

NJBIA

REPORT TO MEMBERS *by Philip Kirschner, President*

Finally, a Governor Cutting Spending Rather Than Raising Taxes

Year after year, the state has balanced the budget by raising taxes and using one-shot budget gimmicks that invariably make the problem worse the following year. Now, finally, New Jersey has a governor who gets it. Governor Chris Christie's first budget tackles New Jersey's fiscal problems head on, and does it without raising taxes.

Christie's proposed budget offers the single best chance we have to finally get our state's finances under control. Christie's plan would cut spending a whopping \$10.7 billion from next year's mandated spending. What's more, he is forcing school districts and municipalities to come to grips with their generous pay increases, benefits and pensions.

But if the plan is to succeed, the Legislature has to resist the temptation to employ the one-shot budget gimmicks and economy-killing revenue raisers—including the imposition of a surcharge on incomes over \$400,000—which got us in this mess in the first place.

There was a time when New Jersey enjoyed predictable budget surpluses and made sensible spending plans. Then state officials started raiding special funds set aside for unemployment and disability insurance benefits. They started raising sales, income and business taxes, and nickel and diming people to death with new and higher fees. They sold toll roads. They've tried to borrow their way to a balanced budget. All of these actions have allowed the government to consistently spend more than it makes, resulting in bigger

budget deficits and the fiscal mess we find ourselves in today.

Painful as they are, spending cuts now will position New Jersey's economy to grow and allow the state to make sustainable investments in the future. But the Legislature has to agree to this approach. Over the next two months, legislators will craft a spending plan that must be enacted by July 1. Special interest groups like public employee unions are howling and calling on legislators to "raise taxes on the wealthy," which in New Jersey is defined as anyone making more than \$400,000 per year.

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This is a huge mistake.

Increasing the income tax on high-income earners would in fact hurt many small businesses, which pay income taxes instead of corporate taxes via partnerships, LLCs, and S corporations. Raising taxes on this group leaves them with less money to reinvest in their companies, putting them at a disadvantage with their competitors in neighboring states and eroding the state's economic recovery.

New Jersey residents and businesses already pay the highest taxes in the nation. The national Tax Foundation recently reported that New Jerseyans pay an average of 11.8 percent of their incomes to state and local taxes, the most of any state's residents (and that was before last year's income tax increase). Certainly state and local governments should be able to make do with the revenues that come from the nation's highest taxes!

Finally, tax increases don't work. The state has raised taxes practically every year this decade, and our financial situation worsens every year. In fact, the very tax increases the special interests are calling for were put into place in 2009 (they automatically expired the first of the year). Did it work? No, the budget deficit is bigger than ever.

New Jersey finally has a governor who is willing to make the tough decisions and cut spending. The Legislature needs to agree that this is the best approach. **NJB**

