

CARNIVAL BARKERS:

A Hard Lesson on Why Fiscal Responsibility Matters

By *Daniel J. Smith, Ph.D.*

Advocates of fiscal responsibility are typically ridiculed with names such as [austerians](#), [carnival barkers](#), or [fiction writers](#). Unfortunately, it often takes an unexpected turn in the economy for people to appreciate the value of fiscal conservatism the hard way. While most of our current focus must be on responding to COVID-19, we should also take the time to reflect on what this pandemic downturn has taught us. We must avoid having to repeatedly suffer these lessons every time an economic downturn occurs.

During good economic times, it is hard to be fiscally responsible. Policymakers seeking reelection or higher office are all too eager to commit to irresponsible public projects, such as subsidizing sports stadiums, rail transit, soccer parks, or providing tax incentives to companies, to curry favor with special interest groups. Committing monies to rainy day funds doesn't earn a politician any votes. Trying to reform concerning liabilities, such as public pensions, can lead to a backlash from public employees.

It is all too easy to naively believe the good times will continue. But the good times always end and we should be prepared for it. A long term analysis of business cycles in U.S. history by the National Bureau of Economic Research finds that from [1854 to 2005 there was a recession nearly every five years](#). While no one could have credibly predicted this COVID pandemic, we could and should have been prepared for an economic downturn, especially given the economic devastation of the financial crisis was still fresh in our minds.

The state of Tennessee, overall, was mostly prepared for a downturn. The Mercatus Center at George Mason University ranked Tennessee third in the nation in their 2018 [state fiscal rankings](#). Tennessee's unfunded pension liability, at [\\$3,577 per person](#) is the lowest among the states, though still a concern. One sore spot is the state's rainy-day fund, which can only meet [seven percent of our general fund expenditures](#), ranks as 31st among the states.

Nashville, having a pre-existing \$250 million debt, however, wasn't prepared for this economic downturn, and has nearly depleted its already low rainy-day fund. Now, of course, the city had a double whammy from being hit by tornadoes and COVID





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in close proximity, but that is precisely why being fiscally responsible in good times is so important for effective governance during bad times. The city is expecting a [470 million decline in revenue over a 16-month period](#), leading Mayor Cooper to propose a 32 percent increase in property taxes. This increase in taxes will surely hurt residents and business owners already struggling to recover from this double-disaster. Imagine if the city was on the hook for billions from the failed rail-transit plan?

We must be responsible in good times. Doing so will allow us to avoid much of the pain and suffering that will inevitably come in bad times. Let's not forget this lesson when we eventually recover and see a strong economy again. Those carnival barkers may be the voice of reason.

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