The Stewardship Project

Determining Core Functions

Priorities of Government

Success Stories from the Experts

Specific Policy Considerations

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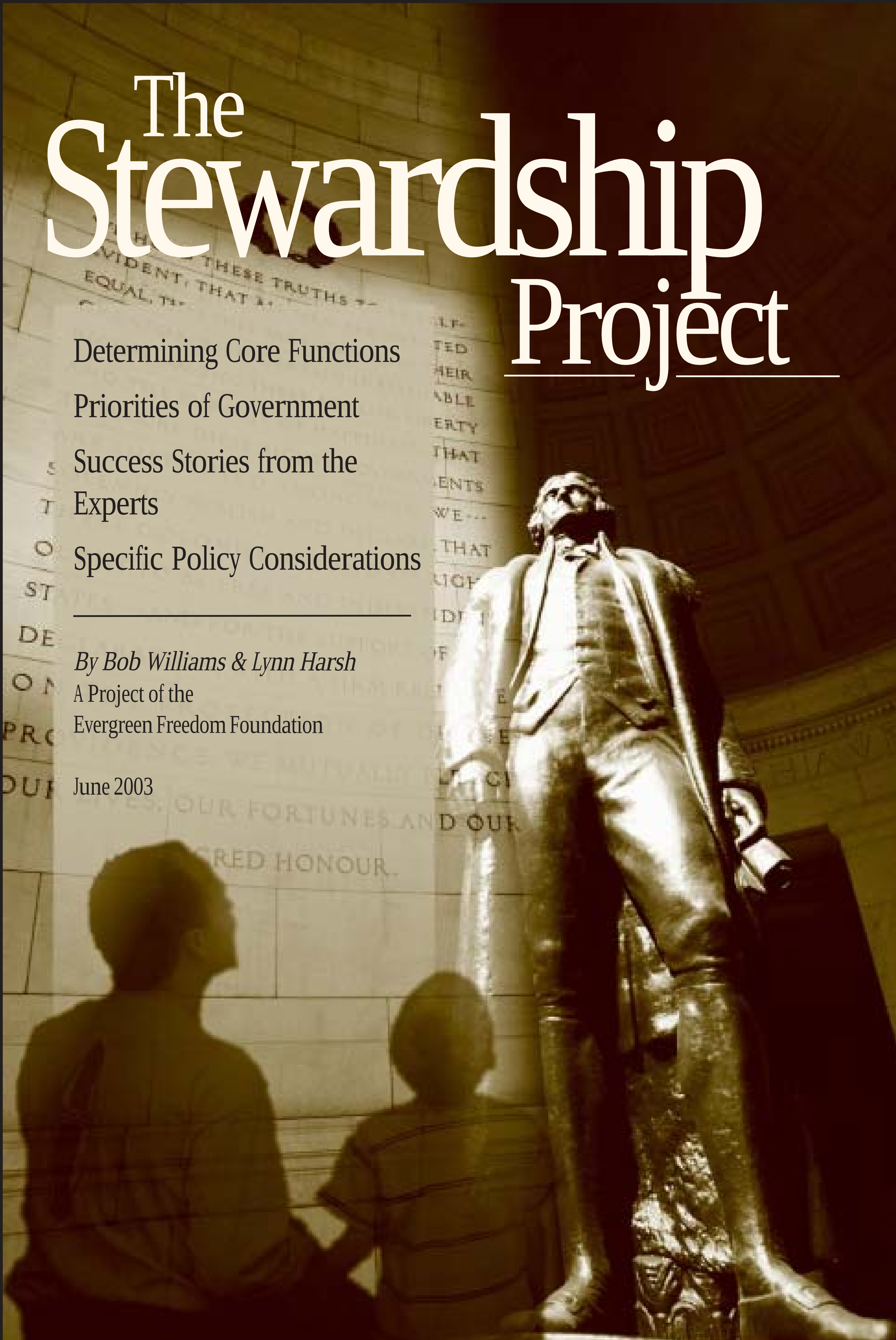
A Project of the

Evergreen Freedom Foundation

June 2003



About *The Stewardship Series*

The *Stewardship Project* handbook is for officials—elected or otherwise—who manage the legal and financial affairs of citizens. It is designed to assist taxpayers in determining whether or not the people they have placed in power to manage their affairs are doing a good job. The handbook is chock-full of principles to ponder and practical tools to use. It will ask and help answer these questions:

- What is the role of government?
- What are the essential services government must provide to fulfill its purpose?
- How will we know if government is doing a good job?
- What should all of this cost?
- How will we prioritize potential budget cuts?

About the Evergreen Freedom Foundation

The Evergreen Freedom Foundation (EFF) is a non-profit, educational research organization based in Washington state. The Foundation's mission is to advance individual liberty, free enterprise and limited and responsible government. EFF staff conduct research and publish analysis and policy alternatives in the areas of state budgets; governance and citizenship; and health, education and welfare reform.

The Evergreen Freedom Foundation neither solicits nor accepts donations from public sources. All programs and activities are funded by private donations from thousands of concerned individuals and numerous private foundations.

Nothing in this publication should be construed as an attempt to aid or hinder the passage of any legislation.

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Preface

Stewardship

The act of managing another's property or financial affairs.

In the last election, many of our country's 24 newly elected governors campaigned on a platform of balancing their state budgets without increasing taxes, while simultaneously pledging to spend more money on education, health care and the environment. This might have been possible in the 90s when the economy was booming. Increased revenue from a hot economy permitted governors to have the best of both worlds—more money to spend while holding tax increases to a minimum.

Unfortunately, few governors and legislatures used the extra revenue of the 90s to establish sufficient rainy-day reserves for one-time, necessary infrastructure expenditures. Instead lawmakers increased the size and cost of government, and thus the burden on families and businesses. It seemed the good times would never end.

The results were predictable. On the revenue side, a slight whiff of economic trouble and the shaky foundation began to crumble. And we've had more than a whiff of trouble since 2000.

Financial bow waves from previous years' spending commitments added to promises made in the existing biennium loomed large. Lawmakers in most states spent the first two years of the new century draining rainy-day funds, freezing new hires, and in many cases selling part or all of future tobacco funds (tobacco securitization). Fees and "sin" taxes were increased in many states, while spending for corrections, schools, colleges, local aid, child care, and Medicaid was decreased or frozen.

Washington state suffered more than most. The seemingly endless technological boom went bust, resulting in one of the highest unemployment rates in the nation and what the governor's budget office categorized as a $2.5 to $3 billion budget deficit. (In reality, state revenue was up six percent from the previous biennium.) Economic forecasters believe it is unlikely that Washington state will experience recovery until 2004-05, and even then, it will be a slow climb out.

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History lessons

Preceding the economic boom of the 90s many states faced budget problems. Fiscal analyst Steve Moore, in an October 2002 study for the American Legislative Exchange Council (ALEC), reviewed data from that period to determine what worked and what didn't. Some governors took strong and often controversial actions. John Engler (Michigan); George Pataki (New York); Frank Keating (Oklahoma); Zell Miller (Georgia); and Christine Todd Whitman (New Jersey) decided not to raise taxes to meet revenue declines; in fact, they cut taxes. They also used that time of crisis to push through various reform packages.

All of those governors were re-elected, but what happened to their state economies?

Moore wrote: "In sum, the fiscal lessons of the 1990s confirm nearly two decades of academic research. State tax policies can have a profound impact on the relative economic performance of the states. States with low and falling tax burdens—especially falling income tax burdens—outperform states with high and rising tax burdens. Most importantly, however, states that attempt to balance their budgets with higher tax rates are likely to lose jobs and businesses and thus create even larger long-term structural deficits."

Governors nationwide began 2003 facing a slowing economy and collective deficits of nearly $60 billion. What lessons can we learn from the past, and what innovative solutions can we adopt for the 21st century?

Washington's Governor Locke has broken with conventional thinking about how to build a state budget. He has combined time-honored, but long forgotten governing principles, with modern application to advance one of the most innovative solutions in the country. This *Stewardship Project* handbook will explore both the principles and their application.