What Do We Do Now?
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G. Terry Madonna & Michael L. Young

It was a famous line in a famous movie uttered by a famous actor. The actor was Robert Redford, the movie was *The Candidate*, and the line was unforgettable. In the film’s final scene, Redford, playing a just-elected U.S. Senator, asks his campaign advisor plaintively, “What do we do now?”

Governor-elect Tom Corbett, so far as known, harbors no aspiration to act or be confused for Robert Redford. Nevertheless, Redford’s memorable line evokes a certain resonance as the reality of Corbett’s staggering challenges sinks in.

No new governor since Milton Shapp in the 1970s has taken office under less auspicious fiscal circumstances. Indeed, Corbett’s problems loom more ominously than Shapp’s because Corbett has repeatedly pledged no new (net) taxes, whereas Shapp repeatedly called for a new state income tax.

To be sure, Corbett’s promises reflected voter sentiment about both taxes and growth in government. The electorate is in no mood to either pay more in taxes or to underwrite expansion of state government. Corbett understands that abundantly well.

But his problem is a little more complicated than just “read my lips, no new taxes.” The reality is that no one is talking about expanding government. That’s not the issue. The issue is how do we “subtract” government by cutting programs and probably state employees.

The search for savings will be savage. All the old bugbears like waste, fraud, and corruption will be rolled out. So too will be popular shibboleths like “discretionary spending” and “downsizing the legislature.” Alas, most of this will be to little avail.

The unpalatable truth is that such efforts, while useful to pursue, will not yield the kind of revenues state government needs to solve this fiscal crisis.

Take just one example. A favorite goal of reformers is reducing the size of the legislature—now one of the largest and most expensive in the country. Unfortunately doing so won’t significantly impact the state deficit. Even abolishing the legislature altogether (clearly not a practical option) would save only $299 million. That’s less than five percent of the projected deficit.

Likewise, substantial savings won’t come from most other popular nostrums such as attacking “waste” and “bloated government.” Assuredly savings can be found, but the big dollars must come from the big programs: education, Medicaid, prisons, pensions, health care costs, and debt services. The largest single savings might come from privatizing the state liquor control system, valued at $1.7 billion.

Corbett faces what economists call a “structural deficit,” a fiscal quagmire in which the state can never really
balance its budget without increasing revenues and/or reducing spending. The state is broke in the same sense that a family that spends every year thousands of dollars more in credit card debt than it earns is broke.

Just how broke is Pennsylvania? For starters it has a $4 to $5 billion deficit left over from the last two years. Then there’s the impending spike in pension costs adding billions more. Finally, the state is poised to lose several additional billions in federal aid scheduled to go away next year.

Clearly, Corbett’s job isn’t to cut out the fat; it’s to cut into the bone. His choices are both few and painful.

He can of course back away from his no-new-taxes pledge, as George H.W. Bush did in 1990, and seek to cover the mushrooming deficit with new tax revenues. The result for him, however, would be political poison, almost ensuring he would be a one-term governor and severely damaging his party.

Corbett’s other choice seems equally grim. He could hold firm on the no-new-taxes pledge and pursue deep cuts to state programs and jobs. Getting consensus on expenditure reductions will be a Herculean task. Politically powerful interest groups will fight fiercely to protect their favorite programs.

Should Corbett succeed in making substantial cuts, there will be few if any “sacred cows.” Virtually everything will be on the table, including state employee layoffs. Corbett himself has talked about across-the-board cuts.

Such cuts will have consequences. How much more can be cut without precipitating a general crisis in state government services remains an unanswered question. Moreover, cuts in many state government programs will inevitably be passed through to local governments and school districts already straining under the burdens of the recession. This in turn is likely to result in pressure to raise local property taxes and/or reduce local services.

Nor will the problem end here. The president’s bipartisan deficit reduction commission is now proposing massive cuts at the federal level including Social Security and Medicare, together with the elimination of some middle-class tax breaks. Americans are about to get it both coming and going.

Corbett may not have had many electoral options when he pledged no new taxes. But in doing so he has painted himself into a very tight corner, one that will take the skills of a political Houdini to escape. He is going to be tested his first year in office as much as any Pennsylvania governor since the Great Depression. How he fares is likely to determine both his and his party’s fate for some time.

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