.

Each \$1 billion of transportation construction yields about 28,000 jobs.

The initial bill from the House shows only \$1.5 billion in road and bridge construction funds heading to Florida.

"Simply put, in Florida's case, that's leaving about \$6 billion in unrealized economic stimulus potential on the table," Callaway said. "When we're in the worst economic condition since the Great Depression, does that make sense?"

Another move being considered by state leaders could also have an impact on the economic recovery — raising taxes.

While they have ruled out a major tax increase, legislative leaders have signaled that they will look at some measures, including a hike in the cigarette tax and the possible repeal of some sales tax exemptions as a way to soften the cuts in the \$65 billion state budget.

Holcombe, the FSU economist, said it would be a bad move.

"I think it's counterproductive," he said.

Holcombe said any tax increase would be taking money out of the private sector, which has lost jobs, and give it to the public sector, which has not yet felt as steep a decline in workers.

"It's a bad time for tax increases," he said. "It's not unprecedented," said Snaith, the UCF economist.

While acknowledging that most argue tax cuts stimulate an economic recovery while tax increases can slow it down, Snaith said: "In terms of having to balance the budget, it's sometimes necessary."

He also argued that any tax increase has to be put into the context of Florida's low overall tax burden when compared to other states.

"I don't think it's going to be a devastating impact on the economy," Snaith said. "And over time, it might strengthen us if it provides additional revenue to improve education, to improve infrastructure and provide the funds to go out and try to attract new businesses."