

# State Spending Spree

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The Democrats on Capitol Hill are promising a new ethic of fiscal responsibility as the party desperately tries to shed its tax-and-spend label of recent decades. But if spending restraint and balanced budgets are the new Democratic rallying cry, someone forgot to alert the governors. After the November elections, Democrats now control 28 governorships and a majority of state legislatures -- but they are celebrating their return to power by spending tax dollars like every day is Christmas. Some Republican governors, including Arnold Schwarzenegger of California and Jodi Rell of Connecticut, are also joining in the fun.

Last year states cashed in on the boom times by hiking expenditures by almost 9%, according to the National Association of State Budget Officers, or three times the rate of overall inflation. This year at least a dozen states are contemplating double-digit rates of spending growth. If that happens, aggregate state budgets will be up nearly 20% in just two years.

One politician tossing aside the "new Democrat" playbook of fiscal restraint is the just-re-elected Governor of Illinois, Rod Blagojevich. Mr. Blagojevich just recently announced a \$60.1 billion budget loaded with \$7 billion in new taxes and \$16 billion in new debt -- what the Chicago Sun Times calls "the largest tax increase and biggest borrowing spree in state history." Mr. Blagojevich intends to reward nearly every Democratic special interest group that helped elect him: the teachers unions (the school budget would rise by a whopping 23% in one year), public transit employees, health-care providers and the poverty industry. He calls his fiscal time bomb of debt and taxes "a moral imperative." Almost all the new costs of the social welfare pyramids he wants to fund would fall on businesses, which are likely to feel their own "moral imperative" to flee if the legislature in Springfield is foolhardy enough to pass this plan.

Jennifer Granholm, the Democratic governor of another declining Midwestern industrial state, is also seeking a \$1 billion-plus tax business tax increase to fund what she's calling her "invest in Michigan" budget. The state, with more lost jobs than any except Hurricane-ravaged Louisiana, hopes to reward businesses that invest more funds and create more jobs in Motor City by socking them with a higher tax bill.

Most states don't need to raise taxes to finance their fantasy budgets. Thanks to the Bush tax cuts of 2003 and the national economic expansion they've helped lubricate, about 40 states have record numbers of Americans working and record business profits, which is translating into unprecedented gains in tax receipts. But in too many states those revenues will be spent, and then some.

Montana Gov. Brian Schweitzer wants to hike spending by nearly 15% this year; North Carolina's Mike Easley has proposed a 7.5% spending hike financed

by extending "temporary" sales and income tax hikes passed during the 2001 recession; and Ed Rendell of Pennsylvania seeks a \$60.3 billion budget, a \$4,500 budget increase per family of four since he entered office in 2003. New Mexico is so flush with cash from the oil boom that Gov. Bill Richardson has requested a 10% hike in spending this year, including \$100 million for a space launch pad -- a commercial venture to fly people into outer space, and partnered with Richard Branson's Virgin Galactic.

In Washington state, Gov. Christine Gregoire proposed a budget plan described by the Seattle Times as "dramatically increasing spending by more than \$4 billion over the next two years." Ms. Gregoire celebrated her spend-it-while-you've-got-it and worry later attitude that has been adopted by her and fellow spendthrift governors by stating "these are good times, these are exciting times." Yes, but the "good" and "exciting times" don't last forever. Four years ago states hit the bottom of a revenue drought and were forced to make tortuous spending cuts while hiking fees and taxes. "States that are the most gluttonous spenders during the fat years, invariably have to make the deepest cuts during the downturns," says economist Arthur Laffer, who is advising several states to cut taxes this year.

This year's fad "investments" -- teachers pay raises, expanded Medicaid, free health care for children, all-day kindergarten, more generous aid to the universities -- are fiscal grenades likely to detonate in the next recession, leaving a mountain of debt that will have to be paid off by taxpayers and future governors down the road. And under new accounting rules established by the Governmental Accounting Standards Board, states are now required to calculate their unfunded pension and health-care liabilities. These had been hidden from view: Once they become known states may yet be shocked into fiscal sanity.

Fortunately, some states are avoiding this fiscal trap door. Arkansas and West Virginia have already enacted tax cuts with their surpluses to make sure the money doesn't get spent on unaffordable new wish list programs. Florida, Georgia, South Carolina and Texas are also preparing major property or income tax cuts designed to lure more people, businesses and capital down South and away from the high-tax northeast and Midwest. There's an old adage that states can't tax and spend their way to prosperity -- a lesson that the politicians in Connecticut, Illinois, Michigan, and Pennsylvania never seem to learn.

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