

NJBIA

AT ISSUE *By Melanie Willoughby, Senior Vice President*

Spending Cuts Key to the Economy

Let's give credit where credit is due. Governor Corzine and legislators from both parties are to be applauded for their quick and effective response to the economic crisis last fall. In a matter of weeks, they put aside partisan differences and worked together to enact meaningful laws to help stimulate the state economy. Now comes the hard part—preventing a looming budget crisis from undoing much of their good work.

We will find out how Governor Jon Corzine plans to deal with a projected \$4-\$5 billion budget deficit (the revenue shortfall for the current budget plus the drop in revenue for the next fiscal year) when he gives his budget address in March. Corzine has pledged to cut spending to match declining revenues, but such a large cut is not going to be easy. Add in the fact that this is a reelection year for Corzine and members of the Assembly, and the pressure to avoid budget cuts will be tremendous. This could lead to tax increases that would only add to the state's economic woes.

Tax increases would also undo much of their recent accomplishments. In 2008, the Governor and the Legislature made a down payment on fiscal responsibility by actually cutting spending in real terms and setting aside \$650 million to pay down some of the state's oppressive debt. They also added funds to the ailing Unemployment Insurance (UI) fund to avoid an automatic payroll tax increase. When the balance in the fund drops below a certain level, taxes would automatically increase by about \$350 million on all employers to make sure there is enough money to pay unemployment benefits. It also is a small repayment of the \$4.7 billion in UI taxes that were diverted from the fund by past governors.

The Governor and the Legislature also reformed the state's business tax system by extending net-operating-loss deductions to 20 years from seven years, eliminating the throw-out rule that taxed sales that had nothing to do with New Jersey, and getting rid of the regular-place-of-business requirement so that small businesses can apportion their taxes between states. These measures will not only save businesses \$300 million per year, which certainly helps in the current economic conditions, but they will also improve the state's business climate in

the long-term. Also enacted was a new loan-guarantee program managed by the NJ Economic Development Authority to help employers cope with the credit crunch.

But Corzine and legislators have to cut spending to get the full effect of this economic stimulus and continue to improve New Jersey's business climate. If New



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Jersey returns to its same old ways—raising taxes and increasing borrowing—much of the good work that was done in the fall could well be negated. The Governor appears to understand this. In early January, he proposed several measures to close a \$2.1 billion budget deficit in the current year's spending plan, including \$812 million in current-year spending cuts. Tax increases were not mentioned.

Rising unemployment will continue to drain the unemployment fund, requiring another infusion of revenues to avoid a huge tax hike on employers. In other words, a UI tax hike would wipe out most of the benefits of the tax reform Corzine and legislators worked so hard to achieve. State spending must be brought under control if the state is to have the monies necessary to avoid this disastrous tax hike.

This is just one of the spending issues. How we meet the budget challenges will go a long way to determining how our private-sector economy will fare in the future. **NJB**