

## **Commonwealth Foundation: We need a budget for the people.**

Text of May 7 testimony.

*Testimony of Bill Scranton before the House Republican Policy Committee*

*Delivered on Monday, May 7, 2007*

Good morning. Let me begin by thanking Chairman Turzai and the members of this committee for the invitation to be with you this morning.

We are here today because Governor Rendell has proposed a budget that is incredible in its audacity and ambition. The public response has ranged from disbelief to outright opposition. Even the Democrats are having difficulty supporting this budget. It would be unthinkable not to give the budget the kind of public scrubbing this committee is providing.

Pennsylvanians are understandably skeptical when grand plans come wrapped in an even grander price tag. Because tax increases and spending plans aren't abstract theories. They have a direct and immediate impact on families, job creators, and the social structure of our state.

Before I talk about Pennsylvania's present challenges, permit me to rewind this discussion back to a few budget cycles ago.

As some of you know, from the late 1970s to the mid-1980s, I had the honor of serving as Pennsylvania's Lieutenant Governor alongside Dick Thornburgh, helping to bring about one of the more dramatic economic turnarounds in our history.

From our first day in office, Dick and I became leaders of a state that was—by every reasonable measure—economically distressed. The steel industry was collapsing. The preeminence of Pennsylvania coal was fading. Our manufacturing base was eroding, and our service economy was not growing fast enough to take up the slack.

Add to that, Pennsylvania government had been suffocating under years of mismanagement and unprecedented corruption. At a time when Watergate had cast sunlight into many of Washington's darkest corners, Harrisburg's bad habits were getting worse. The public had lost confidence in its leadership, and had little—if any—faith in state government.

But it gets worse.

State debt was piling higher, and the insatiable appetite for state spending had given politicians a convenient excuse to raise taxes. Taxes, spending, regulations—this was the legacy of Pennsylvania's enthusiasm for “Great Society”-styled programs. These were the policies that had forced a robust leader among states to its knees. Our once great Commonwealth had become a haven of unemployment, plant closings, and ever-

expanding welfare rolls just at a time when it was facing its greatest economic challenges.

That's what we found. Our "mission impossible" was to revitalize a state that was killing itself from within, while the federal government's own policies were adding significant pressure from without.

To answer the challenge we developed a simple, three-point philosophy:

- Restore ethics, openness and integrity to government.
- Embrace the future, and free Pennsylvania enterprise to compete.
- And insist on a culture of fiscal discipline - the notion that it's not the government's money.
- That meant a smaller and more efficient government. Fewer and lower taxes, and a very disciplined budget process.

After eight years, here's what that philosophy yielded:

- Pennsylvania created hundreds of thousands of new, family sustaining jobs. More people were working, and enrollment in public welfare programs was declining.
- We balanced the taxpayers' budget every year without resorting to credit card gimmicks.
- We reduced state debt by \$300 million.
- We were able to cut individual and business taxes for working families and business owners, while limiting the growth in state spending to below the rate of inflation and population growth.
- We took some 20,000 jobs out of state government bureaucracy.
- And the day we left Harrisburg, there was a \$300 million surplus in the public treasury.

Let me suggest that those eight years define fiscal responsibility and good management. Fast forward with me to the matter at hand—the Rendell Administration's proposed tax and spending plan.

## **DEBT**

First, let's take the issue of public debt—the chapter of the plan that forwards the mortgage bill to millions of future Pennsylvanians.

Governor Rendell has proposed adding nearly \$850 million to the state's debt. The new borrowing would push up the ceiling on Pennsylvania's debt service to over \$1 billion dollars a year making repayment one of the single largest expenditures in future budgets.

Here's some more inconvenient state history to go with the Governor's multi-million dollar one-time credit card swipe. In the mid-1970s Governor Milton Shapp borrowed millions to build roads. Today, we're still paying for the same roads even though every one of them has been reconstructed over three decades.

The real impact of the Shapp experiment? Every time a Pennsylvania driver fills up at the gas pump, he's paying the legacy costs of a thirty-year-old bad idea.

As national leaders in both parties talk about "Pay Go" public policy—forcing state government to pay for programs with current tax dollars and minimal public debt is a far better idea than the Governor's \$850 million loan.

## **TAXES**

Secondly, let's talk about The Big One, the governor's proposal for a total of seven new taxes to fund his spending plan, and underwrite new public debt.

Let's take a minute to walk through how the Rendell Tax Plan breaks down:

- First, the Oil Company Gross Profits Tax: This tax would charge oil companies a 6.17% tax on their annual profits in an effort to generate \$760 million to finance mass transit.
- Second, the Sales Tax: The proposed budget calls for a 16 percent increase in the state's sales tax—from 6 to 7%, collecting about \$1.4 billion annually to fund more government programs proposed by Governor Rendell.
- Third, the Payroll Tax: Among the primary funding sources for "Cover All Pennsylvanians," this tax was first presented as a 3 percent payroll tax to create a new government run health care system. This tax would generate \$60.4 million in the first six months.
- Fourth and Fifth a pair of New Tobacco Taxes: A new tax on 1) smokeless tobacco products and cigars and 2) an increase of the cigarette tax. Together, these taxes would generate about \$75 million to be spent on new government programs.
- Sixth, the Trash Tax: The governor proposed \$46 million in "Tipping Fees" to fund the Hazardous Sites Cleanup Fund and to pay debt service on Growing Greener II bonds.
- Seventh, the Electricity Tax: This tax would generate about \$75 million annually and would be dedicated to pay off bond debt incurred through the creation of yet another new state program. The total? An exhausting \$2.3 billion dollars in new taxes.

Now, I just told you a true story about my own experience - during a time when Pennsylvania was on the mat and economically depleted. Our answer was leaner government and lower taxes.

There is simply no evidence to suggest that a state in our condition can tax itself into economic vitality.

Not by taxing oil companies when that tax is instantly transferred to drivers already paying \$3 and \$4 for a gallon of gas. Not by taxing big waste haulers who immediately compensate with higher fees on every bag of trash. Not by taxing trips to the store when Pennsylvania's sales tax is already grouped with the highest rates in the nation.

Higher taxes on job creators mean higher prices on consumers. Higher taxes on working families will mean fewer families working.

So let me suggest to the Republican Minority in the House of Representatives that you stand up to the Governor's Tax Plan. Insist that state spending, honestly accounted for, increase no more than the rate of inflation plus population growth. Propose to the governor that Pennsylvania get serious about rewriting our economic future.

### **WELFARE**

Under this budget public welfare is the single biggest spending category in the general fund budget, surpassing education. Governor Rendell's welfare budget skyrockets costs to a record \$10 billion—hundreds of millions more to underwrite a system that lacks any structural accountability.

It's a system that puts nearly one in every ten Pennsylvanians in government subsidized poverty. The average cost for a taxpaying family of four? More than \$3,300 per year.

It just doesn't make sense.

And far worse, this family's \$3,300 put two and a half people on welfare for every new job created in this state over the last four years.

The welfare plan expands poverty in Pennsylvania. It fails to honor the hard work and sacrifices of middle class Pennsylvanians. And I believe it reveals a real contempt for the people this safety net was designed to help.

### **HEALTH CARE**

On health care, the governor's goals are high-minded and probably well intentioned.

But the plan raises more taxes to fund nothing less than a Pennsylvania-sized copy of the health care plan proposed by Hillary Clinton in 1993 and overwhelmingly rejected by voters in the midterm elections the following year.

- The same limited menu of choices.
- The same lack of innovation.
- The same absence of consumer control.
- Not a model of innovation and thrift.
- And obviously not the best way to provide families in need with affordable, quality care.

And what's been the track record of Pennsylvania's current Adult Basic Program, initially funded by a settlement with American tobacco companies?

Demand exceeding our ability to pay. 83,000 citizens standing in line for coverage under the state plan. And many employers weighing the choice to continue mainstream coverage or default to the state's subsidized program—resulting in the real possibility that hundreds of thousands of families could lose good coverage and be forced to a waiting list.

But if we don't write a blank check for RendellCare, what's the alternative? How do we expand the availability of the best healthcare in the history of the world, while not settling for European style rationing and government control?

- First, end jackpot jury awards that abuse our medical malpractice system, by driving up costs for families.
- Second, encourage competition and choice in healthcare to drive down healthcare cost. More choices, not fewer.
- Third, government must create a new culture of transparency in health care. To increase consumer confidence, insurance companies and healthcare providers must maintain the highest levels of openness.
- And fourth, we have to allow individuals and families to own their healthcare by expanding tax credits for Health Savings Accounts.

With all due respect to the Governor's admirable goals, his proposal is a political plan, not an answer to Pennsylvania's demand for the best healthcare at the best price. Once again, the members of this committee should lead the charge to defeat this misguided proposal.

## **ENERGY AND TRANSPORTATION**

Finally, Mr. Chairman, allow me conclude with some observations about two more areas where Pennsylvania is missing the opportunity to lead—and with this budget will fall further behind: the areas of Energy and Transportation.

First, let's talk about the energy plan outlined in this budget. Ed Rendell's approach to energy independence achieves nothing. It drives up energy costs and puts our state's job creators at a competitive disadvantage. First, the plan isn't paid for. It proposes funding through borrowing by creating a new electricity tax, paid for by families to the tune of \$70 million per year.

Additionally, he's asking for an oil profits tax that would cost gas and home heating oil consumers \$760 million a year. In all, the new taxes in his budget proposal will cost Pennsylvania families and seniors \$23 billion over the next ten years.

But that's not the worst part.

According to his own estimates, the energy plan would hypothetically provide \$10 billion in savings over the same period—the most expensive "savings" I've ever seen.

But wait, once you get past the price of his plan, Governor Rendell wants a big chunk of the new electric tax to be used to subsidize Philadelphia's failed mass transit system. Seventy percent of this system is already being funded by the state's taxpayers. The rest of the money would be earmarked to underwrite a new wave of gubernatorial WAMs—the discretionary "Walking Around Money" that has virtually no accountability for management or results.

Overall? No innovation. No real strategy to give consumers more options or lower price - accompanied by higher and higher taxes. And despite hype from the administration, you'll find relatively little money for road and bridge repairs. This comes as Pennsylvania's roads and bridges continue to rank as some of the most unsafe in the nation.

Therefore, I would recommend to this committee and the Republican Caucus that you reject this proposal in its entirety. And instead take a more thoughtful, long term approach to energy independence and transportation.

First, federal and state dollars earmarked for roads and bridges should be used for just that...not mass transit and not WAM programs.

Second, energy independence begins and ends with increasing domestic production.

In addition to alternative fuels such as bio diesel, ethanol, wind and solar, it is time for Pennsylvania to consider boosting production of its own natural resources. These include expanding our in-state petroleum refinery capacity and removing government road blocks to the exploration of natural gas and the clean use of coal. It is time to end the bureaucratic road block utilizing these resources. That means real reforms at the DEP.

Despite efforts by the Ridge/Schweiker Administration to take a compliance based approach; this agency has re-earned its distinction as a leading obstruction to progress. From excessive environmental studies for road repairs and construction to the harassment of the state's family farmers who are growing renewable sources of energy in their fields, the time has come to significantly reduce the power, scope and cost of this agency.

And lastly, it's time to adopt a different strategy to fund mass transit.

Let me propose that the legislature should explore the potential benefits associated with privatizing these systems to improve service for riders and reduce costs to taxpayers.

There is also great potential for additional revenues by allowing private small business providers to locate their businesses at train stations and larger bus terminals. This type of program could provide additional revenues to reduce costs, while improving service and convenience for riders. Our state's families cannot afford the governor's "pay more, get less" energy and transportation strategy.

### **Conclusion**

Ladies and gentlemen of the committee, Pennsylvanians have given state government a second chance. They've cleaned house and sent a class of fresh, idealistic reinforcements to help the governor and the legislature find its way again.

This is as close to a "citizen legislature" that we've seen in a long time—and that's a good thing. The budget as it stands is an affront to the common sense and patience of the people of Pennsylvania. It reaches into to the bank accounts and wallets of families who've worked long days and nights for many years to pay for a house or college or clothes and groceries.

But what is probably most disappointing about this budget is that it's presented as painless sacrifice by a handful, not shared pain by many. The people didn't ask for this budget. They didn't ask for higher taxes, higher prices and a more expensive government. The best thing you can do to honor the people that work outside the walls of this Capitol is to send this budget back and write a new one.

Thank you again Mr. Chairman, I look forward to the chance to answer your questions.

*The Honorable Bill Scranton is the former Lt. Governor of Pennsylvania and serves on the Board of Directors of the Commonwealth Foundation ([www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)), an independent, nonprofit public policy research and educational institute based in Harrisburg.*