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A Governors' Forum Lecture

An Agenda For the States

By Pete du Pont

The Heritage Foundation

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The global lesson of the 1980s was the decentralization of power and authority. Geopolitically we saw the collapse of the USSR, the world's most authoritarian power, and its replacement by sixteen smaller governments. The economic authority of the PRC government is being eroded by the coastal provinces' market reforms. The central mainframe computer was replaced by highly personalized PCs. The automobile, chemical, and computer industries pushed authority down the organization, rather than up. We get our information now from hundreds of television channels and thousands of computer bulletin boards rather than from three New York television networks. Two-way talk radio has become the driving force in the nation's political debate.

The tide of decentralization, privatization, and personalization of products and services is on the flood. There is indeed a new world order and central authorities have little to do with it.

The key to meeting the challenges of America's public policy lies in decentralization, too. Central government can be no more successful in delivering its goods and services than a centralized USSR, IBM, or CBS. Uniformity in government has failed us—in welfare, education, airline regulation, and even the delivery of our mail.

My theme today is that meeting the challenges of public policy demands the innovation and experimentation of state and local governments and that the primary political agenda of the nation must be for the federal government to allow this power, and the state government to seize it.

You may recall that Justice Louis Brandeis wrote, "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory and try novel social and economic experiments without risk to the rest of the country." Some states have yet to seize this initiative, but many have. Delaware did in the 1970s, Minnesota in the 1980s. New Jersey, Massachusetts, and Wisconsin are innovating in the 1990s.

In 1976, I was elected Governor of Delaware, a state with the highest personal income tax rates in the nation, unemployment running at 13 percent, chronic deficits and a perfect record of increasing taxes to try and close them. We had a nearly bankrupt state with huge problems.

Raising taxes obviously had only made things worse, so we innovated: we set out to lower taxes, lower spending, and encourage jobs. We cut taxes five times, bringing rates down by 60 percent and prevailed on the legislature to repeal automatic cost of living adjustments for state employees. We deregulated the financial services industry. To protect our future, we passed a constitutional amendment requiring 2 percent of each year's tax revenues to be held in a contingency fund that could be spent only with a three-fifths vote of both houses, and another amendment requiring a three-fifths vote of both houses to increase taxes or enact new taxes.

And Delaware boomed. There was a 20 percent increase in jobs, a 40 percent decrease in the welfare rolls, unemployment was cut almost in half to 8 percent, tax revenues grew an average of 7.7 percent annually—even with the cuts—and we had eight budget surpluses in a row. Indeed, Delaware's budget has now been in balance for 17 consecutive years.

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The moral of that story is: states can improve their lot if they will bear in mind that opportunity and high taxes don't mix. Neither do opportunity and high government spending or opportunity and economic regulation.

This year in New Jersey, Christie Whitman has already signed her first tax cut into law and is beginning the process of holding state spending increases to the rate of inflation. In Massachusetts, after inheriting a $1 billion deficit from Michael Dukakis's "Massachusetts Miracle," William Weld balanced the budget in his first year by slashing state expenditures by $800 million, shunning all new taxes, and repealing a sales tax on services. Since then, he has cut taxes five times and has proposed eliminating the state tax on long-term capital gains—and the state's bond rating has been upgraded three times in three years.

These examples of state fiscal policy illuminate a central truth: reductions in taxes, reductions in spending, and reductions in regulation can combine to cause powerful economic growth and an improvement in the general welfare.

Sad to say, too many governors and legislators follow the opposite course. Their states have problems caused by taxes, spending, and economic regulation. To solve these problems, they turn to more taxes, spending, and economic regulation. It's like trying to put out a fire by throwing coal on it.

California offers such an example. Three years ago, California faced a huge budget deficit, dwindling job opportunities and incredible overregulation. Governor Pete Wilson and the legislature responded with a bill that aimed to raise taxes by $7 billion—the largest state tax increase in American history. I say "aimed" to raise taxes by that much because state tax revenue actually *fell* in 1992 despite the increases. And California continues to wallow in a recession. Businesses —and opportunities—are shunning the state. In 1991 and 1992, one-third of all the job losses in the United States occurred in California.

When a state government's spending exceeds the rate of growth in its economy, opportunity suffers. Professor Richard Vedder of Ohio University has calculated that excess government spending in the 1980s cost families nearly $300 billion in personal income—that is money that families would have received from economic growth if a state government had increased its spending in the 1980s only at the same rate that the state's economy grew. Professor Vedder also concluded that in states that cut taxes during the 1980s, the median family income grew nearly twice as fast as in states that raised taxes.

So with fiscal parameters set, consider three policy areas where state governments have the opportunity to lead the nation—welfare, education reform, and crime reduction.

Liberals and conservatives alike agree that welfare today is neither compassionate nor constructive. Federal, state, and local governments will spend more than $375 billion this year on welfare. We have spent $5 trillion since 1965. And nobody is pleased with the results. Families in low-income communities have disintegrated. Illegitimacy has soared. Almost seven out of every ten black babies are born to unwed mothers. The illegitimacy rate among whites is more than two in ten.

Simultaneously, economic opportunity for the underclass has vanished. In the poorest households, less than one family in one hundred is now headed by a full-time working adult. Welfare has become a substitute for a job instead of a bridge to one.

Since the welfare system bases payments on not working and having illegitimate children, it gets what it pays for—more of both. So any successful state experiment in welfare reform must first of all change the basis of providing assistance.

More than 30 states have asked for federal waivers to run welfare experiments. Arkansas, Georgia, and New Jersey have eliminated increased benefit payments to welfare mothers who have additional children. Florida and Wisconsin are experimenting with different versions of a two-year limit on cash payments. Massachusetts has asked for—but not yet received—a waiver that would allow it to require welfare recipients to go to work within 60 days of receiving their first welfare check. Wisconsin and Ohio have cut payments to families whose children skip school. Wisconsin also has something called Bridefare to encourage marriages, and ten states have sought to extend welfare to two-parent homes.

Robert Carleson, who was President Reagan's top welfare adviser in California and the White House, proposes turning welfare responsibilities completely over to the states. Cash benefits would be ended for women having children out of wedlock. Assistance would be offered only in return for work. Single mothers and their children could be offered residence in group homes, where assistance would be focused on the children, in return for work by one or both parents. State governments would offer assured work for cash wages for all the low-income people who show up in need. Since the poor would have to work to receive assistance anyway, there would be an incentive to take jobs in the private sector, since private sector jobs are likely to be better jobs.

The crisis in welfare is exceeded only by the agony of our education system. Enrollment in public schools has declined by 7 percent in the past 20 years, while per-pupil spending has increased 62 percent after adjusting for inflation—interestingly, that's about the same percentage health care costs have increased during that time. But average test scores have fallen, and American students are bested by those of a dozen other nations on math and science proficiency tests.

Twenty years of increased funding has demonstrated that money will not improve our schools. Neither will smaller classes, higher teacher pay, or "outcomes based education," because the problem is the way our schools are organized. The centralized monopoly governing elementary and secondary education has stifled innovation and prevented the personalized education that enables children to learn.

All across America the powerless and the poor see their children trapped in a Third World education system from which there is no way out. In one district, Peter Pan is banned as politically incorrect. In another, the school board recommends dropping U.S. history in favor of checkbook balancing. In others, condoms are distributed to kids over the written objection of their parents. And by law, there is no exit.

The solution is to open up the system to consumer choice, to match students to schools based on educational need rather than geography, on parents' choice of what is best for their children, not on a bureaucrat's choice of what is best for the bureaucracy. Education must be decentralized and personalized.

While the concept of school choice is supported by 70 percent of Americans, the resistance of the national education lobby is vicious and unremitting. Once again, change must come at the state and local level.

School choice is making headway, even if slowly. Milwaukee has the nation's first publicly funded choice program allowing low-income families to send their children to private schools if they wish. In 1988, Minnesota became the first state to offer statewide choice in its public schools. A study of 126 school principals concluded that choice "stimulated improvements to school curricula, promoted greater parent and teacher involvement in planning and decision making and increased ethnic diversity of schools," and more than 10,000 high school dropouts have gone back to school.

Choice legislation failed by three votes in the Arizona legislature, on a tie vote in the Connecticut legislature, and is likely soon to be enacted in Jersey City, New Jersey. So school choice is one issue where state and local governments have a very real opportunity to innovate, and they are taking advantage of it.

Finally, consider crime. Crime is a state issue that the federal government keeps trying to wrest out of our hands at election time. Both versions of the federal crime bill now being reconciled in Congress make much of additional death penalties and "three strikes and you're out," but the fact is that more than 98 percent of all convictions for violent crimes take place in state courts. Federal money for more prisons and more police may be helpful to the states, but combating violent crime is almost completely a state responsibility.

How can states best fight crime? By locking up the violent and repeat offenders and keeping them locked up, and by assuring certainty of punishment.

A study by Marvin Wolfgang, a criminologist at the University of Pennsylvania, found that 7 percent of urban male youths he studied cause between 60 percent and 85 percent of all violent crime. Moreover, members of the groups had five or more arrests by the time they turned 18. And, for every arrest made, it's estimated they got away with about a dozen crimes. Wolfgang estimated that 75,000 new, young persistent criminal predators are added to our population every year.

Most crimes are not irrational acts. Criminals compare the potential benefits against the potential costs—the main cost is time in prison. Too often the expected benefits of a criminal act seem to outweigh the expected costs.

Morgan Reynolds, a Senior Fellow at the National Center for Policy Analysis, has quantified expected punishment based on the probabilities of being arrested, convicted, prosecuted, and going to prison, and on the average time prisoners spend in prison. He found that expected punishment for serious crimes dropped 77 percent from 1950 to 1974—and the crime rate increased more than 300 percent during the same period. Expected punishment started increasing after 1974, and after a delay until the impact was felt, the crime rate began decreasing in the 1980s. What seems to be most important is keeping the likelihood high that crime will engender punishment. In other words, crime must not pay.

States might also consider turning more of the responsibility of deterring crime over to the private sector. We already have three times as many private security guards as we do police officers. If you doubt that private security is effective, check out a casino some time. You see people carrying around hoards of silver dollars and large bills, yet violent crime is a rarity. States might allow civilians to do police paperwork, putting policemen back on the street, or private attorneys to prosecute lesser crimes so that public prosecutors can devote their resources to serious and violent crime. Private companies could do probation and parole supervision, just as they successfully handle bail bonds today.

People often complain that government is not operated like a business. Of course it isn't—government is *not* a business. Government in a free society must be based on some sort of consensus, which means its actions stem from a host of compromises. Whether any activity of government, even a failing one, survives or dies has little to do with whether or how well it accomplishes some goal or serves some purpose. Rather, its survival is almost entirely a matter of politics—whether its champions have the clout to keep or enlarge the activity, how much pressure each person or group interested in the activity can bring to bear on legislators, what trades or deals can be made, whether proponents can arouse enough public sentiment—dozens or scores of factors that have little or nothing to do with the merit of the enterprise.

This process is not a bad thing. It's necessary to government in a free society. But it isn't efficient and it doesn't allow services to be personalized for the individual. Maybe a dictatorship can be efficient, but a democracy can't. And anything under the direct control of government is going to have the same inefficient, impersonal characteristics. Thus the argument for privatization —for lower taxes to allow more personal opportunity; for school choice to allow a more individualized education; for individual jobs to replace mass distribution of checks for people in need of economic help.

There is a longing in our land for change in the way the nation is governed. It is reflected in the anti-incumbent mood of the electorate, in the dissatisfaction with taxes that leave us with too little of our own money to spend and in the hostility toward the incessant and oppressive hand of regulation.

The states have the opportunity to effect real change that improves our lives. If they offer only more of the same old thing, they will miss an enormous opportunity. But if they offer new directions and innovative approaches, if they ride the global wave of decentralization, privatization, and personalization rather than oaring out against the surf, they not only can improve the lives of their own citizens, but perhaps lead the way in reforming our federal government, too. That is a challenge worth seizing.

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