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Cato report scores governors on economic performance: Gov. Heineman gets a 'B'

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The Cato Institute's "Fiscal Policy Report Card on America's Governors: 2012" released this week reveals stark contrasts between Democratic and Republican governors on how well they are managing the fiscal health of their state governments.

Founded in 1977, the Cato Institute is a non-profit public, policy research foundation dedicated to advancing the American principles of limited government, individual liberty, and peace.

The introduction to the report explains the power and influence that governors wield in establishing fiscal policy, proposing budgets, recommending changes to tax law and enacting or rejecting spending bills.

Cato awards grades ranging from "A" for those governors who cut taxes and spending the most to "F" for those who raised taxes and spending the most. The grading formula considers seven variables; two based on spending variables, one on revenue generation, and four tied to tax rates.

The four governors who earned an "A" ranking are all lauded as tax reformers in the report. The summary of their achievements are listed as follows:

* Gov. Sam Brownback cut the top individual tax rate in Kansas to 4.9 percent from 6.45 percent, increased the standard deduction and cut taxes on small business income. This tax cut was the biggest tax cut of any state in recent years relative to the size of its economy.

* Gov. Rick Scott ended Florida's corporate income tax for thousands of small businesses. He is also moving ahead with cuts to property taxes on business equipment, which are a big hindrance to economic growth.

* Gov. Paul LePage cut Maine's top individual tax rate to 7.95 percent from 8.5 percent and simplified income tax brackets. He also signed a bill to cut the top rate to 4 percent over time if there are sufficient budget surpluses. Mr. LePage's ultimate goal is to phase out the individual income tax and cut the corporate tax rate in half, to 4 percent.

* Gov. Tom Corbett slashed Pennsylvania's Capital Stock and Franchise Tax and hopes to fully repeal it by 2014. That sounds like an obscure reform, but this tax imposed an $800 million annual burden on businesses. Mr. Corbett is right that it "is a job-killer... We don't need it. We don't benefit from it, and we must get rid of it."

The Cato report card gave "F" grades to governors who have passed large tax hikes that undermined the economic recovery of their states. Pat Quinn of Illinois, Dan Malloy of Connecticut, Mark Dayton of Minnesota, Neil Abercrombie of Hawaii and Chris Gregoire of Washington all preside over states facing severe economic hardships.

Nebraska Governor Dave Heineman earned a "B" grade and was cited in the report for his effective fiscal conservatism and exceptional record on cutting taxes; "In 2006 he approved substantial personal income tax cuts. In 2007 he signed further income tax cuts and a repeal of the estate tax. Nebraska still has an inheritance tax, and Heineman wants to repeal that as well. In 2012 he proposed trimming the top personal and corporate income tax rates."

Heineman joins governors Nikki Haley of South Carolina, Terry Branstad of Iowa, Mary Fallin of Oklahoma and John Kasich of Ohio in seeking business and/or personal income tax-rate cuts as a strategies to insure that their states remain economically competitive.

The Cato report cards over the years have pointed to a small but growing gap between the average scores of Democratic vs. Republican governors. In 2008 Republican governors averaged 55 while their Democratic counterparts averaged 46. In the 2012 study the averages were 57 vs. 43 respectively.

An interesting perspective can be gleaned from the findings on how the leaders of our state governments are dealing with the difficult challenge of meeting the expectations of government while containing the burden on tax payers and moving the needle forward on economic development. The failures and successes tell the tale of what the future holds for our nation.