

The Reform Governors Who Led the Way

To understand today's Republican Party, look to the state houses.

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Republicans meet at the Tampa Bay Times Forum this week to spell out their vision for the country. It needn't be an exercise in imagination.

The party's transformative spirit is already on vivid display, thanks to a crop of reformist Republican governors. With the GOP stymied in Washington, these state leaders—from Chris Christie in New Jersey to Scott Walker in Wisconsin—have become the heart of the conservative movement, many pursuing the sort of thorough overhauls of government once considered impossible. In many cases, the changes are already showing dramatic, positive economic results. Think of the reform governors as the vanguard of the far-reaching policy reforms that Mitt Romney and Paul Ryan now want to bring to the national arena.

"If you want a sense of what the party is, what it really stands for, and what it can do, this is the right place to start," says one of the trailblazers, Indiana Gov. Mitch Daniels. He has cut his state's budget, reduced property and inheritance taxes, overhauled education and created free-market health-care options for state employees and the uninsured.

Credit Barack Obama for the revival of GOP fortunes. Voter backlash to the president's liberal policies gave Republicans the House in 2010, but the more immediate effects were in the states. Of the 29 current Republican governors, 21 have taken office since 2010. Midterm voters also gave the GOP unified control of 26 state legislatures, providing their newly elected leaders the firepower to pursue their reform agendas.

A crisis situation also provided opportunity. For all the talk of Washington rushing headlong toward a fiscal cliff, the states have already arrived there. Years of overspending and accounting gimmicks to paper over growing state pension and health costs have collided with the economic downturn and a sudden drop-off of federal stimulus funds.

"The fiscal reality hit the states sooner, and hard, because—unlike Washington—they have to balance their budgets," says Jonathan Williams, director of tax and fiscal policy at the American Legislative Exchange Council. "The problems were simply too big to ignore anymore, and it set the stage for reforms that not long ago weren't even on the table."

Nowhere have the changes been more striking than in the budget and structural reforms enacted by Mr. Christie (who took office in 2010) and Mr. Walker (who hit the ground running in January 2011). Their high-profile wins over state legislatures and unions were the first signs of reformist Republican governors taking on the public entitlements that are crowding out more vital budget priorities.

Mr. Walker's singular achievement was limiting collective bargaining, which had given unions a lock on state spending. The end of union control has liberated local governments to use competitive bidding to reduce costs for public-school health-insurance plans, to rationalize state employment, and altogether to save taxpayers more than \$1 billion annually and reduce property taxes.

The success of these reforms, and Mr. Walker's victory in the recall battle that his measures provoked, has inspired like-minded governors across the country. Mr. Daniels in Indiana, Tennessee's Bill Haslam, Idaho's Butch Otter, Oklahoma's Mary Fallin and Ohio's John Kasich are among those who enacted their own curbs on collective bargaining (though in the case of Ohio, they were reversed a year later). The National Conference on State Legislatures reported that, overall, some 820 bills to restrict a variety of bargaining practices were introduced in 2011 alone.

As notable were the Walker and Christie victories in getting public workers to contribute more to their pensions and health premiums. In 2011, some 18 states followed suit and required increases in pension contributions; 16 states raised their state-worker retirement ages. And then there have been Republican innovators like Louisiana Gov. Bobby Jindal, who in June signed legislation to move new state hires into the sort of 401(k)-style retirement plan that will finally allow states to manage their long-term liabilities.

The economic downturn has likewise inspired a wave of job-creating tax-policy revisions. GOP governors have not only cut budgets to close deficits but have accompanied these trims with tax cuts. Kansas Gov. Sam Brownback in May signed the biggest income-tax reduction in the state's history, reducing the rate to 4.9% from 6.45%. His move followed income-tax cuts from Maine's Paul LePage and Nebraska's Dave Heineman. Tennessee eliminated its gift and estate taxes. Arizona enacted a historic capital-gains cut.

The bigger revolution has come in corporate-tax reform. Michigan Gov. Rick Snyder in 2011 enacted the most far-reaching of these, replacing the state's complex gross-receipts tax with a straight corporate income tax of 6%. Florida's Rick Scott has chipped away at his state's corporate income tax, and he is among a number of governors trying to cut or eliminate damaging property taxes on business machinery and equipment. South Carolina's Nikki Haley and a half-dozen other conservative governors are working on equally ambitious business-tax rewrites.

Michigan's corporate-tax reform instantly shot the state into seventh place in the Tax Foundation's state corporate tax ranking (from 49th). Since early 2011, Michigan has created an estimated 140,000 jobs and improved its credit rating.

Education reform has flourished in more than a dozen states. In the past two years, Mr. Jindal of Louisiana and Mr. Daniels of Indiana have signed laws that serve as national models for competition and parental choice—making hundreds of thousands of children eligible for vouchers, fast-tracking charter schools, and tackling the once-taboo subject of teacher tenure. Mr. Christie only this month joined them in that effort, scrapping New Jersey's tenure law (the oldest in the nation) and finally tying teachers' employment to merit.

The threat of ObamaCare has inspired a flurry of state efforts to reform Medicaid, many of them building on or similar to federal waivers the Bush administration granted to states like Rhode Island and Florida. These reforms—which often involve contracting Medicaid to managed-care organizations to lower costs and increase quality—are putting intense pressure on Washington to grant more waivers or to move on the Paul Ryan proposal to block-grant Medicaid money to states.

The magnitude of change on the state level is beginning to cause a striking "bifurcation" in state fiscal management, says Chris Edwards, who since 2008 has produced the Cato Institute's report card on governors. While fiscal conservatives have moved to shore up their states for a generation, liberal-dominated states such as California, Illinois and Connecticut have adhered to the deadly cycle of more spending, greater taxes and bigger future liabilities. The contrast between the policies—and results—of conservative and liberal governors is so stark that it will help underline for voters what's at stake in the presidential election.

And that gets us to the politics. Policy aside, Republican reform governors have served as potent local resistance movements to the Obama agenda. Conservative governors have spurned stimulus and ObamaCare dollars, defying federal

intrusion. Governors such as Mrs. Haley have called out the administration's union payoffs, like the National Labor Relations Board decision blocking Boeing's new plant in South Carolina. It was the states that led the legal charge against ObamaCare—and passed initiatives rejecting pieces of the health law.

Most important, these governors' leadership, and their ability to survive the left's onslaughts, have inspired followers and emboldened the party to continue tackling the tough stuff. "We like to talk about political capital, and how to spend it wisely," says Mr. Daniels of Indiana. "But it happens that—just like other capital—if it is invested wisely, it returns to you, and you can put into the next effort, and the next, and the next."

The Republican convention here is headlining no fewer than a dozen of these reform governors, and rightly so. Their ideas and economic successes are proof that free-market reforms work in practice. And they indicate the seriousness that a Romney-Ryan ticket could bring to the White House.

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