

# Background

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## Cutting Spending and Living to Tell About It

*Keith Miller and Alison Fraser*

Conventional wisdom has long held that voters punish politicians who cut government spending. Politicians fear that they will be labeled uncaring, lose friends, and maybe even lose their jobs if they try to scale back the size of government, even for the sake of balancing a budget.

If this was ever the case, it is no longer. In the face of increasing government obligations to fund priority programs, reductions in nonessential spending are not only necessary, feasible, and responsible, but also *popular*. A survey of state executives makes the point clear: Regardless of party, current governors who have cut state spending to balance their budgets enjoy strong popularity. Further, their counterparts who chose to raise taxes find support waning.

During the 1990s, state spending increased dramatically, sustained by artificially high tax revenues. However, by late 2001, the tech bubble had burst, the economy had been in recession, tax revenues had declined, and nearly every state was facing a fiscal crisis. The states' responses have varied widely: Some cut spending, some raised taxes, and others used a combination of taxes and spending cuts.

From their choices, a pattern has emerged: Governors who held the line on spending have gained in popularity, while those who increased taxes have received a much chillier reception. Congress should consider this lesson while marking up the fiscal year (FY) 2005 budget.

For example, four governors—two Republicans and two Democrats—have made deep cuts in usually

### Talking Points

- When faced with tough fiscal choices, governors of both parties have increased their popularity by cutting spending instead of raising taxes.
- The Governor of California, Arnold Schwarzenegger (R), has garnered a 65–19 approval–disapproval rating largely because of his steadfast opposition to tax increases and willingness to fight for spending cuts.
- Governors Pawlenty (R–MN), Benson (R–NH), Owens (R–CO), and Ehrlich (R–MD) have also retained the public's favor despite reducing spending.
- Phil Bredesen of Tennessee and Jennifer Granholm of Michigan, two of the most popular Democratic governors, have tied their administrations to spending cuts and earned high approval ratings of 72 percent and 77 percent, respectively.

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sacrosanct programs and have seen their popularity skyrocket.

### Governor Arnold Schwarzenegger (R-CA)

In recent years, California has been the most outlandish case of fiscal mismanagement. The electorate recalled Governor Gray Davis (D) and sent Arnold Schwarzenegger to Sacramento with a mandate to restore fiscal sanity. The “Governator” immediately declared a state of financial crisis and attempted to cut \$1 billion from the current fiscal year budget. Although the California Assembly has tried to frustrate his efforts, Schwarzenegger proposed a 2005 state budget that cuts \$4 billion. Most of the proposed cuts are in welfare programs, including California’s health care program for the poor and disabled.

Conventional wisdom holds that cutting these kinds of programs will damage a politician’s popularity, but Schwarzenegger’s cuts have had the opposite effect. His job approval–disapproval rating has improved to 56–26 in the most recent Field Poll<sup>1</sup> and an amazing 65–19 in the *Los Angeles Times* poll.<sup>2</sup> The new governor is so popular that many analysts believe Democratic-leaning California may be in play for the 2004 presidential election.

Schwarzenegger’s connection with the electorate was again demonstrated on Super Tuesday, when California voters supported his positions by passing the \$15 billion bond together with a balanced budget amendment and by rejecting an initiative that would have made it easier to increase taxes.

Some have suggested that Schwarzenegger’s popularity is a function of his celebrity rather than his policy, but this analysis is flawed. Just when the honeymoon should be ending, Californians are backing Schwarzenegger’s policies.

### Governor Tim Pawlenty (R-MN)

When campaigning for governor, Tim Pawlenty signed the Taxpayer Protection Pledge, promising to veto any tax increases. At the time, Minnesota faced a projected \$1.6 billion deficit. By the time he took office, that figure had been revised upward to more than \$4.2 billion. Under intense pressure from all sides—including three former Republican governors of Minnesota—to raise taxes, Pawlenty refused to abandon his pledge. In his 2003 State of the State address, he argued:

This isn’t brain surgery, folks. The state is simply spending more than it’s taking in. And now we need to do what any Minnesota family who faces a financial challenge would do: sit down at the kitchen table and figure it out. Families can’t raise taxes to get out of a jam, and we won’t either.<sup>3</sup>

By the end of the legislative session, Pawlenty had signed a \$4.23 billion deficit reduction package that did not raise taxes, in spite of a state Senate controlled by the Democrat–Farmer–Labor Party.<sup>4</sup> In fact, after a sustained struggle during which the Senate passed a \$1 billion tax hike, Majority Leader John Hottinger finally resigned himself to reality: “This governor will never sign a tax increase this year.” Pawlenty’s principled stand has won him the respect of Minnesotans, who gave him approval ratings of 58 percent<sup>5</sup> and 56 percent<sup>6</sup> in two recent polls.

### Governor Phil Bredesen (D-TN)

Tennessee’s fiscal situation has been rather contentious over the past few years. Don Sundquist (R) reneged on a campaign promise and attempted to institute the state’s first income tax. His move led to

1. Mark DiCamillo and Mervin Field, “Schwarzenegger After 100 Days,” *The Field Poll* No. 2106, February 24, 2004.
2. Michael Finnegan, “Schwarzenegger Widely Popular; Pessimism About State Declines,” *The Los Angeles Times*, February 26, 2004.
3. Governor Tim Pawlenty, “State of the State Address,” given before the Minnesota legislature, February 6, 2003, at [www.governor.state.mn.us/tpaw\\_View\\_Article.asp?artid=128](http://www.governor.state.mn.us/tpaw_View_Article.asp?artid=128) (March 18, 2004).
4. The Minnesota Democrat–Farmer–Labor Party is the official name of the state Democratic Party in Minnesota.
5. Dane Smith, “Minnesota Poll: Pawlenty’s Popularity Shoots Up,” *Minneapolis Star Tribune*, January 26, 2004.
6. Patrick Sweeney, “Pioneer Press–Minnesota Public Radio Poll: Pawlenty Scores High with 56 Percent of Voters,” *St. Paul Pioneer Press*, February 3, 2004.

raucous protests in the state capital. Sundquist relented and raised the state sales tax instead. Yet, despite \$1 billion in new revenues, Tennessee's fiscal health remained poor.

When Governor Bredesen took office, the state still faced a \$320 million deficit for FY 2002–2003<sup>7</sup> and a projected \$500 million deficit for FY 2003–2004. In response, the Democrat championed and secured across-the-board cuts of 9 percent for most departments in 2004 and has asked for 5 percent reductions in most programs for 2005. Even more important, Bredesen has ruled out any additional tax increases.

As with Schwarzenegger and Pawlenty, Bredesen's cost-cutting ways have boosted his popularity. A Mason–Dixon poll released in February showed that his job approval–disapproval rating was 72–22.<sup>8</sup> When voters were asked in December 2003 how the budget should be balanced, 67 percent said by reducing spending, 15 percent said by raising taxes, and 13 percent said by doing both.<sup>9</sup> Governor Bredesen seems to be following the voters' wishes.

### Governor Jennifer Granholm (D–MI)

Governor Granholm has also cut spending instead of raising taxes. In her first year in office, Granholm slashed \$1.5 billion to balance Michigan's budget. Even sacred cows like state-employee compensation and education funding were not spared. Adult education was cut by 74 percent, arts project funding by 50 percent, and even public school funding by 1 percent. A January 2004 poll found her approval rating at a stratospheric 77 percent,<sup>10</sup> suggesting that spending cuts have resonated with the people of Michigan.

Yet, for some reason, Granholm has changed tack in 2004, proposing almost \$400 million in new taxes.<sup>11</sup> It would be telling if her popularity were to decline as a result.

### Other Examples and Counter-Examples

Although this paper is not an exhaustive study, these four examples suggest a recurring phenomenon. Other examples include:

- Craig Benson (R–NH), who vetoed a budget that would have increased spending because it would have pushed the state further into the red: “I am vetoing a future income tax.” His approval–disapproval rating is 52–29.
- Bill Owens (R–CO), who responded to growing revenues by cutting taxes and holding down spending. A constitutional provision that mandates increased education spending is forcing a budget crisis, but Owens's track record indicates that he will make cuts instead of raising taxes. His approval rating stands at 62 percent.
- Bob Ehrlich (R–MD), who held the line against tax increases and cut spending, although his new budget does propose a car tag fee increase. For now, he enjoys a 62 percent approval rating.

However, raising taxes to balance a deficit has proven unpopular. Governor Davis's attempt to cut the state deficit by tripling the car tax contributed to his recall. Other governors who have hurt their reputations by trying to tax their way out of a deficit include:

- Bob Riley (R–AL), who, after campaigning as a fiscal conservative who would not raise taxes, then advocated a massive tax increase. Although the legislature passed it, the people of Alabama rejected the measure by a 2–1 margin, and Riley's approval–disapproval rating continues to lag at 25–68.
- Sonny Perdue (R–GA), the first Republican governor of Georgia since Reconstruction, who announced tax increases during his first week

7. The State of Tennessee and the federal government number their fiscal years differently. For example, for the State of Tennessee, FY 2003–2004 is a 12-month period beginning July 1, 2003, and ending June 30, 2004.

8. Bonna de la Cruz, “Bredesen Approval Rating at 72%, According to Poll,” *The Tennessean*, February 3, 2004.

9. “Poll: Most Approve of Bredesen's Work So Far,” *The Chattanooga Times Free Press*, December 17, 2003.

10. Charlie Cain and Mark Hornbeck, “Granholm Connects with Michigan Voters,” *The Detroit News*, January 19, 2004.

11. Michael LaFaive, “Tax Shots Across the Budget Bow,” Mackinac Center for Public Policy, February 12, 2004, at [www.mackinac.org/article.asp?ID=6216](http://www.mackinac.org/article.asp?ID=6216).

in office. His popularity still hovers just below 50 percent.

### **Conclusion**

As Members of Congress craft budget resolutions and spending bills, they should take to heart this simple and clear message from the states: Voters understand how budgets work, and they respect

lawmakers who keep a tight grip on the public purse. Out-of-control spending is not just irresponsible; it is a guaranteed way to lose constituents' trust.

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