



INSIDE



**Carl Hayden, chairman of the SUNY Board of Trustees, speaking at the Institute's October 6 conference on *New York and the Global Economy***

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**Weak Revenues Mean States' Budget Cuts Likely Just Starting, Institute Study Finds**

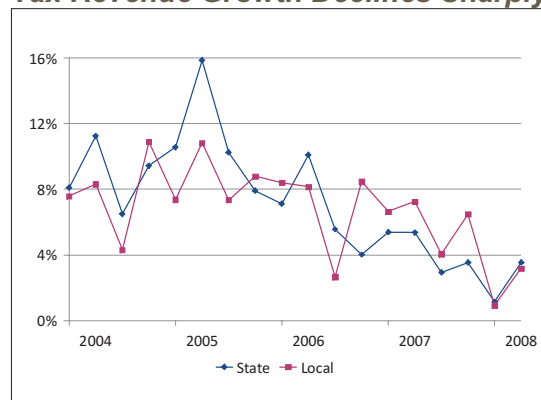
**T**he damage is just beginning in state budgets across the country, with declines in tax revenues likely leading to more widespread budget cuts in the months ahead, according to the latest quarterly state tax revenue report issued by the Rockefeller Institute of Government.

Taxes collected by the 50 states during the second quarter of 2008 rose about 3.6 percent overall as April income tax payments on 2007 earnings overshadowed falloffs in sales, fuel, and corporate income taxes, the Institute reported.

Income tax collections by the states grew by 6.6 percent over the same period a year earlier as residents met the April 15th deadline to pay 2007 taxes. However, state sales taxes

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**Tax Revenue Growth Declines Sharply**



*"New retrenchment" in spending on the poor?*

**Real State/Local Spending on Social Welfare Shows Slight Drop, for First Time Since 1983**

**F**or the first time since 1983, state and local governments are spending less on social welfare, after adjusting for inflation and need, according to a new report from the Rockefeller Institute of Government.

The drop in adjusted spending in 2006 follows several years of slow growth in social welfare expenditures and suggests that such spending may have entered a period of "new retrenchment" after 2002, according to the study authors.

Based on 2006 data — the most recent year for which U.S. Census Bureau figures are available — and adjusted for inflation and the number of persons living in poverty, the report showed a 3.1 percent reduction in state and local governments' spending on social welfare between 2005 and 2006. This drop in spending followed four years of slowing growth in social welfare spending, which includes direct cash assistance, medical assistance, and nonhealth social services such as subsidies for childcare and energy bills.

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# Q&A

*With Thomas Gais*

**Is this recent drop a temporary change in states' social spending, or the start of a long-term trend?**

I think it's a long-term trend, but hard to predict. About 60 percent of state and local social welfare expenditures are funded by grants from the federal government, so if there's a big shift in national priorities, the downward trend could change. However, I doubt that the feds will reverse the trends anytime soon.

**Is spending on health care squeezing out other forms of spending?**

I think there are "squeeze out" effects, though we haven't yet tested the hypothesis with the right data and analysis. Not many econometric studies have tackled the subject, and the few that did usually found little or no squeeze-out effects. When I've talked to many state officials, they certainly think there are squeeze-out effects. Medicaid budget politics seem completely different from the budget politics in most nonhealth programs for low-income people

**Do you expect further divergence among states?**

Yes, unless we see big changes in federal assistance programs. Outside of medical assistance, most of the federal grants that provide extra money to poorer states have been losing real value.

## Real Social Welfare Spending Drops

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**The rapid growth of medical assistance in the early 2000s relative to other social service expenditures suggests that health spending might crowd out nonhealth service spending.**

— Thomas Gais

smaller now, so there's less money for states to shift over to services. Federal grants to states for social welfare programs have been falling. And nonhealth services may have been strained by the growth in medical assistance expenditures.

"The rapid growth of medical assistance in the early 2000s relative to other social service expenditures suggests that health spending might crowd out nonhealth service spending."

While pointing out that Medicaid programs might absorb some of the costs of other traditional social services, Gais said states' efforts to expand health coverage to uninsured or underinsured individuals may create pressures to reduce other forms of social welfare spending.

Gais also said that recent weakness in state and local tax revenues — developments tracked in detail in other Rockefeller Institute reports — are probably creating new pressures to cut spending.

The 2006 reduction was largely due to a drop in medical assistance spending in the wake of the Medicare program taking over Medicaid prescription payments for those patients enrolled in both Medicare and Medicaid. Other types of social welfare spending have been falling in adjusted terms for years. Cash assistance spending fell in 2006, the 11th year of consecutive annual declines. Social service spending changed little in 2006, following declines in 2003, 2004, and 2005.

A large part of the decline in social welfare spending was due to reductions in federal grants to the states. Those reductions led to growing differences in states' spending on social welfare, as wealthy states — those with high per capita incomes — compensated for the federal cuts by using their own taxes to fund such programs, while low-income states did not.

"The 2006 reduction and the slowdown since 2002 in total social welfare spending reflect a long-run decline in cash assistance, a more recent drop in nonhealth social services, and a sharp yet probably isolated decrease in medical assistance spending in 2006," said study co-author and Rockefeller Institute Co-Director Thomas Gais. Rockefeller Institute Senior Policy Analyst Lucy Dadayan co-authored the report with Gais.

Gais added that the factors leading to the retrenchment after 2002 may continue to be important in future years. "States have been squeezed from several sides in recent years. Fiscal savings from falling welfare caseloads are much



Thomas Gais is co-director of the Rockefeller Institute of Government. He has conducted research and written on

American federalism; the implementation of social programs, especially welfare reform, by state and local governments; state spending on social programs; and the effects of state fiscal capacity and economic changes.

For a full copy of the new report, visit [www.rockinst.org](http://www.rockinst.org).

## Study Shows How States Vary in Use of Community Colleges

With relatively little fanfare, community colleges have emerged in the last 40 years as an increasingly dynamic and important part of the postsecondary education system in the United States.

But a new Rockefeller Institute of Government analysis shows that states differ greatly in the use they make of their community colleges. Two-year schools enroll almost half of all postsecondary students in some states — but only about a quarter, or less, in most of the states. The share of a state's over-18 population enrolled in community colleges varies by as much as five to one.

In the nation as a whole, community colleges enroll some 6.2 million full- and part-time students — more than 4 out of every 10 undergraduates. Another 5 million students of all ages attend community college for noncredit courses. Community colleges are also a relatively inexpensive option for students and taxpayers alike.

Community colleges produce graduates with the skills to handle a wide range of jobs that need more than a high school education, but don't necessarily require a four-year degree — nurses, police officers, EMTs, firefighters, technicians, accounting clerks, and drug counselors. They operate thousands of job-training programs that don't point to a

degree, but that help employers meet their staffing needs and help workers adapt to a rapidly changing job market. They are the primary way most states deliver postsecondary remedial education, as well.

The Rockefeller Institute ranked each of the states on five different ways of measuring the use and growth of the community college option that they offer their citizens.

Four states — Iowa, Mississippi, New Mexico, and North Carolina — are ahead of the national rate on all five measurements. Seven others are ahead on four of the measures: Arizona, Illinois, Kansas, Maryland, Nebraska, Texas, and Wyoming.

New York State ranks above average in the percentage growth in community college enrollment (up 12.7% between 2000 and 2005). And community college en-

rollments in New York grew 5.3 percentage points faster than the state's growth in public four-year

college enrollments — also above the national average. But New York still ranks 30th in the percentage of its full-time-equivalent higher-ed enrollment who are enrolled in community colleges (20.6%), 28th in the portion of the 18-and-over population who are en-

rolled in community colleges on a full-time basis, and 35th in the portion of the 18-and-over enrolled in community colleges on either a full- or part-time basis.

Community colleges appear to be particularly important in many rural states — such as Wyoming, Mississippi, Iowa, South Carolina, Kansas, and Nebraska. And the challenges of operating in a rural environment emerged as a key factor in a second study the Institute undertook in New York State.

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**In the nation as a whole, community colleges enroll more than 4 out of every 10 undergraduates.**

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### Institute Report Suggests Closer Ties Between Northern New York Colleges

The Rockefeller Institute of Government recently issued a report suggesting that Clinton Community College and North Country Community College explore deeper collaboration and other options for strengthening the educational services they provide across a sprawling region of Northern New York State.

The report, "Building New Strengths: The Future of Clinton Community College, and of North Country Community College," was prepared for the State University's Central Administration, at the request of New York State Sen. Elizabeth Little. Her district includes the service territories of both colleges.

The report said the two colleges and their boards of trustees might be able to identify ways to collaborate more closely, both to expand the range of educational programs they offer, and perhaps to achieve some efficiencies.

For a complete copy of the new reports, visit the Education section at: [www.rockinst.org](http://www.rockinst.org).



Senior Fellow David Shaffer concentrates on education accountability, higher education and workforce development.

From 1993 through 2007 he was president of the Public Policy Institute, the research affiliate of The Business Council of New York State.

**Superficially, tax collections appeared to be doing okay in the second quarter — certainly not the leading edge of a fiscal crisis. But below the surface, great trouble is brewing.**

— Donald J. Boyd

## Study: State Budget Cuts Likely Just Starting

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dropped 1.4 percent, corporate income taxes fell 8.3 percent, and motor fuel taxes declined by 2.1 percent.

When adjusted for inflation, overall state tax collections rose 1.6 percent compared to a year earlier.

“As noted in our report last quarter, April-June tax collections reflected strong payments with income tax returns for 2007 due on April 15th — last year’s economy is doing well,” said Rockefeller Institute Senior Fellow Donald J. Boyd,

co-author of the September report. “But payments based on current economic activity have been much weaker.

“Superficially, tax collections appeared to be doing okay — certainly not the leading edge of a fiscal crisis. But below the surface, great trouble is brewing,” Boyd added. “Some states have already made mid-year budget cuts, and more widespread cuts are virtually certain as revenues deteriorate further.”

An Institute “Flash Report” issued in early November showed state revenues weakening further in the July-September quarter, with nationwide growth at 0.1 percent compared to a year earlier.

Current indicators show that overall state tax collections in the third quarter will weaken considerably, according to the Institute.

On top of the current tax picture, Boyd said the prices state and localities pay for goods and services rose by 6.6 percent during the second quarter, 4.6 percent higher than economy-wide inflation — the largest such difference in 60 years.

According to the new report, Arizona, California, Florida, Michigan, and Rhode Island have been suffering the most. It is expected that these fiscal problems will spread to Connecticut, New Jersey, and New York, due to those states’ reliance on the financial services industries and steeply progressive income taxes that extract much of their revenue from individuals with high wages and investment income. For a complete copy of the report, visit

[www.rockinst.org](http://www.rockinst.org).

State Taxes Weaken Further In Third Quarter			
% change, July-September 2007 to 2008, selected states			
State	Personal income tax	Sales tax	Total taxes
California	0.0	(6.3)	(4.5)
Florida	NA	(6.9)	(8.2)
Georgia	(2.4)	(3.1)	(2.6)
Illinois	3.7	2.5	2.7
Michigan	7.9	3.0	5.5
New Jersey	(0.8)	(4.8)	(1.2)
New York	3.9	2.6	4.1
Ohio	(1.1)	0.7	(0.6)
Pennsylvania	2.4	0.2	(2.1)
Texas	NA	5.2	4.0
<b>Avg., 42 states reporting data</b>	<b>1.5</b>	<b>(0.7)</b>	<b>0.1</b>

**Some states have already made mid-year budget cuts, and more widespread cuts are virtually certain as revenues deteriorate further.**

— Donald J. Boyd



Donald J. Boyd is a senior fellow at the Rockefeller Institute. His previous positions include director of the economic and revenue staff for the New York State Division of the Budget and director of the tax staff for the New York State Assembly Ways and Means Committee.

### THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

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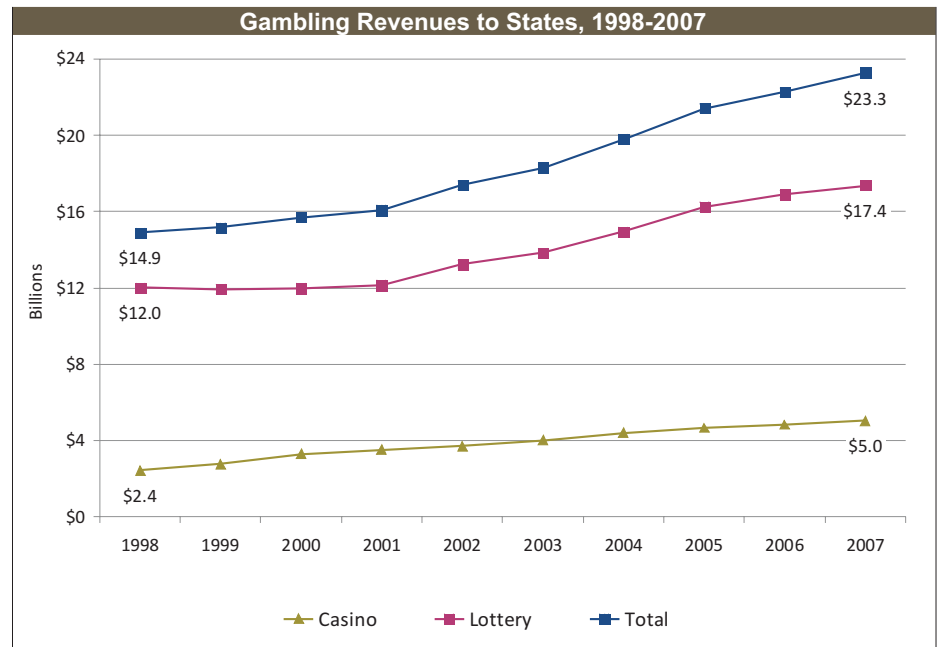
## Growth in States' Gambling Revenues Is Slowing

A new Rockefeller Institute of Government study tracking states' revenues from gambling shows that lotteries, casinos, racinos, and pari-mutuel betting now generate over \$23 billion annually for states.

According to the new analysis, however, the average annual growth rate of 5.1 percent from all gambling activities over the past decade has begun to slow down. During the first three quarters of the current fiscal year, for example, the growth rate for revenues from casinos and racinos was only 0.7 percent compared to the same period a year earlier, according to the report, *From A Bonanza to A Blue Chip? Gambling Revenues to the States*.

"For more than two decades, states saw lotteries and casinos as a bonanza of new dollars for education and other programs," authors of the study noted in the report. "Gambling revenue is now at an all-time high, but growth is slowing due to objections about social impacts and broader economic trends. From a fiscal perspective, state-sponsored gambling now resembles a blue-chip stock — reliably generating large amounts of cash, but no longer promising dramatic growth in revenue."

The independent Rockefeller Institute study — written by Institute Deputy Director Robert Ward and Senior Policy Analyst Lucy Dadayan — is the first of its kind to track state revenues from all gambling sources over the past decade. The new study included revenues from racinos, a relatively new source of revenue where slot machines, table games, or video lottery terminals are placed in existing racetracks.



As recently as 1992, states' gambling-related revenues were roughly a third of today's total, around \$8 billion. Since then, gambling revenues have climbed steadily to \$23.3 billion in fiscal

8.7 percent. In the two previous years, the growth rate was more than twice that.

Today, tax revenues from gambling make up between 2.1 to 2.5 percent of states' overall "own-source" (nonfederal) revenues. During fiscal year 2006, Nevada and West Virginia had the highest percentage of tax revenues generated from gambling activities: 13.4 and 8.9 percent, respectively. Alabama, Arkansas, and Wyoming relied the least on gambling-related tax revenues. Currently, only two states — Hawaii and Utah — have no state-sanctioned gambling.

For the most recent fiscal year, 2007, the \$23.3 billion in states' tax revenues was broken out as follows: \$17.4 billion from state lotteries, \$5 billion from casinos, and about \$900 million from racinos and pari-mutuel wagering facilities.

For a complete copy of the new report, visit: [www.rockinst.org](http://www.rockinst.org).

### The study is the first to track state revenues from all gambling sources over the past decade.

year 2007, following the introduction of new sources of revenue along with expansion of existing sources. For the first year tracked by the Rockefeller Institute study, states' revenues from gambling were \$14.9 billion in fiscal year 1998. Since then, the revenues have grown overall by over 56 percent, or 27 percent when adjusted for inflation.

The slowing trend in growth began about three years ago. Between fiscal years 2005 and 2007, tax revenues from gambling grew

## Examining New York and the Global Economy

New York is facing an economic crisis different from many others in the past, due in part to its heavy reliance on the financial sector. At the same time, it's critical that the state continue to invest in its future by maintaining and enhancing the State University of New York's (SUNY) network of 62 campuses.

These and other messages related to New York's place in the global economy were delivered by speakers at the Rockefeller Institute of Government's October 6th New York State Network for Economic Research conference, *New York and the Global Economy*. Attended by close to 100 individuals and members of the press, the event was co-sponsored by SUNY's The Levin Institute in New York City.

### New York in the Economic Crisis

Lunchtime speaker Rosemary Scanlon, the former chief economist for the Port Authority of New York and New Jersey, said the nature of the current economic crisis differs from those in the past because of the hard-hit financial services industry, from which New York State generates some 20 percent of its tax revenue.

"With a hurricane you pretty much know what's going to happen with the damage...

With an earthquake you might not know when it will happen, but you have a sense of what to expect," Scanlon said. "But with a financial meltdown you don't really know ... it's a bit murkier and once again, though, New York City will be ground zero."

Scanlon, who explained that a third of New York State's gross domestic product flows from the financial sector, said even though Wall Street profits began to dip in 2007, bonuses paid to financial services workers remained high — until now. This is critical since in 2007 financial services average wages were about five times all wages in New York City. She cited a recent New York State Comptroller forecast that financial services job losses in New York City could exceed 40,000 this year, nearly cutting in half the bonus pools that generate significant tax revenue for the state.

"In general, state and local governments are going to be stretched thin; they will either have to raise taxes or cut services," Scanlon said. But, she emphasized, "You have to grow your way out of a recession."

### Staying Competitive in the Global Marketplace

Keynote speaker Carl T. Hayden, chairman of the SUNY Board of Trustees, stressed the importance of the state's higher education system in recovering from the economic downturn gripping the country.



Carl Hayden

**You have to grow your way out of a recession.**

— Rosemary Scanlon



John Wang



Rosemary Scanlon

“We’ve reached an era in which virtually everything is transportable ... especially intellectual capital,” Hayden said. “Ultimately it will be left to the skill of workers here to determine our place in the world. If workers here possess a high level of skills, America, and New York, would never abandon its position of leadership in the world. The future belongs to those who can best create, nurture, and commercialize intellectual capital.

“You cannot cut your way out of a recession; you must grow your way out of a recession,” he added, calling for the state to resist future SUNY budget cuts. Instead, Hayden said, New York should work to expand higher-education opportunities as China, Ireland and other rapidly growing nations have done.

Citing the example of the internationally recognized research underway at SUNY’s College of Nanoscience and Engineering (CSNE) in Albany, Hayden said it was an excellent model of collaboration between academia and private industry. Companies such as IBM, he said, were placing bets on where the best research was occurring across the world and choosing to collaborate with organizations such as CSNE.

“Cutting edge research is the key to economic vitality and the SUNY system is the perfect place for that to take place,” Hayden said.

## Panel Discussions

The conference also featured two panel discussions. The first, “Research on Human Capital,” was moderated by Risa I. Palm, SUNY’s provost and vice chancellor for academic affairs.

“The topic of human capital in a global economy is central to the understanding of economic development,” Palm said. “The timing for this issue, central to our future in New York, has never been more important.”

Panelist Richard Deitz, regional economist for the Buffalo Branch of the Federal Reserve Branch of New York, delivered a presentation on how education translates into wealth, as measured by a region’s per capita gross domestic product. Peter Lombardi, policy analyst from the Regional Institute at the University at Buffalo, discussed the role of immigration in the development of the country’s and New York’s workforce.

The second panel was moderated by Garrick Utley, president of the Levin Institute. “Insights on International Development” featured Asian-American Business Development Center President John Wang and Jonathan Bowles, director of the Center for Urban Future.

“The question we should be asking at this time is whether New York State is still attractive to outside investors,” Utley said.

Wang discussed ongoing efforts to build better trade and investment links between China and New York, while Bowles highlighted the major role that immigrant entrepreneurs are playing in New York City and other metropolitan areas.



Risa Palm

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**Ultimately it will be left to the skill of workers here to determine our place in the world.... The future belongs to those who can best create, nurture, and commercialize intellectual capital.**

– Carl Hayden

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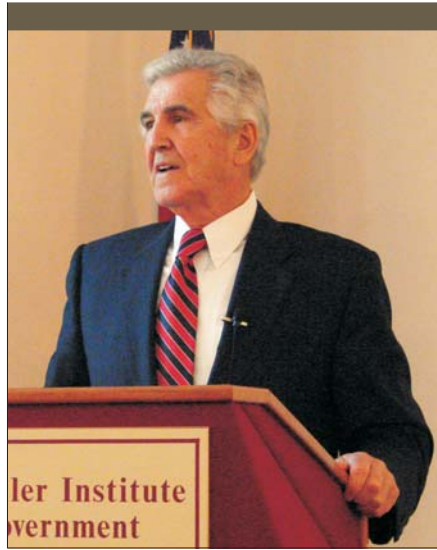
To listen to audio of the entire conference and to view speakers’ presentations, visit the *New York State Government* page at [www.rockinst.org](http://www.rockinst.org).

## Recent Institute Forums Focus on Immigration; Gubernatorial Succession and Powers of the New York Lieutenant Governor

**T**wo Rockefeller Institute of Government forums earlier in 2008 examined issues related to immigration in the U.S. and gubernatorial succession and the powers of the lieutenant governor in New York.

On May 29 — just over two months after the unanticipated resignation of then New York Governor Eliot Spitzer on March 17 — a number of elected officials and academic experts discussed what happens when a governor leaves office during a term and how it impacts the powers of his constitutionally designated successor: the lieutenant governor. Key speakers at the event were then Senate Majority Leader Joseph L. Bruno and New York State Assemblyman Robin Schimminger. Following them was a panel comprised of: Gerald Benjamin from SUNY New Paltz, Richard Briffault from Columbia University, and Peter Galie from Canisius College.

Speakers touched on a number of topics, including the issue of the unfilled role of lieutenant governor once the officeholder begins serving the remainder of the governor's term. Under the New York constitution, the lieutenant governor's office remains unfilled for the balance of the term while the Senate majority leader fills that role on an acting basis when necessary — especially when a tie-breaking vote is needed in the Senate. Some of the discussion centered around whether this would mean that the majority leader at the time of the forum — Senator Bruno — could have two votes in the event of a tie in the Senate.



**Joseph L. Bruno**

“Constitutionally, the lieutenant governor in the Senate has the deciding vote. So, the scholars who study the constitution say as majority leader you have a vote. As acting lieutenant governor in certain times, you have a vote,” Bruno said. “You have two votes. I think the constitution is very clear.”

Earlier, Schimminger discussed a constitutional amendment he had proposed, which would require that the governor appoint and both houses of the state legislature confirm a new lieutenant governor, replacing the process used today.

### Immigration Forum

On June 23, Jason L. Riley of the *Wall Street Journal* editorial board delivered the keynote speech at a book forum named after his recently published book, *Let Them In: The Case For Open Borders*. He was joined by Pedro Caban, vice provost for diversity & educational equity at the State

University of New York, and Irene Lurie, now a senior fellow at the Rockefeller Institute, and recently retired as professor of public policy and administration at the University at Albany.

“What is the case for open borders? Very simply, the case for open borders is the case for allowing the free market to determine how many immigrants we need in this country,” Riley said. “Right now that determination is made by politicians and public policymakers, who essentially set arbitrary quotas. It’s so many from this country, so many from that country. And like most exercises in Soviet-style social planning, it has been a complete disaster.”

“We have thriving markets in this country in document fraud; we have thriving markets in human smuggling. We have bodies strewn across the Arizona desert. And, of course, we have 12 million-plus illegal immigrants in the country. I think our policymakers would do better to let the law of supply and demand determine the level of immigration.”



**Jason Riley**

To listen to audio and read the transcript from these forums, visit the *Forums and Events* page at [www.rockinst.org](http://www.rockinst.org). For more information about Riley's book, visit [us.penguin.com](http://us.penguin.com).



## Irene Lurie Joins Rockefeller Institute as Senior Fellow



**Irene Lurie**, who recently retired as professor of public administration and policy at the University at Albany, has joined the Rockefeller Institute of Government as a senior fellow focusing on immigration and welfare policy.

“The federal government makes immigration policy,” Dr. Lurie said, “but policies toward immigrants once they have arrived are made at all levels of government, with states playing a key role.”

Dr. Lurie earned a bachelor of arts in economics from Barnard College and received her Ph.D. in economics from the University of California at Berkeley. During her tenure at the University at Albany, she served as acting dean of Rockefeller College and as director of the masters program in public administration and the masters program in public policy. She has served on the staff of the President’s Commission on Income Maintenance Programs, the President’s Council of Economic Advisers and the Institute for Research on Poverty at the University of Wisconsin. She also served as a research assistant at the Brookings Institution.

Dr. Lurie has written extensively on topics ranging from welfare to social services. Her most recent book, *At the Front Lines of the Welfare System: A Perspective on the Decline in Welfare Caseloads*, was published by the Rockefeller Institute Press in 2006.

## Richard Nathan Receives Two Awards

Rockefeller Institute of Government Co-Director **Richard Nathan** recently received two awards that recognized his lifelong devotion to studying and writing about public policy, as well as the accomplishments of the Institute since 1989.

In September, Nathan received the “Lifetime Achievement Award” from the American Public and Human Services Association (APHSA) at that organization’s fall conference in Washington, D.C.

Jerry Friedman, executive director of APHSA, said, “Dick has distinguished himself in the world of social policy. I have always been impressed by his insight on social and welfare policies and his skill and experience he gained through his years working with the federal government. He has provided APHSA leadership with invaluable insight and guidance.”

In October, Nathan was honored by New York’s State Academy for Public Administration (SAPA) when he received the 2008 Nelson A. Rockefeller Award for Excellence in Public Service. The award is given to individuals with a demonstrated commitment to public service, performance, and achievement in the development and conduct of major public programs, and overall approach to the problems and opportunities of government service.

“The choice of Dr. Nathan as this year’s recipient was based on his distinguished public service, exemplary performance, and significant influence on public policy and public administration within New York State and beyond,” said William Tyrell, executive director of SAPA.

## UPCOMING

**November 13, 2008**

### **Tough Times for States and Localities**

How are economic trends affecting state and local finances? Addressing that question will be Rockefeller Institute Senior Fellow Donald J. Boyd; Bruce E. Baker, chief of the state and local branch for the U.S. Bureau of Economic Analysis; and Henry S. Wulf, Rockefeller Institute senior fellow and former assistant chief, U.S. Census Bureau Governments Division.

10:30 a.m. - noon.

**November 24, 2008**

### **Economic Prospects for the North Country of New York and New England**

A presentation and panel discussion on the new report from the Northern Forest Center, *A Strategy for Regional Economic Resurgence: Recommendations of the Northern Forest Sustainable Economy Initiative*. This report can be viewed at [www.northernforest.org](http://www.northernforest.org).

10:30 a.m. - noon.

**December 9, 2008**

### **Health Systems Reform in a Budget Crunch**

Featured speakers: New York State Health Commissioner Dr. Richard Daines; Deborah Bachrach, deputy health commissioner and Medicaid director; and Joe Baker, deputy secretary to Governor Paterson for Health and Human Services.

## Institute Unveils New Web Site

The Rockefeller Institute of Government has revamped its web site, [www.rockinst.org](http://www.rockinst.org), to improve the access to our research and data that it affords to scholars, students, government officials, the news media, and other readers.

The new site presents the Institute's work organized by subject area — including state and local finance, federalism, New York statistics, New York State government, health care, education, workforce, welfare, and social services. Each area is presented in a newly reorganized format that's intended to make the content easier to browse, and the site is backed up by a new Google-based search engine.

The site also provides news and background on the Institute, its researchers, and its public policy forums. The site was developed over a four-month period by a five-member internal team.

## News Briefs

### The Roundtable on Religion and Social Welfare Policy

Recently, The Roundtable on Religion and Social Welfare Policy has been focusing on a potentially broad change in interpretation of federal law on a subject that was debated during the presidential campaign: Whether religious charities that provide services with government funds can prefer people of their own faith in hiring. John McCain supported the right of tax-supported religious groups to make such employment preferences, while Barack Obama said he would limit that right when religious organizations receive public funding.

According to a just-released interpretation from the Bush Administration's Justice Department, highlighted in a recent Roundtable newsletter, tax-funded religious groups may be able to claim an exemption from congressionally mandated employment nondiscrimination

rules under a little-used 1993 law known as the Religious Freedom Restoration Act. While the Justice Department's opinion was narrowly construed to address one congressional earmark to a particular religious charity for a specific purpose, the Roundtable's legal experts say its implications could be far-reaching — giving federal agencies a basis for overriding congressional rules on religious hiring.

The Roundtable — the Rockefeller Institute project that has been tracking the Bush Administration's Faith-Based and Community Initiative for the last seven years — has posted resources on this issue on its Web site, including a recent Q&A with three close observers of the federal faith-based effort. The Roundtable is supported by The Pew Charitable Trusts. The Roundtable's Web site is: [www.religionandsocialpolicy.org](http://www.religionandsocialpolicy.org).

### Books Available From the Rockefeller Institute

The Rockefeller Institute currently makes available through its Web site three recently published books. On an annual basis and in conjunction with the New York State Division of the Budget, the Rockefeller Institute has published the *2007 New York State Statistical Yearbook*. The 32nd edition of the *Yearbook* contains statistics ranging from population to election results to housing and education data.

Also available is the second edition of *New York State Government*, written by Institute Deputy Director Robert B. Ward. Finally, readers can purchase *At the Front Lines of the Welfare System: A Perspective on the Decline in Welfare Caseloads*, written by recently appointed Institute Senior Fellow Irene Lurie. To read more about the books and to purchase them, visit the "Resources" section at [www.rockinst.org](http://www.rockinst.org).

## OBSERVATIONS

## From “Can Do” to “Candor” Public Administration

Richard P. Nathan, co-director of the Rockefeller Institute of Government, was honored with the Nelson A. Rockefeller Award by the State Academy for Public Administration on October 7, 2008. The following is based on his acceptance remarks.

What I recall most about public administration in the 1960s is that there was a “Can-Do” spirit, befitting Nelson Rockefeller.

The striking thing about today is that we can no longer rely on the “Can-Do” approach. We need to add the letter “r” for a “Candor” approach to public administration.

Candidates in the presidential campaign, for example, promised reforms of health care, often focused on a commitment to expand coverage to about 47 million uninsured people. But we cannot do this quickly and well unless we take on the immense cost pressures and associated political and institutional hurdles the nation would have to face.

The Congressional Budget Office (CBO) this year said that total federal Medicare and Medicaid outlays will rise from 4 percent of gross domestic product in 2007 to 12 percent in 2050 and 19 percent in 2082 — roughly equivalent to the total amount that the federal government spends overall today. This represents a jarring fiscal and societal challenge.



Richard P. Nathan was named director of the Rockefeller Institute of

Government in 1989. Previously, he was a professor at Princeton University, a senior fellow at the Brookings Institute, and served in government.

Unless and until we can provide health care more efficiently, there are formidable barriers to any plan for achieving universal coverage.

Besides health care, there are hard challenges for education, jobs, welfare, the environment, infrastructure, housing, energy, emergency management, homeland security, and public safety

and corrections. Candidate’s ideas and goals should reflect not just *what* they will do but also *how* they will do it. The nation has over 80,000 governments — states, counties, cities, and towns — that have to play a role in reforming the organization and delivery of domestic public services.

There is a large and basic underlying political problem to be faced. The American political system is inherently change resistant, helping make our democratic form stable.

The result for leaders who seek to be change agents is that the seemingly necessary bargaining processes often absorb incredible amounts of resources. Compared to the 1960s, we don’t have resources to spare. I worry that American government and the field of public administration needs a large dose of candor to face these challenges.

The best I can do to inject a hopeful note is to suggest that redemption should be sought by “*institutional invention*.” The Berger Commission base-closing approach in New York, using the base-closing approach to gain agreement on a hospital reorganization plan, is a recent precedent.

In studies we are conducting of managerial flaws of the No Child Left Behind Law, health program cost containment, emergency management in the wake of the 2005 Katrina and Rita hurricanes, and social service fragmentation, possibilities emerge that reflect the emphasis of the Nelson A. Rockefeller Institute on building governmental capacity. Still, it has to be said that the size of the tasks to be faced and the difficulties in bringing about institutional change make the challenge for American public administration a daunting one.

Perhaps the economy’s and Wall Street’s woes will provide a window of opportunity for a new agenda for American governance. I surely hope so. But it’s hard to be optimistic.

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**Today’s  
institutional  
challenges  
require a high  
level of realism  
for public  
administration  
about things  
people often  
don’t want to  
hear about.**

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To read the full text of Nathan’s remarks to the State Academy, visit [www.rockinst.org](http://www.rockinst.org).

## Institute Examines States' Efforts to Help Small Businesses Provide Health Insurance

**W**ith millions of small business employees still lacking health insurance, policymakers in the 50 states are trying a wide variety of measures to help employees gain coverage, according to new research released recently by the Rockefeller Institute of Government.

Studying the efforts underway in all 50 states is critical to finding and spreading solutions to the problems small business employees and employers face in attaining affordable health insurance, according to authors of the research, funded by the New York State Health Foundation.

The new research includes the first nationwide scan of the various measures states are using to address the growing problem of small group coverage. In addition to the 50-state research, the Institute released three in-depth case studies on the approaches taken by Maine, Minnesota, and New Jersey.

"States have had some success improving and maintaining access to insurance for small businesses," said Courtney Burke, director of the New York Health Policy Research Center at the Rockefeller Institute. "However, we found that

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**States are still struggling to find a highly successful solution to the problem of coverage for small businesses.**

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most strategies to address small group coverage have been too small in scale to make a large impact on the rate of uninsured. In addition, each strategy used by the states appears to have both benefits and drawbacks.

"States are still struggling to find a highly successful solution to the problem of coverage for small businesses. There may be

no single answer, but further experimentation by states and research on existing reforms may shed light on this issue."

Problems of both cost and access to coverage are acute in smaller businesses. For example, only 53 percent of firms with 25 or fewer employees offer employment-based medical insurance — compared to about 80 percent at firms with 500 or more employees.

"Small businesses employ approximately half of New York State's workers. Despite these economic contributions, they face high health insurance premiums," said New York State Health Foundation President and CEO James R. Knickman. "It is critical that coverage initiatives in New York State address the small group market — we can learn important lessons from other states."

The full set of reports can be found at [www.rockinst.org](http://www.rockinst.org).



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