

Been there, done that

House finance chair, former governor reflect on previous budget problem

BY LEE ANN SCHUTZ

Call it déjà Vu for Rep. Lyndon Carlson Sr. The Crystal DFLer was serving his fifth term in the House during the 1981-1982 biennium when the shoe dropped on the economy, sending Minnesota's unemployment numbers and interest rates skyrocketing, and the farm economy and state's budget into the tank.

With the state now facing a projected \$4.85 billion biennial deficit and increasing unemployment, for Carlson it's like history repeating itself.

As a member of the House Appropriations Committee and chair of its education division in 1981, he was in the thick of the discussion to balance the \$8.2 billion biennial General Fund budget that was sliding into a \$778 million hole.

Today, Carlson chairs the 2009 counterpart to the appropriations committee — the House Finance Committee, where any bill with fiscal implications (except for taxes) flows through, thus putting him, once again, smack in the middle of budget discussions. He is open to every piece of advice, but says the past can be a great teacher.

"When thinking about the deficit, I have a tendency to look back to what it took to solve various budgetary problems. You know the old saying that history has a tendency to repeat itself. The fiscal difficulties that we are currently facing

rank at least right up there with the early 80s in significance," Carlson said.

Some similarities can be drawn between the past and present:

- the state's prior years of financial growth and stability evaporated quickly;

- unemployment numbers began to climb in 1981 before reaching an historic high of nearly 200,000 in 1983; and
- Democrats controlled the House and Senate, and Republican Gov. Al Quie was adamantly against tax increases to solve the budget woes.

Looking back for solutions

Carlson said he is thinking a lot about his 1981-82 experience — especially the three-pronged approach it took to solve the budget problem, and the six special sessions and two regular sessions it took to do it.

"If we were to look at the early 80s, and I'm not saying that will be the model this time, it was a three-legged stool; there were shifts, mainly in K-12 funding, there were increases

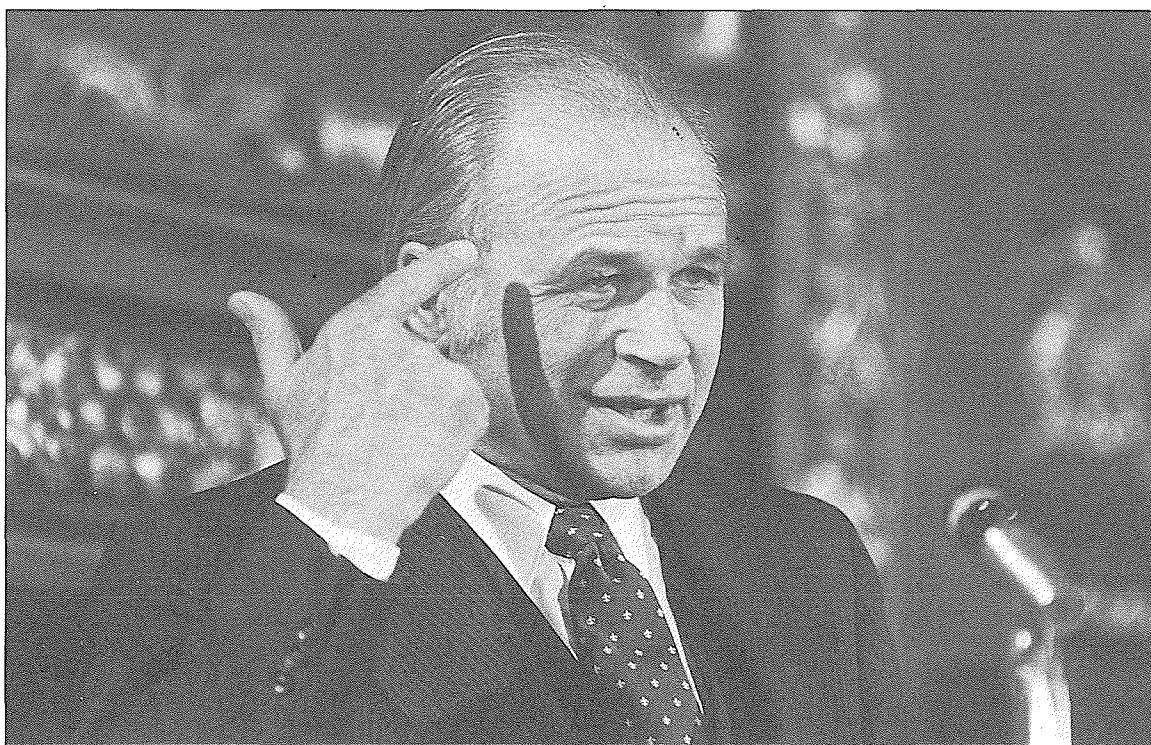


PHOTO BY TOM OLMSCHIED

"The gun was to your head. You finally have to decide what you're going to do," Gov. Al Quie said in 1982 as he allowed a budget-balancing bill to become law without his signature. The law erased a more than \$700 million budget deficit through tax increases and spending cuts.

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— Rep. Lyndon Carlson Sr.
House Finance
Committee chairman

in revenue and there were budget reductions," Carlson said.

Revenue-raising was the key to balancing the budget back then, but it also ended any hopes Quie had for re-election.

Quie had repeatedly stated that tax increases would not be part of any budget-balancing solution, but after the 1981 November Forecast, it was apparent that cuts and shifts weren't going to be enough. Quie realized that tax increases — a move he knew would be political suicide — were needed to stave off further unacceptable cuts.

"It was the biggest battle I had inside of me," Quie said in a recent interview.

"It was my calling to be in politics; it was the toughest thing for me to do, to not run. But the state was more important to me. I knew taxes had to be increased to solve the problem."

By taking himself out of the discussion of raising taxes and the political fallout it would cause, legislators could focus on solving the problem through deferring payments, cutting expenditures and temporarily raising the sales tax and income tax, he said.

Advice for today

Quie advises legislators to stay true to their principles as they work to resolve today's budget problems — for him those are funding education and infrastructure.

"Educating kids is a long process — preschool through their early 20s. Funding education is a long-term investment in the state's future." As for infrastructure, he said the state has the primary responsibility for maintaining our roads and bridges — another long-term investment that he said pays dividends.

Quie said that before the 1981 recession, Minnesota, because of its diversified economy, seemed insulated from any national economic downturn. But diversity proved no match for that recession, especially when the state was hit hard in farming and mining, and a policy change had left the state with little reserves.

"No one was prepared for a recession that

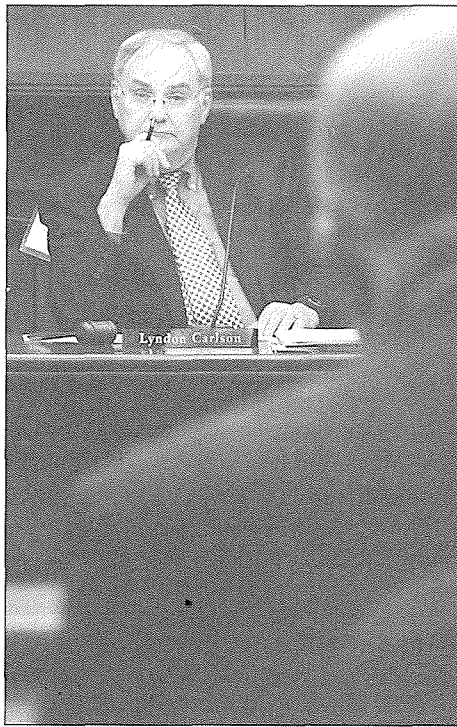


PHOTO BY TOM OLMSCHIED

Rep. Lyndon Carlson, chairman of the House Finance Committee, listens as Tom Hanson, commissioner of Minnesota Management and Budget, presents Gov. Tim Pawlenty's 2010-2011 biennial budget proposal Jan. 28 to a joint hearing of the House Finance and Ways and Means committees.

went on and on," Quie said. "I pushed my finance people to look further into the future." It seemed as though the problem was solved

by one special session, but things just kept getting worse, he said.

This experience is not lost on Carlson.

If the February Forecast — expected to be released in the month's final week — for the state budget is as dire as expected, Carlson recommends acting quickly to solve the problem. "One of the big problems we

encountered in the 80s is that we lost time, thereby limiting options. You can't raise enough revenue in a short amount of time to offset the problem; you get down to the last few months, and you can't necessarily downsize your workforce, because you don't have enough savings to balance the budget," he said.

Looking forward

Carlson is optimistic this session can end on time, but he has no illusions of it being an easy process.

Special circumstance, special sessions

During the 1981-1982 biennium, six special sessions were held to deal with the state's budget shortfall.

June 6, 1981

Four bills were enacted, including \$875 million in taxes, payment shifts and collection speedups, and expenditures of \$71.2 million for elementary and secondary education and Medical Assistance.

July 1-2, 1981

This session was called because of cash flow problems resulting from revenue shortfalls. Under law at the time, the state could not borrow more than \$100 million to avoid cash flow problems — a problem that exceeded that amount. A new law raised the limit to \$360 million.

Dec. 1, 1981-Jan. 18, 1982

This session was necessitated by an estimated revenue shortfall of \$869 million, causing a projected deficit of \$768 million. The budget was balanced with a package of tax increases, appropriation cuts, a payment shift and a tax collection speedup. At that time, a 7 percent temporary surtax on individual income tax was enacted.

March 30, 1982

This session was called to respond to changes in the federal unemployment compensation law. The Legislature appropriated money to pay interest on federal government loans used to pay unemployment compensation benefits.

July 9, 1982

The Legislature voted to release money from the Northeastern Minnesota Economic Protection Trust to help deal with the unusually high unemployment in northeastern Minnesota.

Dec. 7-10, 1982

Facing another revenue shortfall, this special session included a package of \$342 million in appropriation cuts and spending. The earlier enacted 7 percent tax surtax was increased to 10 percent and an earlier temporary sales tax increase was raised from 4 to 5 percent.

Information from the Minnesota Legislative Reference Library and Minnesota Senate Fiscal Review 1981-1984

"Some members will be opposed to accounting shifts and some will be opposed to any revenue increases. Those of us close to the budget are saying we have to keep all tools on the table, and hopefully reach consensus — and hopefully bipartisan consensus."

He would caution members to "remain flexible — we have some very difficult decisions to make."