THE GARDEN STATE INITIATIVE

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Combat Inflation in New Jersey with a Balanced Growth Agenda

Analysis for GSI by Danielle Zanzalari, Ph.D.

New Jersey's legislature and governor are in a unique position to use the current budget surplus, over $8 billion by many estimates, to help residents with inflation and well-position the state for a likely recession. Some of the surplus is due to the economic recovery in 2021, the borrowing of $4 billion in 2020, and federal pandemic recovery funds that were made available to states to support "long-term growth and opportunity".[1] To date, most policy proposals being discussed do not support the goal of long-term growth and opportunity.

Relying exclusively on rebates or direct cash transfers to individuals will only *lead to more inflation* as this puts more money in consumers' hands exacerbating the same problem as today—too many dollars chasing too few goods. More importantly, these policies only provide **one-time relief** and do not spur long-term economic growth. Policies that help long-term growth are those that **encourage** business investment, efficiency, and investment in people. The five policy proposals outlined below are ones that balance short-term inflation help for taxpayers with the long-term growth trajectory we need to be healthy in 2023 and beyond.

1. Pro-growth tax reform

It is no surprise that **the #1 reason people leave New Jersey is due to taxes**. While taxes provide public goods that many residents benefit from, indexing the tax brackets to inflation can help residents immediately and in the future. Repealing the inheritance tax also encourages residents to retire in New Jersey and beneficiaries to start businesses here. Pro-growth tax reform helps keep money in taxpayers' pockets and boosts economic growth for decades.

[1] https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds

2. Supporting skilled trades

New Jersey ranks #1 in the country for public education[2]. **People are New Jersey's greatest asset**. Education spending helps encourage long-turn growth because smart, entrepreneurial people help innovate and create jobs. Investing in people should be our #1 goal for long-run economic growth. This means investing in middle-skilled jobs that require some training or education beyond high-school, but less than a four-year college degree.

Directly supporting hands-on training programs and bringing training opportunities back to local high schools in trades like auto, refrigeration, HVAC, electrical, welding, and manufacturing is imperative to ensuring New Jersey is prepared for the future. With college borrowing costs astronomically high, this encourages individuals to pursue careers that are lucrative and budget friendly as well as fill the over 75,000 job openings that New Jersey is projected to need in a few years.[3]

3. Simplify regulations

Regulation can raise the costs for consumers and slow job growth. A series of studies shows the regulation raises prices and worsens poverty.[4] Working with local governments to revisit restrictive laws that contribute to higher housing prices, such as height restrictions and zoning rules, as well as removing unnecessary restrictions on businesses will lead to more economic growth.

4. Fund a sturdy retirement plan, not a failing pension system

New Jersey can take this unique opportunity to immediately help the failing pension system. New Jersey should make a payment up front which gives residents more confidence in the retirement plan for public employees. It also helps NJ's credit rating and lowers future debt payments leading to more economic growth.

This funding of a one-time higher contribution is only legitimate if it comes with **real reform to the pension system as a whole**. Switching to a defined contribution plan, used by more than 100 million Americans[5], can fix the pension system for the future. Due to poor investment returns and actuarial mistakes in the current defined benefit pension system, the State Legislature has continually been forced to make up the difference with extra cash.

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[2] https://www.usnews.com/news/best-states/rankings/education

[3] https://investors.lincolneducationalservices.com/news-releases/news-release-details/lincoln-tech-hosts-successful-skills-gap-summit-new-jersey

[4] https://www.forbes.com/sites/adammillsap/2019/07/23/how-too-much-regulation-hurts-americas-poor/?sh=129b6c4271f5

[5] https://institutional.vanguard.com/content/dam/inst/vanguard-has/how-america-saves-report-2020.pdf

5. Save money for a rainy day

With negative GDP growth in the first quarter of 2022, economists and bankers are foreshadowing a recession. In a recession, unemployment rises and tax revenues fall. To prepare for the future when New Jersey again faces a budget shortfall, which may be sooner than we think, New Jersey should follow best practices of reserving 10% of the budget, or no more than $5 billion, to sustain essential programs should a downturn occur in the future.

Conclusion

As state leaders consider next year's budget, they should focus on balancing long-term economic growth initiatives with short-term, temporary help that exacerbates inflation. Proposals like funding middle-skilled job training ensure our state's workforce is ready for the next decade and contributes to long-term economic growth. Eliminating unnecessary regulations and focusing on pro-growth tax reforms encourages residents to build businesses and create jobs. Lastly, taking care of the state's finances by properly funding a retirement plan and saving for a rainy day will help New Jersey become a leader in promoting state-wide economic growth.

About the Author

Danielle Zanzalari, Ph.D. is an Assistant Professor of Economics at Seton Hall University, her alma mater. Dr. Zanzalari joined Seton Hall from the University of North Texas - Dallas where she was also an Assistant Professor of Economics. Previously, she worked as the Vice President of Credit and Portfolio Risk at Citigroup and as a Financial Economist at the Federal Reserve Bank of Boston. She helped design the econometric evaluation guidelines for bank stress testing while at the Fed and also helped oversee model development for Citigroup.

About The Garden State Initiative

The Garden State Initiative is a 501(c)3 nonprofit organization dedicated to strengthening New Jersey by providing an alternative voice and commonsense policy solutions in the state -- solutions that promote new investment, the growth of businesses, the creation of economic opportunities, and innovation to the benefit of all New Jerseyans.

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