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Fiscal report card flunks 5 for spend-and-tax follies

By Bob Unruh - 10/12/2012

Five governors, including Barack Obama's friend Gov. Neil Abercrombie of Hawaii, have been given a failing grade in a Cato Institute report card for 2012.

With almost no economic expansion, unemployment running above 8 percent throughout most of Obama's term, fuel costs skyrocketing and the looming cloud of Obamacare taxes, the picture of the national economy isn't exactly rosy.

But because of the power of the states, the governors have had the opportunity to pursue tax reforms and improvements to their own investment climates that would benefit their businesses and citizens.

The Cato report takes a look at which governors have "cut taxes and spending" and which have "increased taxes and spending."

"Many states are facing major fiscal problems in coming years," said the report compiled by Chris Edwards, the Cato organization's director of tax policy studies. "Rising debt and growing health and pension costs threaten tax increases down the road. At the same time, intense global economic competition makes it imperative that states improve their investment climates.

"To that end, some governors are pursuing broad-based tax reforms, such as cutting income tax rates and reducing property taxes on business. The bad news is that many governors are expanding narrow 'tax incentives,' which clutter the tax code in an attempt to micromanage the economy."

How did governor's stack up?

Four governors were awarded an "A": Sam Brownback of Kansas, Rick Scott of Florida, Paul LePage of Maine and Tom Corbett of Pennsylvania.

Five governors were awarded an “F”: Pat Quinn of Illinois, Dan Malloy of Connecticut, Mark Dayton of Minnesota, Neil Abercrombie of Hawaii and Chris Gregoire of Washington.

The study gave the following governors a “B”: Bobby Jindal of Louisiana, John Lynch of New Hampshire, Jack Dalrymple of North Dakota, Robert Bentley of Alabama, C.L. Otter of Idaho, Matt Mead of Wyoming, John Kasich of Ohio, Chris Christie of New Jersey, Rick Snyder of Michigan, Dave Heineman of Nebraska, Scott Walker of Wisconsin, Brian Sandoval of Nevada, Terry Branstad of Iowa, Nikki Haley of South Carolina, Mary Fallin of Oklahoma, Deval Patrick of Massachusetts and Mitch Daniels of Indiana.

Getting a “C” were: Susana Martinez of New Mexico, Jay Nixon of Missouri, Nathan Deal of Georgia, Dennis Daugaard of South Dakota, John Hickenlooper of Colorado, Mike Beebe of Arkansas, Brian Schweitzer of Montana, Rick Perry of Texas, Beverly Perdue of North Carolina, Ray Tomblin of West Virginia and Bob McDonnell of Virginia.

In the “D” range were: Jerry Brown of California, Jack Markell of Delaware, Jan Brewer of Arizona, Steven Beshear of Kentucky, Gary Herbert of Utah, John Kitzhaber of Oregon, Andrew Cuomo of New York, Bill Haslam of Tennessee, Martin O’Malley of Maryland, Lincoln Chafee of Rhode Island and Peter Shumlin of Vermont.

Brownback, for example, “Signed into law one of the most impressive tax reforms of any state in recent years. Brownback called for a ‘fairer, flatter, and simpler’ income tax system and he proposed a detailed reform plan. In May, the legislature delivered a plan to his desk and he signed it into law. The reform simplified the personal income tax structure from three tax rates to two and cut the top rate from 6.45 to 4.9 percent. It also increased the standard deduction, reduced the taxation of small business income, and repealed numerous special-interest tax breaks.”

The result? “The cuts are expected to save Kansas taxpayers about \$800 million a year,” the report said.

At the other end of the report’s scale was Abercrombie. He “focused on increasing both taxes and spending as governor of the Aloha State since 2011. General fund spending jumped about 12 percent during his first year in office. To fund the spending, the government has supported a slew of tax increases. He signed into law higher income taxes, excise taxes, and taxes on rental cars. He has also proposed higher taxes on pension income, soda and alcohol.”

The report said Republican governors “are a bit more fiscally conservative than Democratic governors, on average.”

And that was “even more pronounced” during 2012.

“In this year’s results, there are fewer governors than in prior reports who are out of step with the typical policies of their parties. In both the 2008 and 2010 reports, for example, Democrat Joe Manchin earned an ‘A’, while Republican Jodi Bell earned an ‘F.’” But in this year’s report, all four ‘A’ governors are Republicans and all five ‘F’ governors are Democrats.”

One issue that has “spread like a contagious disease over the last decade or so is the idea of ‘tax incentives,’” the report said.

“Most states now offer dozens of tax incentives targeting favored types of businesses and activities. In Missouri, for example, the value of state tax credits quadrupled between 1999 and 2009, with the state now providing 53 different credits. Wisconsin has 170 official ‘tax exemption devices’ under its income tax, including credits, exclusions, and other sorts of breaks,” the report said.

Such developments are bad policy, the report said, because they create unequal treatment, create costly bureaucracies and raises the likelihood of fraud.

The size of the impact should not be underestimated, the report said. “State and local taxes on businesses cost a huge \$644 billion, which is more than double the cost of federal corporate income taxes,” it said.

“The focus on business tax reduction by a growing number of governors is long overdue,” the report said. “Policymakers who want to reinvigorate America’s manufacturing and industrial sectors should look at reforming the many state and local taxes that impede business investment.”

Bob Unruh joined WND in 2006 after nearly three decades with the Associated Press, as well as several Upper Midwest newspapers, where he covered everything from legislative battles and sports to tornadoes and homicidal survivalists. He is also a photographer whose scenic work has been used commercially.