

Restoring Prosperity to Massachusetts: Cutting Taxes and Bringing Growth Incentives to the Bay State

By The Honorable William F. Weld

I would like to fill you in on what has been going on the last year in Massachusetts. I realize that I'm something of an anomaly being an elected Republican from Massachusetts. With the passing of the late, great Silvio Conte, I'm probably about the only one you've seen down here recently.

But we have been witnessing something of a transformation in our state. When we talk of tax packages on Beacon Hill in Boston these days we're talking about tax reduction packages, rather than tax increases.

This did not come easily or quickly to Beacon Hill. I'm one of those, like I suspect many of you in my generation, who thought I must have been crazy growing up, because everything I was reading about national politics struck me as upside down, backwards, and crazy. The Great Society programs of Lyndon Johnson were all the rage in the area of the country I grew up in.

In some attempts I felt that I just didn't get it. I ran for state Attorney General in 1978, and I had only enough money for one TV spot. So we did a talking head of me looking at the camera saying, "There's no such thing as government money; there's only taxpayers' money." That sounds pretty good, doesn't it? Not in Massachusetts in 1978. I lost by 1.1 million votes, setting a record that endures to this day.

Things did seem to turn around at the national level beginning with the election of Ronald Reagan in 1980. I had supported the candidacy of Congressman Phil Crane, who is no stranger to Heritage, but I came on board quickly when Governor Reagan got over 50 percent in the New Hampshire primary and served for seven years in his Administration.

Fresh Thinking, New Ideas. It really feels good to have survived the twenty years in the wilderness and to see that on a national level, as well as in our state, the freshest thinking and the newest ideas are coming from the Republican Party. We're no longer the party of opposition. We're not naysayers, we're coming up with the innovative approaches that I think the public has a real hunger for. I think it's the Republican Party and not Brand X which understands that the shape of our economy is changing, and the shape of our government has to change with it. We no longer have a 1940s assembly line, manufacturing-dominated economy. We're now in the information age, and we have to jettison the old FDR-type bureaucratic approach to government. Also that approach is an anachronism in this high tech era that we cannot afford.

I like to call the model we're pursuing what David Osborne, a writer about state government, calls "entrepreneurial government," pretty much a first cousin of what Jim Pinkerton at the White House, with whom I hereby associate myself, calls "the New Paradigm." I think it jibes pretty much also with Congressman Gingrich's call to replace the system that we now have with a society and economic structure that promotes opportunity and growth.

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Starting Anew. Certainly our tilt in Massachusetts is towards a system based on competition and accountability. We've just filed a budget for fiscal 1993; it is a so-called performance-based, zero-based budget that assumes you start at zero for every heading of spending the previous year. It is based on results or on outputs, rather than on inputs or prior funding. Our legislature used to adjust each of 1,200 line-items a little bit up or a little bit down every year.

That is not a process worthy of the name of budgeting. If you're going to budget, almost by definition you have to begin each year fresh.

When Justice William Douglas was teaching at Yale Law School, he used to rip up his notes at the end of every term so that he'd be fresh for the new term and not bore his students by repeating verbatim what he'd taught the previous semester. I don't know too many law professors who are smart enough to do that. (I believe Robert Hutchins did that at the University of Chicago.) Essentially, however, that's what I'm trying to do at the budgetary level.

And what we're focusing on is not how much we spent last year, but on what are we getting for the money. If there's only taxpayers' money and not government money, then the taxpayers have a right to know what the outputs are for every dollar they're investing in a given area.

So, for example, we don't ask how much we spent on trucks to clean the streets, but we ask how clean are the streets? We don't ask how much we spent last year on this particular area of education, but how much the kids are learning. Not how much are we spending on filtration plants, but how clean is the water.

It's a philosophy that I think brings accountability to the expenditure of public funds. I was the first Republican governor elected in Massachusetts in twenty years, and the philosophy energizes us for the process that we're now in the middle of. As Will Rogers said, "One revolution is like one cocktail; it just gets you ready for the next one." And that's where we are right now.

Fiscal Free-Fall. When Paul Cellucci, the lieutenant governor, and I took over in January 1991, the state was still in economic free-fall. We really clunked at the bottom, I think, around March, April, and May of 1991. We were losing jobs very fast. We had been in fiscal free-fall the previous couple of years, had three huge tax increases, and much borrowing that got our per capita debt to the highest in the country. Since 1983 when Governor Dukakis returned to office, the state budget had grown at double and triple the rate of inflation—it had gone up between 7 percent and 12 percent a year. And there were no checks and balances in Massachusetts in those years.

As a result, the budgets proposed by liberal tax-and-spenders, passed by members of the same party holding the same philosophy, resembled nothing so much as the definition of a baby: an enormous appetite at one end, and no sense of responsibility at the other.

The result was deficits. We came in the middle of fiscal 1991 and had a deficit of between \$700 million and \$850 million on a budget of \$13.7 billion. That had to be resolved right away for the year ending that June. And we had a projected gap of another \$1.8 billion for fiscal year 1992. That was quite a lot that we had to cut right at the outset.

My feeling was that the way to bridge that gap was not to raise taxes, which had been done the previous three years, but to do just the opposite. So the night that I was elected in November of 1990, I said, "Okay, we're elected. This is great. Let me ask the Legislature if they wouldn't, please, do one thing for us consistent with our philosophy now that we've won. And that's to repeal the state sales tax on business services."

This was a tax that had been enacted in 1990 and was scheduled to go into effect March 1, 1991. And eventually we did succeed in getting that tax repealed.

We balanced both the 1991 and 1992 budgets by making sufficient cuts in spending so we did not have to have recourse to any borrowing from Wall Street.

We not only didn't have any tax hikes, but also we repealed that sales tax. We enacted, with the help of the Legislature, the most generous R&D tax credit in the country. And we cut the size of the budget and spending in absolute terms for the first time since 1945, the year I was born.

The budget for fiscal 1991 under Governor Dukakis had been \$13.7 billion; for fiscal 1992 we will have spent about \$13.5 billion, a slight decrease. I've proposed a budget for fiscal 1993 of \$13.9 billion and change, and the difference between \$13.7 billion and \$13.9 billion is only a couple percent over two years. So we're very much less than the rate of inflation, only 1 percent and change per year on average in terms of growth. There wouldn't be any growth were it not for the growth in federal entitlement programs, which are mandated for the states.

That accounts for hundreds of millions of dollars in growth and spending. I filed this morning a resolution at the National Governors' Association to call on Congress to pass a statute requiring the feds to finance any mandates that they visit upon the states. That has bipartisan support among the governors.

But we didn't want just to blame Uncle Sam, so we have set about reducing the size of our government. We've cut about 5,000 positions from our state payroll. I think the state payroll was about 74,000 when I came in. We have it down now to the high 60s, and we will cut another 2,500 by June 30, possibly with the help of an early retirement program, but possibly just from further layoffs.

Welfare Catch-All. One of the cuts we made that engendered an enormous amount of opposition was in our state welfare program, known as General Relief. It originally was designed to help people who were on their way to receiving federal Supplemental Security Income (SSI) payments, but it had become a catch-all. It was a welfare program that you would apply for if you weren't eligible for anything else. And it described just about everyone in some way. If you were an ex-convict, you were entitled to welfare payments on the theory that you should be re-integrated into society with a helpful pat on the back from the taxpayer. By virtue of being an ex-convict, you qualified for welfare. If you had a substance abuse problem, you qualified for welfare by virtue of being a substance abuser.

Now I said, "This is crazy." So we cut those categories last year over the dead bodies of people who said, "You cannot deny welfare to ex-convicts. If you do, they're simply going to return to a life of crime and spring back to action as second-story men and cat burglars."

At this point, I said, "Wait a moment. The theory of this program, I thought you agreed with me, is it's supposed to apply to people who are unable to find work."

They said, "That's right."

I said, "Well, if they can become a cat-burglar and second-story man they don't really fit into that, so maybe they shouldn't be in it for that reason."

And the response was, "You just don't understand."

But we persuaded the Legislature to repeal the entire statute. It was in the form of an entitlement program, like Medicaid or Aid to Families with Dependent Children (AFDC). So the only way to get a grip on the growth of that account, which is one of our so-called "budget busters" at the state level, was to change the shape of the program.

The Legislature repealed the entire chapter of the General Laws which created General Relief and substituted a smaller package that we negotiated with them. This year I've gone back to the well to tighten the eligibility for that program a little bit more. And so it's a tougher cut. If it was

easy, we would have made it last year. But we needed to cut the spending more, so we proposed not having eligibility extend to able-bodied students between 18 and 21 years of age.

My theory is they can find work, and that has provoked an enormous amount of opposition. You know, it's the same debate that gets played out at the federal level, and in every other state—the "advocates" call for greater and greater spending. I'm sometimes reminded of the line in *Our Town*, where Emily says to her mother, "Mother, am I pretty?" (She's just noticing boys.) And Mrs. Webb says to her, "Now, Emily, you hush up. You're pretty enough for all normal purposes."

We have a budget of \$14 billion, which I suggest is "pretty enough" for all normal governmental purposes in a state the size of Massachusetts.

California, New Jersey Cuts. Frankly, we could be worse off. We've not had to make quite the same level of cuts that governors in other states have had to make. We did not touch AFDC benefits. California, I think, this year is having to cut AFDC quite a lot. In New Jersey, a Democrat, Jim Florio, has just signed a bill that knocks you off welfare if you have a third child—at least for that child. I would never sit still for that. I don't endorse that proposal.

I do endorse the other two major elements of the New Jersey plan, which is to abrogate the "man in the house" rule, which says if there's a man anywhere near the situation, your benefits will be denied.

That is anti-family in my opinion, and just forces people to jump out the back window. And it's unrealistic. The other change in New Jersey is to let people work a little bit and keep their AFDC benefits, which I also think is a good move. It can re-integrate people more gradually into the work force.

It even costs a little bit of money. But I still think it's a good way to help people to get off welfare, and that should be our long-term goal. I said last year I think these human service programs should serve as a trampoline rather than as a hammock.

Preventive Measures. You don't want to encourage people to stay in the human service grant program area, you want to give them every inducement to try to get out. So our budget for 1993 has some initiatives where we're spending more money, new money, and they're in the prevention area to try to prevent people from having to need the taxpayers to pay for services for them. We're spending more money on day care—we're spending more money on the Women, Infants, and Children program, family planning, AIDS prevention and education—to head off the type of problem that is very expensive for the taxpayers and very demeaning for the people who get caught in the web. We think that gives you more bang for the buck than remedial programs which focus on the problem after it arises.

We have launched major reforms in our Medicaid program, which serves about 10 percent of our population, about 600,000 people. It's now a \$2.8 billion program in Massachusetts—it grew at a rate of about 18 percent a year from 1988 to 1991. Governor Dukakis, to his credit, was not ambiguous about what he wanted to do. I personally have heard him boast about how Massachusetts was number one, or near number one in every category of human-service spending in the United States.

It's a point of view. It's not my point of view, I don't think we can afford it, and I think we should focus more on prevention and less on spending money on people who have a claim on our resources.

So there's a lot to work with in the Medicaid and human service area. I was speaking last weekend up in New Hampshire, campaigning with the Vice President, and I ran into Donna Sytek, who is the head of House Ways and Means in the New Hampshire Legislature. She com-

plained to me, "You know, everyone is saying Massachusetts is doing a great job slimming down, and there are people calling me up and saying, 'Why isn't New Hampshire doing the same thing?' Hah. When you lose ten pounds, it's like Roseanne Barr losing ten pounds. When they want me to lose ten pounds that's like telling Cher to go lose ten pounds."

Medicaid Reform. There's something in that. There was a lot to work with in Massachusetts. In approaching the Medicaid area we felt one thing we could do was move to a managed-care system, so that you have a primary provider who is going to be responsible for the health needs of the Medicaid recipient, and people will not "pinball" through the system like they used to, going from provider to provider and escalating the cost to the system. People historically would go open the door of the Mass. General Emergency Room for an earache. It costs the system \$600 every time you open that door.

We don't want to have that, and we think that this managed-care initiative will save us about \$90 million in the near future and make a lot more sense in terms of avoiding unnecessary health care expenditures.

I will note for the record that I discussed the application for this waiver with Louis Sullivan, the Secretary of Health and Human Services (HHS), between when we were elected and when we took over. And he said, "Great, I'll get it back to you by return mail."

I sent it down to HHS; it came back from HHS virtually by return mail. It lay aborning over at the Office of Management and Budget (OMB) for almost one year. We got this waiver approved last Thursday, and that was after some serious tugging and hauling by me with some friends at the White House. But the President indicated yesterday in a response to a question by Governor Florio that he's well aware of the situation and wants these waivers to be granted expeditiously.

We instituted another change in the health care area. When we came in we found a system that had 34 campuses, hospitals and sets of buildings on a lot of land, to take care of 6,500 people. That includes public health hospitals, mental health, and mental retardation hospitals. The system was designed to house 35,000 patients or inmates, and it was operating at only about 16 percent capacity, so we appointed a learned commission to recommend consolidation of some of these facilities.

They came back and said, "Close these nine, and you'll save a lot of money—\$60 million a year, because you don't need the facilities. And also, why pay to heat something in the winter if it's operating at 5 percent capacity?"

Union Opposition. Howls of protests, but the protests are coming from the state employee unions that understandably see their ranks thinning. We've argued that this is the more compassionate thing to do, because with the money we save we can spend more on a less intrusive setting for these people. We can move them into community-based residences, even into private homes, and it's better for the patient.

Most of the families involved agreed with us—that this produces more dignity for the individual and hence is better from their point of view. And I really do believe that the opposition is coming from vendors and state employees who have a pecuniary interest in the current system, but who are not looking at it from the point of view of the patient who is being served. I do think this is one of among many illustrations of how a so-called conservative approach is really a more compassionate approach than a so-called liberal, or big government, approach, which would be a "let us do everything for you" and in essence would be institution-oriented.

So things are getting a little bit better our way. The unemployment rate has been dropping, though I don't know how long that's going to continue. I think we're clunking along the bottom.

I think that often the best thing government can do is get out of the way of economic development.

Tax Cuts. Having said that, I think even state government can play a small role in telling people, "Come on in, the water's fine." I'm a self-described supply-sider. In my State of the State remarks I proposed a number of tax cuts I think are going to promote job creation in Massachusetts.

We proposed abolishing the Massachusetts capital gains tax over a six-year period depending on how long the asset is held. The tax is now six percent for an asset held one year, so our proposal is that if it is held for six years, it should be zero percent. If it is held three years, it's three percent. It's a phased, kind of extreme application of Jack Kemp's idea of indexing.

We proposed dropping the state personal income tax—not a great deal, we dropped it already from 6.25 percent to 5.95 percent—because I threatened to veto any move to preserve it at the old rate. So a so-called temporary tax increase in 1990 became the first truly temporary tax increase in history.

Every other temporary tax increase was extended. One of the reasons I proposed the income tax cut was not simply to get money back into circulation, it was to say to the taxpayers, "Look, you invested in me and Paul Cellucci. We told you our mission was to downsize state government or to control its growth. We've had some success there with the help of the Legislature. This is *payback time*. We want you to participate in the success of our efforts."

This would be something you can see and feel and touch to indicate to you that state government is growing smaller, when the withholding bite out of your paycheck becomes less.

I also think that reducing the revenue available for the beast—the beast being government—is one sure way of making sure that revenue is not going to be spent by the beast.

I'm somewhat pessimistic about being able to control the appetite of the beast. When the money is there, a legislature—any legislature—is going to figure out a way to spend it. This is, I think, a good structural argument for tax relief, such as the broad-based tax relief that the President proposed in the State of the Union address.

Inviting Business. We also have business tax credits, investment tax credits, job creation — huge credits essentially inviting business to come into Massachusetts and the state government will be its partner. If you expand rapidly in Massachusetts in 1992, you can offset the dollar cost of that expansion up to 90 percent of the tax liability for 1992.

I think the state's going to get the money back through the income tax, excise tax, sales tax—all the taxes associated with productive economic activity. It certainly is true that if I were in business, I'd want to look at the changes in the Massachusetts tax code that we've proposed to make it really worth the while of a CEO to come in now.

The handmaiden of all these initiatives is the focus on education at the same time that we're focusing on economic development. I do think the decade of the 1990s and the decade beginning in the year 2000 is going to be vastly more information-oriented, more high tech, more knowledge-based than the economy of the past. If we short change our educational institutions, we could find ourselves out of the swim.

Here, I've been even willing to follow that thought with money. I don't think that everything that works in education costs money, or that everything that costs money works. I have proposed an educational reform bill designed to squeeze some of the bureaucracy out of our public education system. Very generally speaking, it lessens the role of the school committees in

micromanaging kindergarten-through-twelfth-grade education and empowers teachers and principals.

It abolishes tenure along the way. We think that the talent of the teacher, rather than tenure, should govern who is going to be in control in the classroom. But the teachers are not 100 percent against this. Because it is upgrading the funding to try to bring up to a good state average some of the districts where the kids are not even getting a meat-and-potatoes education right now, it's giving more power to the people who are closest to the kids and less to administrators.

I've said that I will increase educational spending on K-through-12 by a couple of hundred million dollars a year for the next several years if this bill goes through. My hope is that's going to bring some hydraulic pressures for the reform bill to go through. Nobody's happy with the current structure.

We've had a number of experiments with privatization, which so far have been successful. I'm a big privatization buff. I hope that that's going to spread through the country.

Fostering Competition. We do not ideologically favor the private sector over the public sector, all we favor is competition over monopoly. Government services traditionally have been conceded monopoly status, and there's no reason they should. That's the reason that in this 1993 budget we just proposed we have numerical outputs. Next to every service delivery group it says how many widgets you're buying for that amount of money. If someone in the private sector wants to look at that item and say, "Well, you're only taking care of 100 foster kids for \$200 million. I can do it for \$70 million," I want people out in the private sector to be having those thoughts, and I want them to have a budget document they can read that has numbers in it so they'll have a basis for saying they could deliver the same service more cheaply, or more services for the same dollar.

So my hope is that the format of our budget is going to increase the momentum in the direction of privatization for either free-standing government services or for ancillary services, such as automatic data processing, or food services, medical services for a public operation like prisons or hospitals, or whatever.

But it's a great time to be a Republican in Massachusetts. I do think the ideological momentum is on our side, and I don't really say that even so much in a Republican-Democrat partisan way as in an anti-old-style bureaucracy, anti-big government sense. I think that's a trend everybody in this room, almost everybody, can welcome, and I'm very pleased to have had the opportunity to be up there at this time.

