Top 5 Issues for 2014: Fiscal and Economic Policy

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Jennifer Burnett, CSG Program Manager, Fiscal and Economic Development Policy, outlines the top five issues for 2014 related to fiscal and economic development policy, including pervasive federal instability, a sluggish recovery, soaring health care costs, a stagnant labor market and new demands on state resources for economic development.

Federal Instability Trickles Down
When the federal government shut down last October, 850,000 federal workers were furloughed for an unprecedented 6.6 million combined days. Forecasters estimated the shutdown cost the economy between $2 billion and $6 billion in lost output. The kind of instability and intransigence in Washington, D.C., that led to the shutdown will continue to dampen the overall economic recovery and to affect the return of state revenues to prerecession levels. In addition, recent federal spending cuts and potential future cuts through sequestration have slowed the economy and left states to make up the difference in areas like education and infrastructure.

Revenues Recover from Recession but Remain Sluggish
As the national economy moves sluggishly toward recovery, state revenues will continue their slow climb to get beyond prerecession levels. State revenues started to collectively rebound in 2012 and 2013, while rainy day fund balances also were being restored. Both trends should continue in 2014. According to a State Revenue Report from the Rockefeller Institute of Government, states’ tax collections had grown for 14 straight quarters as of December 2013 and real revenues finally surpassed peak prerecession levels. The National Association of State Budget Officers’ Fall 2013 edition of the Fiscal Survey of States indicated states overall can expect a similar pattern in the 2014 fiscal year—slow, but relatively steady increases in revenue for most states, tracking trends in the
Health Care Costs Continue to Climb
Increasing health care costs—including current public employee costs, public retiree costs and Medicaid—will continue to be a major budgetary issue for states as overall health care costs and enrollments in Medicaid continue to rise. For the 25 states plus Washington, D.C. that chose to expand Medicaid eligibility under the Affordable Care Act, the fiscal impact of increased enrollment will be delayed. The Congressional Budget Office reported that states won’t pay any costs for the expansion until 2017. Between 2017 and 2020, the federal government will offset some of those additional costs to states, covering 90 percent by 2020 and leading to a 2.8 percent increase in state spending on Medicaid. In the 2013 fiscal year, Medicaid represented the single largest portion of state spending, estimated to account for 24.5 percent of total spending, according to the National Association of State Budget Officers. Expect states to continue to look for ways to control Medicaid spending while delivering more services to more people through programs such as managed care, and to address underfunded and increasingly expensive state retiree health benefits.

Rethinking Economic Development
State leaders will be taking a closer look at their economic development programs, including workforce reinvestment and the cost-effectiveness of providing tax and financial incentives to businesses. Some states will continue overhauling approaches to economic development, such as evaluating and reforming business incentive systems and their overall business tax climate, as a means to stimulate job growth in 2014. Others will look for opportunities to put people back to work through innovative workforce development strategies, regulatory systems assessments and infrastructure development projects, particularly if federal funds become available. Public transparency and oversight of specialized tax and financial incentives to businesses may become a political hot potato, especially as the topic gets more attention from the media and watchdog groups.

Labor and Wage Issues
States will be addressing increasingly difficult labor and wage issues this year, including stubbornly high unemployment rates and concerns over raising the minimum wage. Unemployment rates hit a five-year low of 7 percent in November 2013 after four consecutive months of robust job growth. The current unemployment rate, however, is still above prerecession rates of about 5 percent, and long-term unemployment remains at near historic highs. Economists predict that the unemployment rate likely will continue its slow descent in 2014, ultimately hitting about 6.5 percent by year’s end. President Obama has called for an increase in the federal minimum wage a number of times, but states already have taken action. Legislators and voters in five states decided to raise the minimum wage in 2013 and at least five more states will address the issue in 2014.