

WHAT WE'VE LEARNED ABOUT CUTTING BUDGETS



Rudy Boschwitz
John Gunyou
Peggy Ingison
Jay Kiedrowski
Tim Penny

Moderated by
Mitch Pearlstein



Center of the American Experiment is a nonpartisan, tax-exempt, public policy and educational institution that brings conservative and free market ideas to bear on the hardest problems facing Minnesota and the nation.



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Introduction

Welcome to today's special Luncheon Forum, "What We've Learned about Cutting Budgets," with five distinguished public servants and good friends, in alphabetical order: Rudy Boschwitz, John Gunyou, Peggy Ingison, Jay Kiedrowski, and Tim Penny.

Given a full stage of conversationalists—not speechmakers, I emphasize, but real live conversationalists—this introduction will be brief, and I will say ungrammatically that the severe budget pressure and often shortfalls which have befallen Minnesota and virtually every other state in the nation ain't going away any time soon. I suspect there will be years of relative respite here and there. But because of the adamant refusal of most boomers like me to delay collecting Social Security until age 80; because of our likely inability to stay perfectly healthy and fit until age 85; compounded by our reluctance when we do take our eventual leaves to do so cheaply; and because of other immense and unbending reasons, my dark guess is that public finances all across the United States will be fundamentally out of whack for a generation or more. This says nothing about other parts of the world even more demographically skewed than we are.

What to do?

As advertised, our laser-like focus today is on the expense or spending side of the equation, not the revenue or tax side. Does this nearly singular riveting do full justice to the complexity we face? Of course not. But trying to do too much in a single hour would be far from incisive or helpful.

Do I recognize that lots of people believe raising taxes, starting right now, is essential? Needless to say. Do I recognize that lots of people, and not just on the right, disagree? It goes without saying again. But budget cutting is our story today, and we're going to stick to it as tightly as we can.

Talking about sticklers, we have five of the best Minnesotans ever to wave red pens like batons.

Tim Penny served from 1982 to 1994 in the U.S. House of Representatives, where he coauthored what became known as the Kasich/Penny Budget Cutting Bill, and before that in the Minnesota State Senate. He currently serves as president of the Southern Minnesota Initiative Fund.

Jay Kiedrowski served as Minnesota's commissioner of finance under Gov. Rudy Perpich, and prior to that, as budget director for the City of Minneapolis.



He's currently a senior fellow at the Humphrey Institute at the University of Minnesota.

Peggy Ingison served as Minnesota commissioner of finance under Gov. Tim Pawlenty and earlier as chief fiscal analyst for the State Senate Finance Committee. She is currently chief financial officer of Minneapolis Public Schools, where I suspect she's still involved in doing a bit of cutting.

John Gunyou was Minnesota commissioner of finance under Gov. Arne Carlson, as well as a partner with the largest economic consulting firm in the Rocky Mountains. He currently serves as city manager for the City of Minnetonka. *[Editor's note: Right before publication, Mr. Gunyou was named lieutenant governor running mate for the DFL-endorsed candidate for governor, Margaret Anderson Kelliher.]*

Rudy Boschwitz served from 1978 to 1991 in the U.S. Senate, where he was a member of the Budget Committee. He has also served as U.S. ambassador and head of the delegation to the United Nations' Commission on Human Rights.

Mitch Pearlstein
Founder & President

Saint Paul Hotel
March 2, 2010

Mitch Pearlstein: In all your years of dealing with governmental budgets—more specifically in trying to pare them down—what is the single most important lesson you have learned that can be described in about 60 or 90 seconds?

Tim Penny: Well, one lesson is that Congress at the national level and state legislators here in St. Paul will seldom, if ever, go beyond what the chief executive proposes. They will rearrange the furniture, juggle some priorities, maybe tweak the chief executive by denying him or her something they want in order to enhance negotiations, but the bottom line is that legislators will not take the chief executive's offer and ante up less spending, so to

speak. Whatever the bottom line is in the executive's budget, that's the bottom line others will measure against. I saw this at the state level before I went to D.C.; I saw it when Democrats controlled Congress and President Reagan was in the White House. We never seem to find legislative leadership to take us beyond the initial budget number presented by the executive.

Jay Kiedrowski: Bipartisanship. It's an easy word to say, but it is so critical in budget situations, because one party doesn't want the other party to use budget cuts in *their* election such that they could be defeated. So it's like folks holding hands doing the tough things, knowing their back is covered. I always found it best to go to the conservatives, be they Republican or Democrat. I served a Minneapolis City Council that had only one Republican and twelve Democrats. I had to find the conservative Democrats to work with and have them, then, work with the liberal Democrats enacting budget cuts. The same is true at the legislature. When I was finance commissioner, we had a Republican House for two years and a Democratic Senate, and I had to be able to work with both sides to find those areas where we all could agree to reduce.

Peggy Ingison: I was just going to say ditto to both of these guys. I remember once saying, "Sometimes we have to cut too far until we really know that we've cut enough." We have to be prepared to step back and say, "Well, maybe that went too far." Sometimes, we don't know until it happens. I'm not advocating any recklessness about it. I think, in fact, a lot of the things that we see sometimes become very shortsighted, where we make some cut and over the long haul, it actually causes some increased expenses. We have to be careful and ready to second guess the decisions that we sometimes make, but go ahead and take a little bit of a risk sometimes, as well.

John Gunyou: I've been cutting budgets for about 40 years, and it's easy to cut budgets. But, it's difficult to do it in a thoughtful way. It's easy to cut somebody else's budget. It's easy to make a short-term decision that costs you more in the long

run. It's easy to balance a budget, but it's difficult to do it in a way that leaves your organization better positioned in the long run. Unfortunately, I think in more recent years we've taken the easier way out. Short-term decisions can hurt us in the long run, hurt our competitive position, hurt our productivity. The most important thing I've learned is, it's easy to cut budgets. It's *really* hard to do it in a thoughtful way.

Rudy Boschwitz: I'm the only one up here who has been involved only in the federal budget. I've never been involved with a state budget. The federal budget is not easy to balance. It's been balanced only three or four times in a 40- or 50-year period, once by the Democrats and several times by Republican House Speaker Newt Gingrich when he got a majority. The best way to balance a budget—not to be a partisan about it—is to elect more Republicans, or Independents like Tim Penny.

Likewise, the only way you can do it is to change some of the rules.

The federal budget is a *concurrent* resolution, not a *joint* resolution that needs the president's signature. It's a product of the Congress; presidents have no right to veto it, yet they have to submit one in early February every year. The budget, moreover, has approximately 20 subdivisions called "functions." We argue and argue and argue in committee about how much to put in each function, but none of those figures has a binding impact, as the only binding impact the budget committee has pertains to total dollars. That's sacrosanct.

A number of rules surrounding the federal budget need to be restructured. The budget year, for example, goes from October 1 to September 30. Because Congress, as well as every legislature that I'm aware of, does everything at the last minute, votes wind up being taken just before elections. One of the first things that needs to be done is to have a two-year budget, with it being passed in off years, not in election years. But a whole series of reforms is needed, and I'll allude to them as we go on.

Peggy Ingison: It's obviously difficult to balance the federal budget, but it doesn't have to be balanced, and the state budget does. I wanted to ask Congressman Penny, who has had to deal with both of those levels, to comment on this process issue.

Tim Penny: If I had to offer two principal lessons I've learned in my time in public office, one, as I've mentioned, deals with how the president or the governor sets the bar for keeping spending down, and how that bar is seldom improved upon by the work of legislators. The second would be that *process* matters. John Dingell, who's been in Congress for about 60 years, once said that if you gave him control over the process, and he gave you control over policy, he'd beat you every time because process drives the decisions.

At the state level, we do have a process that begins with the presumption that budgets will be balanced in the context of the biennium. We do have a process that requires us to revisit the budget in the midst of a biennium if things go out of balance. We do have a process that requires both the chief executive and the legislature to abide by the same set of numbers. We have the finance and revenue departments that are the god and the gospel on budget numbers for our state.

At the federal level, none of that maintains. We have a Congressional Budget Office and an Office of Management and Budget, and they are often in disagreement about budget projections and what those bottom-line numbers are. We don't have a balanced budget requirement. Some would argue that we shouldn't have one at the federal level, but by having no restriction there, it really does open the door wide, as we've seen especially in recent years, and it allows Congress to make longstanding spending promises. The Medicare Part D program is one example that comes to mind—it passed without any notion of how we're going to pay for it either in the near term or the long term. But you're allowed to do that at the federal level in a way you wouldn't here at the state level.



The one time we had balanced budgets since the 1960s was at the end of the 1990s, coming into Bush's first term in office—two, three years of black ink—but it was produced, in part, because of the divide in Washington, where a Democrat stood in check against more tax cuts on the part of Republicans. I know we're not supposed to talk about taxes, but Republicans on Capitol Hill stood in opposition to any ideas Clinton might have had about expanding the size of government and spending more on domestic or entitlement programs. So there was a political checkmate going on. That political checkmate was possible because of a budget process that was in place during the 1990s that essentially said no new expenditures could be undertaken unless they were offset in some fashion, so they would not add to the deficit. So, process matters.

Mitch Pearlstein: I want to get back to what John Gunyou was saying. Why is it so hard to do it well? Since you folks have left the offices that brought you here today, has anyone had a great epiphany, a great revelation in which you said, "I wish I had known this earlier?"

Tim Penny: Budget cutting is always easy in the abstract and difficult in the specific. I look at the General Assistance Medical Care (GAMC) debate unfolding in St. Paul. It's hard when you zero in on one specific program to say that it needs to be reformed away, or when the impact of a very specific benefit cut can be easily translated into news stories.

Most of us would agree that when you're facing the budget problems we're facing in Minnesota, there's got to be significant and notable changes on the spending side of the budget. Yet those changes always translate into very specific amounts of pain, and that translates into emotional reactions on the part of the very same voters who say, "Balance that budget without raising my taxes."

John Gunyou: I think another factor is that the process tends to be very tactical and the strategy often gets lost. In other words, the longer-term

strategic objective tends to get subsumed by individual infighting over specific bills, and that caucus infighting is not purely partisan.

To Tim Penny's earlier point: I think you have to start from a sound executive budget, and then the legislature makes changes at the margin. I think in our system, the power of the executive is often understated.

When we had a DFL legislature during Gov. Arne Carlson's first term we used to get 90 to 95 percent of what we proposed in the budget. Of course, I used to think it was just exceptional budget management, but in truth, it's very difficult for a legislative body to make changes to an executive budget. The reason is, the same majority of 201 legislators has to agree on which line items should be taken out and which should be added back in.

In Minneapolis, where Jay and I both served as budget director, the mayor has virtually no authority, except he puts the budget in front of the council, the result of which is that it's difficult for the council to change it.

Rudy Boschwitz: As I mentioned earlier, the number one change needed is taking the budget out of the election cycle and having a two-year budget.

But you also have to understand the budget. Four out of every six dollars at the federal level are spent on entitlements or what might be called "mandatories." That includes interest. So you have to change the rules on Social Security or Medicare or Medicaid if you're going to achieve any savings there. It's not a matter of appropriations. The mandatories are not subject to appropriations.

Then one out of six dollars is spent on defense and somewhat less than one out of six dollars is spent on discretionary spending where there's an appropriation. So every year you vote on an appropriations bill on that grand total of *one* out of six dollars. That leads to reform number two: Taking the appropriations bill, where all the mischief is done with earmarks, out of the election cycle as

well, and instead, have two-year appropriations bills. Because of earmarks, those one-out-of six dollars wind up consuming a disproportionate amount of Senate time.

Reform number three is making the budget a bill which the president has to sign and which he can veto. This is not currently the case. There are always about 34 guys in the Senate who will support a conservative veto on spending, so you'll give the president some real power in this.

Tim Penny: I just want to pick up on the senator's comment about how two-thirds of the budget, roughly, is on automatic pilot. It's the entitlement programs. It's interest on the debt. They are what Congress refers to as permanent law. These are programs that aren't changed on an annual basis. They're not even looked at on an annual basis, except when there's a crisis, as was the case 25 years ago when I first went to Congress. Social Security was in the red, so we created a commission, and we enacted some policy changes to try to slow those costs down and get more revenue into the system over time. Absent that, we don't typically touch any of that part of the budget. We spend most of the year fighting over the other, roughly, one-third of the budget.

I'm on a commission called the Pew-Peterson Commission, because those are the two foundations funding the research project, which is being conducted essentially by the Committee for a Responsible Federal Budget, which I co-chair with another Minnesotan, Bill Frenzel. On this commission is virtually everyone who has ever been an OMB [Office of Management and Budget] director, a CBO [Congressional Budget Office] director, and a GAO [General Accountability Office] director, so they're sort of the budget wonks of the country. We're issuing a report about changing the budget process. One of the things we are likely to include in that report is to say that you can still have entitlement programs and discretionary programs, but as we develop and debate, all spending ought to be treated as equal, and we ought to measure in each budget cycle whether dollars ought to be spent

in this way or that way. We shouldn't have two-thirds of the budget any longer on automatic pilot. It ought to be open to debate and discussion, and other priorities ought to be able to compete with those "entitlement" programs.

Mitch Pearlstein: This gets to the heart of the matter: entitlements. While education and health care are not entitlements as such, these are the largest parts of Minnesota's budget and they're tough to cut. Even if they are cut, there's still a lot of money there. Do the American people, do Minnesotans have the stomach over this next generation to do what you think will need to be done with these really big-ticket items?

Rudy Boschwitz: They better have. They must. There's no question about that.

Tim Penny and I wrote an article entitled "History of Government-Run Health Care is a Study in Skyrocketing Costs," which appeared in *Investor's Business Daily* (July 29, 2009), which showed the three large entitlements—Social Security, Medicare, and Medicaid—over a 40-year period and how quickly spending rose. The whole federal budget in that 40-year period, 1968 through 2007, rose 15.3 times. Social Security, however, rose 25 times. Medicare rose 85 times. Medicaid rose 106 times.

Are we going to have the stomach to do something about it? Boy! We'd better have the stomach to do something about it.

Jay Kiedrowski: The first thing we're going to need is a governor who is truly willing to cut the budget. As Tim Penny suggested, legislators aren't going to spend less than the governor. Therefore, you're going to have to have a governor who's going to put forth a responsible proposal to cut spending to meet revenue levels. The difficulty that we've had is we've had governors who want to put forth politically appealing budgets that include playing to the crowd—for example, not cutting education, or using gimmicks like shifting \$1.7 billion, or using \$120 million in revenue accelerations—things that



don't save you anything in the long run.

Something we introduced when I was commissioner of finance was looking at the next biennium. We did that specifically for some of our Democratic friends who wanted to spend funds on a given program but would introduce a bill with only a quarter of the two-year budget period left, knowing the program's full cost would not be apparent until the next biennium. We kept score on that next biennium.

I think we need a governor who is not only going to propose a budget that is balanced in the current biennium but is also balanced in the following biennium. I can't speak to the federal level, because you've got the lack of a constitutional remedy to a balanced budget. There are two ways to balance a budget. One is to do it the politically easy way, using gimmicks, and the other way is to do it for real and demonstrate that it's balanced for the following biennium.

Mitch Pearlstein: Let me follow up. Jay, your comments are strong, obviously. Can you see a governor, regardless of party, next year recommending deep cuts in K-12 education?

Jay Kiedrowski: I've been meeting with gubernatorial candidates over the last eight months. I've told them they're going to have to be prepared both to increase taxes and reduce spending. Former Governors Arne Carlson, Al Quie, and Wendell Anderson all agree about the need to both cut expenditures and raise revenues. The next governor is going to have to do that. I've told the candidates that and I've also told them that everything will have to be on the board. There's nothing that can be taken off, because once you take something off, then you create an uneven playing field, and that's not the way to cut budgets.

Peggy Ingison: I would just say that I agree with the point about people having to handle this. One of the things that's unfortunate is all of us, collectively, have been kind of delusional about what's really going on. The political leaders and the policymakers have insulated us from reality to

some extent. We need some real truth-tellers out there saying, "This is what needs to be done."

At the same time, I wouldn't suggest we don't have really big challenges when it comes to education. Working in a district that has some of the largest achievement gaps in the country between white students and students of color is a huge problem for us. So while we have these challenges with managing the budget, we also have service demands. We have to stop failing kids, so we have to do something very different in education. We can't just talk about how we're going to cut. We have to talk about the underlying restructuring work that needs to happen. It's looking at things like our public employee contracts and not just saying, "We're going to cut education, and they'll kind of figure things out." We can't afford *not* to invest in better outcomes on education, whether we do it by restructuring with less funding or whatever.

Tim Penny: I just want to echo what's been said here about not all cuts being equal. If cuts, especially in these serious times, aren't made with some idea of what reforms we're trying to achieve, what the cost/benefit is, what the better-bang-for-the-buck we can get is, then cuts can have disastrous outcomes. We're at a point now where we really need to think about the way we're reforming these programs, along with the cuts. Unfortunately, that often isn't the way things are done.

To the point of unallotment: I was in the state legislature before going to Congress when Governor Quie, first of all, used unallotment as it was intended, which was in the middle of a budget cycle, not at the start. But, secondly, he did unallotment in the right way, in that the cuts he imposed were permanent cuts that eliminated spending, not just in the near term but over the longer term. That's not what happened this last time around. Two-thirds of the unallotments were not cuts; they were payment delays, and now those payments are due the first day of the next biennium. These are not permanent savings in our budget.

Rudy Boschwitz: I agree with Tim Penny's statement about Congressman Dingell and procedure. We have to change the procedures.

Bill Frenzel and I every year used to introduce something we called the Common Sense Budget Act. Let's say the government spends \$100 on a program in one year with projections having it spend \$105 on that same program in the next year. If you bring it down to \$104, that's somehow currently called "cutting" the budget by \$1. We need to change the vocabulary. That's the fourth idea on biennial budgets.

And fifth is giving the president a line-item veto.

Before the 1974 Budget Act, presidents used to be able *not* to spend funds which had been appropriated. Eisenhower didn't spend eight percent of the money that was appropriated, and subsequent presidents before 1974 also didn't spend all of the money they could have. So that's very important to do.

Then, of course, there's the balanced budget amendment, but that's probably wishful thinking.

The panelists then took questions from the audience.

Peter Bell: My understanding is that unfunded liabilities at the Federal level are \$65 trillion. We have a \$1.4 trillion federal deficit and a projected \$5 billion state deficit for the next biennium. I was struck by Congressman Penny's and Senator Boschwitz's comments about how if you give someone control of policy and someone else control of process, the process will always win. Do we need to revisit things like a hard constitutional amendment? Do we need to revisit what Colorado has, which is a 60-percent majority to enact any spending increases? Do we need to revisit some very hard procedural blocks to spending, given the numbers I just recited?

Rudy Boschwitz: Peter Bell is singing my song. Yes, there have to be some procedural changes. If

you're going to rely on the goodwill of legislators and on the idea they're going to find some middle ground that they can agree upon, we're going to be back here very often trying to tell one another what we should do about the budget. We need procedural changes and tough enforcement.

Tim Penny: I supported the Balanced Budget Amendment at the national level, and I'm okay with the line-item veto. But as you know, constitutional amendments don't come along very often. The most recent one was passed almost 20 years ago. It was initiated as part of what would have been the *twelve* Bill of Rights instead of the ten Bill of Rights. That was a limitation on legislators raising their salaries until they've been reelected into those jobs. So we don't change the Constitution very often.

We could make budget law changes that would level the playing field about the types of spending and spending decisions that are made, and that would put a premium on keeping deficits under control, especially as this debt continues to climb. At some point, when you get to 100 percent of our GDP consumed in federal debt, we could face some very dire consequences, and we're moving that way.

As Jay has said, we should never just budget for one cycle. I think support can be secured to improve and change these budget processes, short of a constitutional change.

K.J. McDonald: I appreciate very much the remarks by Tim Penny and Rudy Boschwitz both mentioning entitlements. Unfortunately, I'm a member of the generation that thinks we're entitled, in spite of the fact that our grandchildren and great grandchildren are in debt up to their necks to pay for them. Self-reliance is the answer, not continued government growth.

Peggy Ingison: At least a couple of us up here on the panel are part of the baby boom generation. When you look at the demographics, we're this huge group that's moving into the entitlement period of our lives. We're going to stop being contributors in

the economic scheme of things and begin to look at needing health care, pensions and that kind of thing. I think it's up to us to change the dynamic, especially as we think about the national debt or other legacies being left behind. We're really in uncharted territory and I think we have to begin making sure that people understand that there's not going to be an easy solution to this. We have to reverse that entitlement thinking.

Mitch Pearlstein: In ten seconds each, how many years will it take before a critical mass of Americans as well as political leaders *truly* understand all that and are willing to do right things by it?

Tim Penny: I think it will be within the next few years, based on current patterns. The debt is growing alarmingly, annual budgets are taking us into the stratosphere, and there is a backlash building.

Jay Kiedrowski: I'm hoping that this fall's election for governor will help us create a budget balance in the State of Minnesota that's good not only for the current biennium but also for the following biennium. I think there will be a discussion this year, a fiscal discussion, as part of the election. I think Minnesotans will want to be responsible to create a balanced budget in the state.

Peggy Ingison: I would say it's probably not going to happen as quickly as we'd like to see it. I think, though, within a few years. I think we're really approaching a *huge* crisis, and we've just kind of kicked the can down the road for a couple of years in a row, and it's looming. We're not going to be able to do that much longer.

Rudy Boschwitz: Your question assumes that people are going to come to the realization, and I'm not sure that they are. The philosophies of the parties are different. I agree with Lincoln that government shouldn't do for people what they could and should do for themselves. But that philosophy is not on both sides of the aisle. Therefore, it's going to be a while—at least thirteen years.

John Gunyou: Thirteen years. [*Editor's note: Mr. Gunyou was being playful here.*]

Sean Kershaw: In a conversation about cutting expenditures, should tax expenditures ever be put on the table, especially at the statewide level, and, if so, when?

Peggy Ingison: Tax expenditures are a major portion of the budget that doesn't get exposed the way other spending does. Offering tax credits is kind of a manipulative game. They're also administratively inefficient and sometimes ineffective.

Tim Penny: A couple examples of tax expenditures that people would be familiar with would be the tax deduction your employer gets for providing you with health insurance and the year-end income tax credit for low-income Americans. Both of these are, to use another term, entitlements. They're tax entitlements, both of which grow because of the definition of the programs, not because of any annual decision made by policymakers.

Just as I think our entitlement spending each year ought to be compared against our domestic spending, we ought to look at the whole budget. When you have tax expenditures that are dedicated to the same kind of public goal as a spending program—Medicare and Medicaid in the health area, for example—it seems to me, they ought to be up for debate each year with all of the health-related items, because we need to determine what's the most cost-effective way of getting the job done.

Tom Anderson: We've glossed over special interests, but what's the relevance of campaign finance reform and ethics reform?

Jay Kiedrowski: I'll be provocative. I think the political finance reform at the state level that prevents legislators from accepting a lunch or a dinner has done more to harm bipartisanship than anything else that could have happened. It had a huge unintended consequence. People thought they were doing the right thing by making sure lobbyists

couldn't inappropriately persuade somebody with a lunch or a dinner. The old practice of lobbyists taking legislators out where everyone would actually talk to each other, and a lobbyist might actually help mediate a solution to a problem, that's all disappeared. Now, the caucuses go their own ways, and we get more of the extremism.

Rudy Boschwitz: I have yet to see one of these election reform types of bills that can't be circumvented.

Mitch Pearlstein: I very much agree with Jay and American Experiment has worked to loosen overly severe and counterproductive restrictions in Minnesota, albeit without success.

Al Quie: We're talking about process. I think the governor ought to be the one who plays the role of mediator. What if we had a one-term-only governor? I can share with you, when I announced I wasn't going to run again, my courage increased greatly and my relationship with the DFL-controlled legislature improved dramatically.

Jay Kiedrowski: The current governor has announced that he's not going to run for reelection, and I haven't seen any change of behavior.

Peggy Ingison: But Governor Quie was retiring.

Tim Penny: That's the difference.

Jay Kiedrowski: Yes, I think that's the difference. I've always had a problem with term limits. You eliminate the great legislators along with the bad legislators. You eliminate the good governors along with the bad governors. So term limits are problematic.

Let me just say one thing that we haven't talked about. It goes back a little to this entitlement question. You know we really haven't talked about targeting and redesigning public services. On the entitlement programs, we could do a much better job of targeting where the dollars are going and still accomplish most of what programs seek to do. I am

a big believer in redesigning public service.

Rudy Boschwitz: In answer to my friend Al Quie, I am not much for term limits. Frankly, people get to Washington and somebody is going to have to have the power. It takes a good deal of time—I was never in a state legislature or anything else—to understand the government. Somebody has to understand it, and somebody has to use the power that comes with the understanding, and it's either going to be the staff, or bureaucrats, or those who are elected. I prefer those who are elected.

John Gunyou: I'd like to pick up on something Jay said about targeting resources. One of the things we used to talk about in the Carlson administration a lot was the idea that there's not enough money to fund every good idea. It's the idea of not just setting priorities, but also targeting the available resources according to some sort of criteria.

It brings to mind one of the ways we could do that very succinctly. Years ago, I had the opportunity to have lunch with David Stockman, President Reagan's legendary budget director, shortly after he stepped down. I asked him, "If you were king, now that you're gone, what one thing would you have done differently?" He said, "I would have imposed means testing on every federal program," which, basically, means if you don't need Social Security, we don't pay you Social Security. You differentiate between the ability to pay and the need of people. This was probably the top budget cutter of my lifetime saying that.

Peggy Ingison: I totally agree with that. There really has been a lot of good work done over the years, such as the Brandl/Weber report that looked at targeting needs and really foreseeing this crisis combination of demographic and economic things going on in Minnesota. We have to be talking about reform, not just cutting. *[Editor's note: John Brandl and Vin Webber, "An Agenda for Reform," 1995.]*

Jay Kiedrowski: One of the things we haven't talked about is a wonderful budget-cutting mechanism for all of state and local finance, and



that's shaping physical growth. To the extent that we allow growth to go unfettered into new areas, we're wasting the infrastructure we've already built, so a new sewer plant has to go in and another plant isn't fully utilized. Think of Greater Minnesota, where we have a lot of cities now that are losing population. The Metropolitan Council works on shaping growth in this metropolitan area, and that's a *huge* saver of money that we don't think of as a budget cut.

Tim Penny: Three quick thoughts:

One is on this expansion of the entitlement state. One of my key worries about health care reform at the national level is it will add to the number people who are receiving a government entitlement, and that can't be good.

Second, even though pork is a very small percentage of the total budget, it's emblematic of our budget problems. If you can't start by cutting something as easy as that, then who are we kidding that we're ever going to have the guts to go after Social Security, Medicare, and Medicaid, etc.?

Third, who gets appointed to cabinets either at the state level or the federal level matters, and too often we allow people who don't have the requisite skills to serve in these jobs. They need to provide some of the creative thinking we need if we're going to reform the programs that need to be reformed and if we're going to save some money. Political hacks in these jobs, absent other skills and knowledge base, are not going to help us get that job done.

Rudy Boschwitz: The federal government is going to spend \$3.8 billion this year and is going to take in \$2.2 billion. That simply can't go on. So when you vote for people, just make sure that you vote for people who are dedicated to bringing about a balance, and tell them you're going to watch them. And give them some time; they can't turn the ship around in a very short period.

Also, watch out for budget reconciliation. It's very mischievous.

Mitch Pearlstein: Thank you all. That was a terrific and especially helpful session. ■

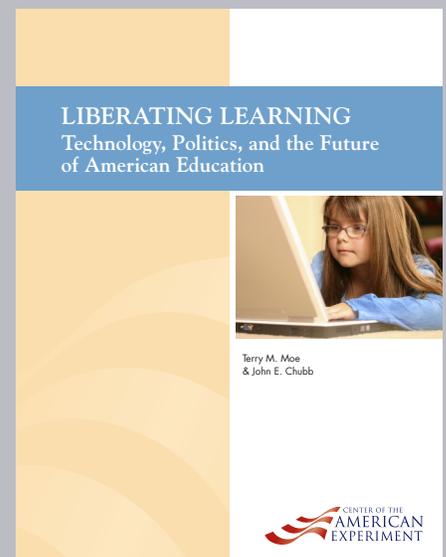
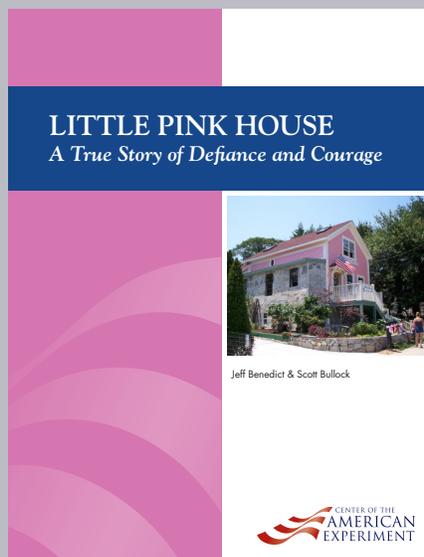
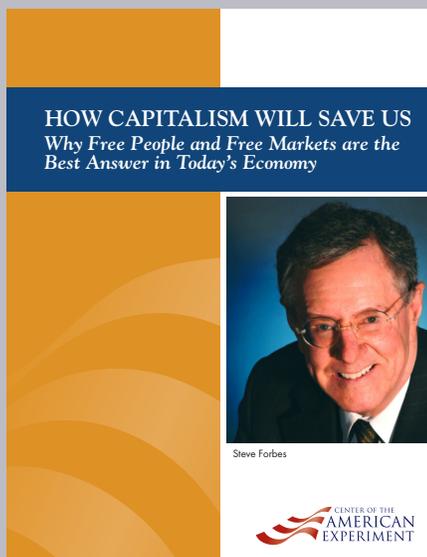


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