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STATE SENATOR • 17<sup>TH</sup> SENATE DISTRICT

## Capitol Update By Senator Howard Marklein June 15, 2022

### A Meeting of Fiscal Minds

I recently attended the National Conference of State Legislatures' (NCSL) Regional Fiscal Leaders meeting in Washington, DC. This conference was designed to gather, connect and educate fiscal leaders in state legislatures to provide information, best practices and opportunities to connect with our colleagues.

As the Co-Chair of the legislature's budget-writing Joint Committee on Finance (JFC) and a certified public accountant (CPA), the sessions at this conference were right in my wheelhouse. We discussed everything from state tax actions to infrastructure investments to a future-focused economic outlook to the health of state pension systems. If you're not a numbers-guy like me, this may sound really boring; but I found it fascinating and extremely relevant to the fiscal future of Wisconsin.

One of my main take-aways from the conference is that Wisconsin is in a terrific fiscal position. We were highlighted as one of the few states that has a healthy pension system. In fact, we were at the top of the "good" list in this discussion. Public employees who participate in the Wisconsin Retirement System (WRS) are part of a healthy, sustainable pension program. This is very good news.

We also discussed that all states are awash in cash because of the federal stimulus funding that has been sent to all levels of government and individuals. The key to this discussion is how each state is spending and/or planning to use these funds. Wisconsin is currently maintaining our surplus as we look to the future and I think this continues to be the right way to go.

I am further resolved that holding onto our surplus is the correct course of action because Joyce Chang, chair of Global Research at J.P. Morgan, presented a harrowing view of the future in her Economic Outlook presentation. Chang highlighted the potential impacts of inflation, the possibility for a recession, predictions for even higher gas prices and how states can respond. She predicted gas prices around \$6 per gallon!

Chang said that inflation is going to significantly impact our state budgets. Holding this cash to manage the future in an inflationary environment is the responsible and reasonable thing to do. There are compensation plans, like contracts for teachers, which are directly tied to the rate of inflation. In order to manage increasing expenses and fulfill contracts and obligations, we must have the cash.

In addition, Chang said that a recession is likely in the long term. She believes the probability of a recession in 2023 is 50%-50%. The likelihood of a recession in 2024 and beyond is even higher. A recession is a serious decline in economic activity that lasts for several months. According to the National Bureau of Economic Research (NBER), it is measured by drops in five economic indicators: real gross domestic product (GDP), income, employment, manufacturing and retail sales.

When a recession takes place, we will see a decline in income, lower employment (higher unemployment), less manufacturing, a drop in retail sales and a drop in monthly GDP. This may affect Wisconsin state government in the form of lower tax collections in both income and sales, increased public assistance program utilization and higher rates of unemployment. We need to be ready to manage these issues without raising taxes.

As your State Senator and the Co-Chair of the JFC, it is important for me to study and anticipate changing fiscal matters in order to make good decisions for the future of Wisconsin. We must take a holistic view of our state's finances and anticipate the future in order to protect all taxpayers and citizens who rely on state government for services and support. We must make thoughtful decisions based on careful study and analyses.

I am very fortunate to have spent a couple of days with my fiscal colleagues from around the country to learn, discuss and strategize for the future. I look forward to applying this knowledge and continuing my work for you on fiscal issues that truly matter to the financial health of our state.