

PRESIDENTIAL ADDRESS
101ST ANNUAL CONFERENCE ON TAXATION, PHILADELPHIA
LONG-RUN FISCAL BALANCE AND SUSTAINABILITY:
INTERGOVERNMENTAL PERSPECTIVE AND A COLLABORATIVE AGENDA
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This is a great moment and I have enjoyed my journey in this leadership position at the National Tax Association. Everyone has been so supportive of me and I am really thankful for that. The NTA made history last November when we met in Columbus, Ohio, where the first Association meeting was held one hundred years ago!

As a treasury official for the State of New Jersey, a state with close to \$33 billion dollars in appropriated budget for fiscal year 2009, I have found this flagship premier public finance organization to be an invaluable resource for my professional work in Trenton. In my brief remarks to follow I would like to share my thoughts on some future initiatives that will enhance the organization and its membership.

**FISCAL IMBALANCE TSUNAMI AND LONG TERM
FISCAL SUSTAINABILITY**

With each passing day, it is even more evident that we are facing an accelerating economic downturn due to a series of unprecedented shocks to the financial market. Since early September, these have included massive sale of Hedge funds, Lehman Brothers filing for bankruptcy, Wa Mu bank failure, the federal bailout of failed AIG,¹ etc. In addition, we have seen mounting job losses pushing the unemployment rate higher; declining home values; continuing financial and stock market turmoil; record low business and consumer confidence levels, and the credit crunch. No one seems to be immune to this historic financial meltdown and economic crisis in terms of job loss, lower income, fallen home values, and significant losses in their financial assets portfolio due to declining equity.

Tax and other government revenues are expected to fall sharply against rising spending pressures leading to serious fiscal stress through fiscal year 2010. According to a recent fiscal report by the Rockefeller Institute,² unlike the last recession

that started in 2001, states have nowhere to hide; income tax states will again be hard hit, with New York far worse than most; but this time sales tax states are expected to have trouble as well. Many state officials are revising their budget deficits up significantly. For instance, monthly revenue reports in New Jersey projected shortfall in revenues for the current fiscal year tripled between September and October 2008.³ You have already heard about the federal government deficit situation and warnings about the serious fiscal crisis facing the nation from general session and keynote luncheon speakers. I will now shift focus on the plight of state and local governments. State revenues have deteriorated sharply as a result of the serious economic slowdown and financial meltdown. According to the Center of Budget and Policy Priorities, 29 states are reported to have closed budget shortfalls totaling \$48 billion dollars in enacting their FY2009 budgets.⁴ New midyear shortfalls of \$24.3 billion have been reported in the budgets of at least 31 states and the District of Columbia. Nationwide, the projected state budget deficits in FY2010 are expected to add up to at least \$100 billion. The pain from the current downturn is also being felt globally and there is an immediate urgency to combat it. The recent G-20 meeting held in Washington, D.C. when leaders from around the world gathered to discuss the global financial crisis illustrates the point. The current downturn will tend to distract us from long-term fiscal imbalance and sustainability issues because of the need to focus on immediately jump-starting the economy. However, the way economic forces are unraveling this downturn will have serious long-term issues.

There will be an urgent need to refocus on long-term fiscal sustainability issues soon after addressing immediate economic and fiscal stimulus policy issues. For instance, in the immediate run many unemployment insurance funds could become insolvent due to pressure from rising jobless rates. In addition, there will be forced reallocation of budgets away from important priorities, such as infrastructure projects, with serious implications

* The views expressed are those of the author and do not necessarily represent the views of the New Jersey Department of Treasury, Division of Taxation, or the National Tax Association.

for the future. There will be pent-up construction demands and capital projects due to nonavailability of capital funds as state and local governments are being unable to issue bonds; and higher education, which is being axed currently, would have serious long-term implications as well. Any item that is either being postponed or cut is going to have to be revisited later. The one positive offset may relate to Social Security issues if people delay their retirement by working more years.

CALL FOR COLLABORATIVE AND COOPERATIVE FEDERALISM

Fiscal imbalance and long-term fiscal sustainability will be the key challenge of our time and it is important to recognize the intergovernmental nature of this problem. Here the focus is on fiscal sustainability in the context of fiscal federalism—fiscal imbalance issues with federal, state, and local governments. Technical measurement issues relating to fiscal sustainability, although important, are not being considered here.⁵ The thrust is to focus on the process of fiscal federalism and revisit intergovernmental cooperation among the federal government, 50 state governments, and 80,000+ local governmental units. One of the major goals of the special NTA Fiscal Sustainability Conference held in September 2008⁶ at the Urban Institute in Washington, D.C. was to introduce the state and local perspective in the context of national fiscal imbalance.

Fiscal sustainability is a daunting challenge facing all nations, all types of government, all sectors of the economy and down to individuals. The basic message is that you have to get all tiers of government on board to talk about some meaningful resolution to the problem. Strengthening intergovernmental systems through trust building and cooperation among stakeholders is essential to respond effectively to public needs.⁷ There is a serious need to revitalize the national dialogue on intergovernmental relations and it is critical to recognize the intergovernmental dynamics of the problem.

More than ever, it is important to understand that the national fiscal imbalance can't be resolved if subnational governments are out of sync. All types of governments have to come together to address the issue of long-term fiscal balance. This is a call for collaborative and cooperative federalism. We would need to approach the emerging policy issues

and options in a comprehensive manner, using an intergovernmental framework. It is important to get all sectors of government involved, including possibly, nongovernmental organizations or NGOs, recognizing their vital role as alternative sources of power and influence, checks and balances, in a society.⁸ We cannot afford to have a piecemeal approach because it is not going to work and this problem can't be addressed at the federal government level alone.

The focus should be on the process of federalism and intergovernmental collaboration and cooperation issues across all types of government – how, for instance, the intergovernmental dynamics will play out in coping with fiscal imbalance and sustainability when the mayors, governors, state and federal treasury officials and the congress are brought to the drawing board! We are facing a fiscal imbalance tsunami. All the branches of the government, including the citizens, must come together to first understand the underlying issues and determine what can or cannot be done, make the hard choices, and recognize policy trade offs to solve the problem. Mr. Walker⁹ and other panelists have already mentioned that sacrifices will have to be made and yes, it is time to recognize that and keep the citizenry involved well informed. It is important to engage all the entities in this deliberative process to come up with well debated solution options. Also, we need to revisit the basic questions that pertain to intergovernmental relations: the allocation of functions, assignment of revenue powers, transfers among governments, timing of revenues, and capacity to govern, what are the needs for the organizational, institutional, and human capital capacity requirements to insure a well-functioning government and intergovernmental relationships?¹⁰ Hopefully we will be able to come up with a solution that includes all aspects of intergovernmental relations with an understanding of assignments of functions and fiscal responsibility across all types of government and between the private and public sectors. It is important to recognize global fiscal responsibilities as well.

We are at an interesting cross road with an opportunity to make a change in the direction we are heading. This is very significant in the context of the historic election we just had. Perhaps it is time to think of reconstituting the erstwhile U.S. Advisory Commission on Intergovernmental Relations (ACIR)!¹¹ This would be my personal message to President-elect Obama, if I may, to consider

establishing a comprehensive Intergovernmental Relations Commission, similar to the ACIR, which served us well for 38 years.¹²

The ACIR was an independent, bipartisan intergovernmental agency established by Public Law 86-380 in 1959. The primary mission of the ACIR was to strengthen the American federal system and improve the ability of federal, state, and local governments to work together cooperatively, efficiently, and effectively.¹³ It facilitated the study of the structure of all types of governments and governmental interactions focusing on the intergovernmental relations. The significant vacuum created by the passage of this entity is still being felt. Over the years, many other excellent and reliable sources of intergovernmental knowledge have evolved, including research done by the Rockefeller Institute of Government, the Urban-Brookings Tax Policy Center, National Governor's Association, National Council of State Legislators, National Association of State Budget Officers, National Academy of Public Administration, State Fiscal Analysis Initiatives, National League of Cities, National Association of Counties, and the Federation of Tax Administrators. There is also increasing attention on intergovernmental fiscal issues at the National Tax Association conferences and in the *National Tax Journal*.

An important difference between any of these organizations and a formal intergovernmental commission such as ACIR is that the commission would include members and elected leaders from all three types of government; federal, state, and local and possibly nongovernmental groups. In other words, we are looking for an entity which would have legal authority and positive clout with a political will and capability to make a real difference. This needs to be further evaluated, we need feedback and the time to act is now. We need to ponder how we can contribute constructively and positively through a collaborative joint NTA Fiscal Sustainability Working Group network, within the guidelines of the Association.¹⁴ I urge all of you to reflect on this and think about the next steps to make a real difference regarding perhaps one of the most important fiscal policy challenges of this century!

CONCLUSION AND BEYOND

I believe that a positive thing about the toughest of times in our lives is the opportunity such situ-

ations present. They help us to rethink and grow from it. So it is time to think a fresh and turn a new page, make a new beginning with a determination to not make the past mistakes, especially, the avoidable ones!

I also believe that there is always light at the end of even the darkest tunnel. We are about to enter a new horizon and the association is well positioned with its tremendous expertise to make a real difference with the understanding of promoting sound fiscal policies. Long-run fiscal balance and sustainability, in terms of a well-coordinated and collaborative fiscal federal framework in the United States, along with a well-coordinated international public policy dialogue, is very important at this point in time. The NTA has an important role through possibly setting up special committees to focus on specific issues and do research and promote better understanding and help in good public policy making. It would help if the policy makers on the Hill took the time to understand how state and local budgets are made and what goes on to produce mandatory balanced budgets.¹⁵ Each and every building block must count, be accountable, and decision making at all levels must be transparent! It is time to have an objective intergovernmental entity such as the ACIR that will approach policy issues from an intergovernmental perspective in mind. It will be important to approach both perennial and emerging fiscal policy¹⁶ issues with a fresh intergovernmental outlook to ultimately address the fiscal sustainability crisis we are facing. Well, the work has begun; we have a lot to look forward to. A new agenda is on the horizon!

A few quick points to the Association about building bridges and joint initiatives¹⁷ in 2008. The joint FTA-NTA initiative launched in September provided a great exchange between NTA's academic research expertise and FTA's institutional expertise of practitioners. State treasury officials have a lot of issues that need to be researched and followed up but they don't necessarily always have the time and resources to conduct a thorough study. This is where the NTA linkage is critical. By broadening the membership base to include more state and local officials would help the academic members to frame and focus on useful policy issue questions with significant applied and practical relevance. The academics have the research skills and expertise and collaborating with practitioners with institutional knowledge would benefit a larger group. There is a need for the NTA constituency

to work with revenue officials, legislators, tax administrators and treasurers to help improve policy making. It is important to have a dialogue to assess what would be useful for the practitioner group and finding ways to change the reward structure for academic research to encourage more involvement with empirical projects that are useful to policy makers. States would need to find ways to share their data mines and make data available to the experts to enable useful policy research that will benefit the public at large for the common good with sound public policies. Committed efforts are needed to set up a data clearing house/data exchange mechanism that NTA and FTA could try to work out together with state and federal Treasury Departments and the IRS, within the constraints of data confidentiality rules.¹⁸ Thus refocusing on empirical public finance research would be very useful to state and local practitioners and policy makers in Washington, D.C. and across state lines. Another point to emphasize is the importance of translating technical analysis and results in simple, nontechnical and easy to understand format for the policy maker.

I would like to conclude with my sincere thanks to all of you but there is no time to mention you by name. I would like to thank all the Program Chairs and program committee members for the Spring Symposium, State and Local Program; Special NTA Conference on Fiscal Sustainability; the 101st Annual Program that you are attending in Philly; NTA-FTA joint session organizers; the NTA Network Editor; Board members, Executive committee members (I was fortunate to have the best VP team); moderators, presenters, panelists, discussants, keynote luncheon speakers; all sponsors and all the NTA colleagues for being there for me when I needed you most, particularly, at odd hours. I am very thankful for the tireless support provided by the NTA staff, Fred Giertz, Charmaine Wright, and Betty Smith. I really appreciate your dedication and commitment to NTA! A very special thanks to Bob Ebel who inducted me to the NTA in the late 80's and gave me the gift of the NTA extended family! My final note of appreciation is for my husband, Madhu, and our children, Aditya and Shefali, for their strong support and love.

It's been an honor and privilege to serve you as "Madam President" at the dawn of a new century! May we sail with wind on our back into sustainable economic prosperity!

It is my honor and privilege to pass the NTA torch to the next captain—President Jim Poterba and his VPs Harvey Galper and Leonard Burman!

Thank you.

Notes

- ¹ Paterson (2008).
- ² Boyd (2008, p. 2).
- ³ State of New Jersey (2008).
- ⁴ McNichol and Lav (2008).
- ⁵ Several technical pieces on the subject can be found in Banca d'Italia (2008).
- ⁶ The special NTA conference "Attaining Fiscal Sustainability: State and Local Perspectives and the Federal Outlook" was jointly sponsored by the NTA in partnership with the Institute of Government and Public Affairs at the University of Illinois, Tax Analysts, and the Urban-Brookings Tax Policy Center. For details on presentations visit the NTA Web site at: www.ntanet.org.
- ⁷ National Academy of Public Administration (2005, 2006). For a good discussion of long-term fiscal challenges facing national, state, and local governments visit the National Academy of Public Administration's Web site at <http://www.napawash.org>.
- ⁸ See Steuerle (2003) for a more encompassing sense of federalism.
- ⁹ David Walker is President and CEO of the non-partisan Peter G. Peterson Foundation, dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future, and accelerating action on them. Visit their Web site at www.pgpf.org for more info.
- ¹⁰ See Bird and Ebel (2006).
- ¹¹ The ACIR was set as a permanent, independent, bi-partisan intergovernmental agency established by P.L. 86-380 in 1959 with the primary mission "to strengthen the American federal system and improve the ability of federal, state, and local governments to work together cooperatively, efficiently, and effectively". Source: ACIR Home Page. The ACIR was closed on September 30, 1996 after "37 years of advocacy for federalism and intergovernmental relations." See McDowell (1997).
- ¹² As Professor Pausch indicates that "All You Have to Do Is Ask" in (Pausch, 2008, pp 177-179).
- ¹³ See the University of North Texas Web site on this and other info on the ACIR.
- ¹⁴ See Madhusudhan (2008, pp. 1-2).
- ¹⁵ Similar sentiment is echoed by Cynthia McCollum, president of National League of Cities, "If they at least understand the problems of cities and towns, we're ahead of the game" in Greenblatt (2008, p. 22). The article reflects that for years, states and localities have pleaded with Washington for help and gotten stiffed and suggests that there is a better approach.

- ¹⁶ Taxation of sales via electronic commerce and tax pre-emption are examples of perennial tax issues. Whereas homeland security, environmental programs, economic stimulus and federal bailouts, infrastructure, health care reform and ballooning federal debt comprise both perennial and emerging spending side policy issues.
- ¹⁷ See Madhusudhan (2008, pp. 1-2).
- ¹⁸ Currently, there is a better response to data requests when made through the OPRA (open public records act) but there is a serious gap in data availability and the response time is lagged.

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