OPINION EXCHANGE

Counterpoint: No state budget wizardry can wish inflation away

It belongs on both the revenue and spending sides of state forecasts, and the current budget debate at the State Capitol shows why.

By John Gunyou, Peggy Ingison, Jay Kiedrowski, Tom Triplett and Pamela Wheelock

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The Star Tribune Editorial Board was right, in "Economic forecast signals caution" (March 3), to call for an end to dishonest state budget forecasts.

As former Minnesota finance commissioners who served in the administrations of DFL, Republican and Independence Party governors, we strongly disagree with the March 10 editorial counterpoint (http://www.startribune.com/editorial-counterpoint-why-inflation-doesn-t-belong-in-spending-forecasts/506905862/) by Peter Hutchinson, who argued that projected revenue should include inflation, but that projected spending should not.

This specious "take government off automatic pilot" premise might sound good in theory, but it is wholly inappropriate, and even counterproductive, in the real world of state budgeting.

Nothing automatically happens just because it is in the state budget forecast. The forecast simply serves as a reference document for the elected officials who are responsible for making appropriation decisions.

It is naive to think that arbitrarily ignoring inflation pressures in the forecast will somehow control state spending. In fact, such a distorted picture of the upcoming budget period actually impairs the ability of the governor and Legislature to make responsible, long-term financial decisions. Further, the lack of accurate data on future financial conditions undermines public accountability for those decisions.

Developing the state budget involves two steps. The first step is preparing an objective baseline forecast of what will happen if nothing changes. Professionals estimate what revenue will be available and what it will cost to pay for current programs in the next budget.

This baseline forecast of either a future surplus or deficit provides a critical starting point for the governor and Legislature to subsequently reach an informed consensus about possible changes in their revenue and spending priorities for the next budget. That's the second step.

The revenue forecast is developed by projecting changes in such economic factors as income and prices, which generate income and sales taxes. No changes in tax rates are included in the baseline forecast, because that's up to the governor and Legislature to decide upon during their deliberations.

Similarly, spending forecasts reflect the future costs of existing programs before any changes that might be agreed upon by the governor and Legislature. Just as family budget planning considers both expected wage and heating cost increases, including inflation, the state budget forecast cannot pretend that forest rangers are not going to get raises or that the price of asphalt will not change. Whether or not inflation costs are fully funded in the subsequent budget is a separate policy question for the governor and Legislature.

Unfortunately, Minnesota decided to politically meddle with the professional forecasting process in 2002. We are not aware of any other state that legally mandates that its budget forecast must count revenue inflation but ignore discretionary spending inflation.

Of course, that makes things look better than they actually are. The law enables both those who want to spend more and those who want to cut taxes to falsely claim that there are more than enough resources to do so without trade-offs.

Witness the current budget debate. Citing the state's official "billion-dollar surplus," special-interest groups, lobbyists, departments and individual legislators are now championing their favorite causes for more funding, or arguing against any need for increased taxes to fund new programs.

In truth, there is only enough projected revenue to pay for all the programs already in place. There is no surplus — unless something else is cut or taxes are raised. The official forecast glosses over that inconvenient reality.

Every year since 2003, Minnesota's Council of Economic Advisers has recommended that inflation be included in both spending and revenue projections. This independent panel of private-sector and academic experts cautions that "excluding inflation on spending is fundamentally misleading and inconsistent with sound business practices ... potentially leading legislators and the public to view the state's financial position more optimistically than the facts warrant."

The consequence of ignoring spending inflation was clearly illustrated when this disingenuous forecasting approach was first used. Incumbents claimed throughout the 1990 campaign season that "there is no budget problem." However, newly elected Gov. Arne Carlson actually inherited a deficit of more than $2 billion, with no concrete plans in the works to balance that huge gap between projected revenue and spending.

That's unacceptable. Sound, long-term financial discipline and political accountability begin with honest budget forecasts. It's time to end the charade.

The authors served as Minnesota finance commissioners: John Gunyou under Gov. Arne Carlson; Peggy Ingison under Gov. Tim Pawlenty; Jay Kiedrowski and Tom Triplett under Gov. Rudy Perpich; and Pamela Wheelock under Gov. Jesse Ventura.