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THE WALL STREET JOURNAL

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## State Tests Limits of Spending Cuts

By DEBORAH SOLOMON

JACKSON, Miss.—Mississippi Gov. Haley Barbour hailed the Republican wave at the polls this month as a sign that voters want politicians who can cut spending and reduce taxes.

It's just the kind of image that Mr. Barbour is trying to cultivate as he weighs a run for the 2012 GOP presidential nomination.



Associated Press

Mississippi Gov. Haley Barbour, who is considering a 2012 presidential run, is girding his state for new rounds of controversial spending cuts.

"Anyone who says there isn't a part of state government that can't save money doesn't know what he's talking about," Mr. Barbour told his fellow governors at the Republican Governors Association meeting in San Diego on Thursday. "There is no department—the highway patrol, the crime lab, the highway department—that can't save money."

Yet as states nationwide confront budget shortfalls—more than 30 are facing deficits totaling more than \$127 billion over the next two fiscal years, according to the National Association of State Budget Officers—Mr. Barbour's tenure offers a lesson about how governing has a way of clouding the clearest of intentions.

Mr. Barbour has taken an ax to his state's budget more than five times since September 2009. No agency has been spared, with education, mental health and other areas cut by almost 10% from what was originally budgeted for the 2010 fiscal year that ended June 30. He proposed another 8% to 10% cut for some agencies in 2011, and belt-tightening in 2012 is expected to continue.

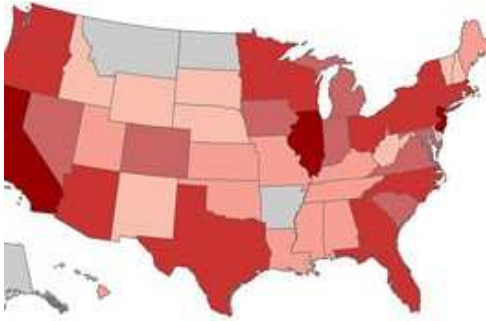
At the same time Mr. Barbour has been cutting spending, he has been buoyed by access to more than \$2.6 billion in funds from the controversial federal stimulus, which forestalled deeper cuts, and by two tax increases he signed into law. Those will be scrutinized closely by tax-averse GOP primary voters should he run for the party's presidential nomination.

The Cato Institute, a libertarian Washington think tank, recently gave Mr. Barbour a "C" for fiscal policy, saying his 'tax and spending record over seven years as governor has not been very conservative.'

### States in the Red

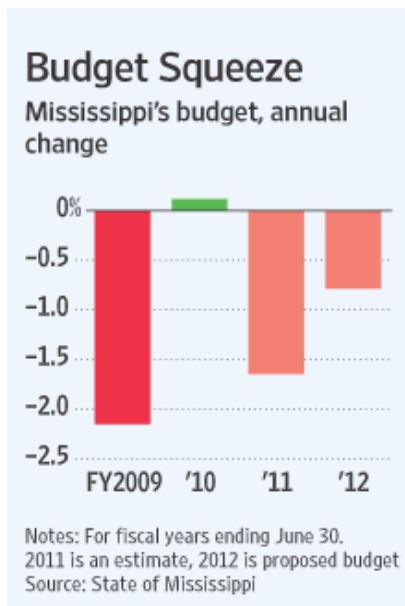
Most states have addressed or still face gaps in their budgets, while tax revenue declined.

Mr. Barbour, 63 years old, defends the tax increases—they were small and one was a reinstatement of an old tax, he said—and the use of stimulus funds, on the grounds that the federal government should be



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of the next year, 53% gave him a good or excellent rating, according to Rasmussen Reports, a polling outfit. In July, at the height of the Gulf oil spill, Mr. Barbour's approval ratings were at 70%, according to Rasmussen. Mr. Barbour is term-limited and can't run in 2011.



allowed to give aid to states, as long as it doesn't come with strings.

So far, opinion about Mr. Barbour's tenure as governor is divided. Officials whose budgets have come under attack, particularly educators and mental-health professionals, are strongly critical of the governor, as are local Democratic lawmakers. "Gov. Barbour just doesn't perceive that government services are critical," says state Sen. Wendell "Hob" Bryan, a Democrat. "Deep down inside he wants to starve the beast."

Most Mississippians, by contrast, approve of his leadership. Mr. Barbour won re-election in 2007 with 58% of the vote. By the middle

of the next year, 53% gave him a good or excellent rating, according to Rasmussen Reports, a polling outfit. In July, at the height of the Gulf oil spill, Mr. Barbour's approval ratings were at 70%, according to Rasmussen. Mr. Barbour is term-limited and can't run in 2011.

Mississippi, like many states, is mired in a fiscal crisis amid an economic downturn that has ravaged its tax revenues. Like a number of other Republican governors and a slew of candidates just elected to Congress, Mr. Barbour used the downturn to justify budget cuts.

Mr. Barbour is chairman of the Republican Governors Association. In a series of TV ads prior to the November elections, the group targeted several Democratic incumbent governors for "wasteful spending" and "job-killing" tax increases. News Corp., the parent company of The Wall Street Journal, contributed \$1 million to the RGA earlier this year.

Other governors also are hacking away at their budgets. In Minnesota, Republican Gov. Tim Pawlenty ordered a series of cuts, including lowering funds for local governments and higher education, and his popularity has eroded. Indiana Gov. Mitch Daniels, another potential 2012 candidate, shrank his state's budget, including pushing students to get college degrees in three years, from four. Democratic Colorado Gov. Bill Ritter, who was facing a tough re-election battle, said earlier this year he would not run again

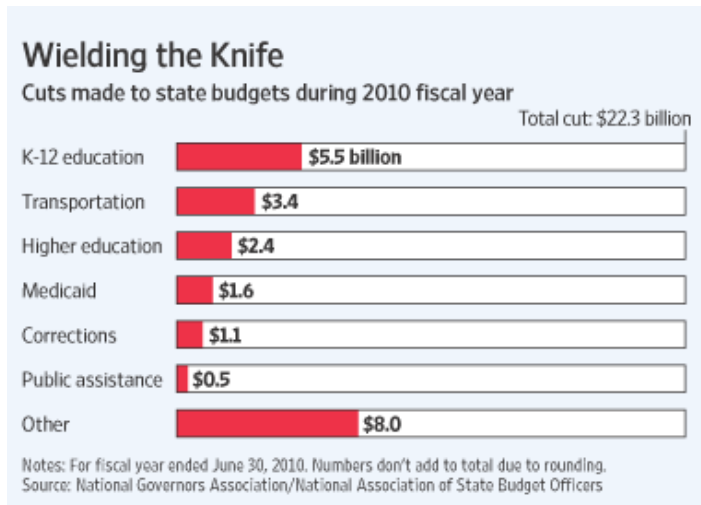
so he could be free to make "tough and unpopular" decisions. Political watchers said his budget cuts had hurt his chances to win.

In an interview in his Jackson office, Mr. Barbour clearly had Washington on his mind, often turning the discussion toward the nation's capital, including suggestions about how to tame the ballooning federal deficit.

"We don't have in America a \$13 trillion national debt because we tax too little. It's because we spend too much," he said. He contends any department or agency can save money without reducing its effectiveness or cutting services. His goal, he said, is to leave office with a budget surplus.

A recent Gallup poll of potential 2012 GOP presidential hopefuls found Mr. Barbour tied for sixth place with Minnesota's Mr. Pawlenty, a decent showing for a politician little known to a national audience. Former presidential candidate Mitt Romney and former Alaska Gov. Sarah Palin led the pack. Mr. Barbour recently sent a mailing to Iowa voters, often the first sign of a planned presidential run.

Mr. Barbour was a lobbyist in the early 1990s, working on behalf of tobacco companies and other large firms, at a time



when such work wasn't a political liability. He became chairman of the Republican National Committee in 1993, just as the GOP was poised to reclaim both houses of Congress.

One political asset for Mr. Barbour is he doesn't come off as a typical politician, with his Southern drawl, portly frame and penchant for short-sleeve dress shirts. He recently referred to himself on CNN as a "fat redneck with an accent." He's made no apologies for his career as a lobbyist, telling a recent Hoover Institution panel he was a "pretty damned good one."

Mr. Barbour took office in 2004 promising not to raise taxes in his first term and hoping he could

cut them in his second. The economy didn't cooperate. By mid-2008, the downturn began sapping tax revenue as people lost homes and jobs. The state's unemployment rate is now 9.8%, above the national average. Businesses reined in spending. Like every state but one, Mississippi must have a balanced budget and must continually review tax receipts to ensure they're in line with estimates. Mr. Barbour ordered his first budget cut of \$41.9 million in the fall of 2008.

By July 2009, revenue was 11.3% below estimates, a trend that continued into the fall. Mr. Barbour had two options for eliminating the shortfall. He could choose to order cuts as the need arose, or wait until the end of October, when state law would require him to cut the budget. Mr. Barbour chose to cut early, and over a period of months excised \$500 million from the state's \$6 billion budget. He told state officials this was a chance to make lasting changes.

The cuts sparked complaints from groups most affected. Mr. Barbour proposed a series of moves he said would save the state tens of millions of dollars, including consolidating the state's 152 K-12 school districts, closing some mental-health facilities and merging Mississippi's three historically black colleges into a single university.

Napoleon Moses, the vice president of the National Association for Equal Opportunity in Higher Education in Washington, a nonprofit advocacy group composed of the nation's historically black colleges and universities, called it an "insensitive recommendation" in a state that has the "ugliest history of perpetuating a dual and unequal higher-education system," a reference to Mississippi's resistance to desegregation. The idea hasn't gained traction in the state Legislature.

Mr. Barbour says that during a recession everyone needs to tighten their belts, and that there was enough fat in the budget that "virtually nobody can feel any negative effect" from the cuts. In addition to his education proposals, the governor is pushing to close four mental-health centers and six crisis centers, which he estimates will save \$28 million over two years.

Yet some budget cuts led cities and towns to raise local property taxes or other levies to pay for schools and services as state funding dries up.

"It may make the state budget look better, but no one seems to be concerned about local people," says James Young, the Democratic mayor of Philadelphia, Miss.

Mr. Barbour says that towns and cities should be belt tightening, not raising taxes.

In addition to the cuts, Mr. Barbour found ways to boost the state's revenue, in ways that could become controversial

should he seek higher office. He criticized the February 2009 federal stimulus package, earning praise from conservatives, but soon relented. He agreed to take Mississippi's portion after concluding there would be no "strings" attached that would require the state to boost spending on certain programs.

He praised a job-creation program the stimulus helped fund, while rejecting a portion of federal funds aimed at providing unemployment assistance to part-time workers. In August, he proclaimed his displeasure with a stimulus-related education bill passed by Congress, while saying he would apply for \$98 million in related funding.

The stimulus money has helped Mississippi avoid even deeper cuts, something Mr. Barbour acknowledges. In an interview he said he has continually warned residents and legislators that 2012 is likely to be the most painful budget year yet because of the falloff in stimulus funds.

He defends his acceptance of the money, despite the impact on the federal budget, saying he doesn't think its "wrong or bad policy for the federal government to give money to state and local governments for certain purposes." He doesn't think there should be additional federal stimulus.

In 2009, Mr. Barbour signed into law a bill that reinstated a hospital tax used to fund Medicaid, the government health-insurance program for the poor. The tax had been blocked by the federal government in 2005 over concerns it wasn't being assessed properly, and Mr. Barbour urged legislators to reinstate it.

That same year, he agreed to two cigarette tax increases: a 50-cent-a-pack tax on all cigarettes and an additional 25-cent increase on generic ones.

Mr. Barbour says the hospital levy wasn't a new tax but the reinstatement of one imposed before he became governor. He says the cigarette taxes "got raised not for budget purposes but for health-policy purposes," while noting also that Mississippi had the second-lowest cigarette tax in the U.S.

"I vetoed it for two years of my first term because I said I wasn't going to raise anybody's taxes," Mr. Barbour says. In his second term, he says, he appointed a tax-inquiry commission, which recommended the increase.

Republican primary voters may see such answers as a distinction without a difference. On the stimulus funds, Mr. Barbour may have an easier case to make. "There's a big difference between voting against stimulus and trying to stop it and, once it's passed, taking the money that would otherwise go to other states," says Whit Ayres, a Republican pollster.

Many within the state are now worrying about 2012, which is expected to be the toughest budget year yet as federal stimulus dollars dry up. Even Mr. Barbour sees a limit to the tough love. "I am concerned that we're approaching the point where across-the-board cuts will no longer be as effective and that we need to restructure some things," he says.

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