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A Confused Boehner Pin Balls on Fiscal Policy
By LAWRENCE HAAS

Question: Why is House Speaker John Boehner, R-Ohio, making so little sense these days on fiscal policy?

Answer: He's leading a House Republican caucus that is badly split on such matters, and he's trying to satisfy everyone at the same time.

Consider the events of recent weeks, culminating in the confusion of the past few days:

House Republicans rallied this spring behind the sweeping budget plan of Budget Committee Chairman Paul Ryan that would turn Medicare into a voucher program, convert Medicaid and Food Stamps to block grants, and reduce the size of government to levels not seen since the 1950s. Ryan said his plan was less a budget than a "cause," and Republicans muscled it through the House.

Chastised by senior citizens over the Medicare proposal during last month's congressional recess, however, some of the more pragmatic House Republicans returned to Washington with a different outlook. House Majority Leader Eric Cantor and Ryan himself backed away from the Medicare plan, saying the time wasn't right.

That bow to political reality, however, won House Republicans no friends among Tea Party members who did so much to elect Republicans to Congress last fall. On Monday, Tea Party leaders held a news conference in Washington in which they blasted Boehner and Ryan for their propensity toward moderation and threatened to unseat Republicans who abandoned the party's core principles.

That may explain why Boehner, hours later at the Economic Club of New York, called for spending cuts of "trillions, not just billions" in government spending as his cost of helping to gather the votes to raise the federal debt limit, which Congress must do in the coming weeks to avoid a federal default.

As for those trillions, he said, "they should be actual cuts and program reforms, not broad deficit or debt targets that punt the tough questions to the future." And they should reflect "honest conversations about how best to preserve Medicare."

Today, however, Boehner shifted direction again, appearing noticeably fuzzy at a news conference. While, according to *Politico*, he said that he didn't want Congress to resort to "phony" spending caps or "phony" deficit targets, he offered no time frame for achieving the "trillions" in savings.

Moreover, while Boehner had said in New York that the spending cuts should reflect “honest conversations about how best to preserve Medicare,” his aides said today that his position on Medicare was not firm.

Confused? You’re not any more confused than Boehner, who’s trying to find a way to navigate the deep divides within his caucus.

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Business Tax Breaks: State Budget Busters

By LAWRENCE HAAS

States face a combined \$112 billion in projected budget shortfalls for their coming fiscal year (2012), according to the Center on Budget and Policy Priorities, showing that states continue to suffer from the shrunken revenues caused by the recent recession. So you might wonder why, as Bloomberg Businessweek reports in its current edition, states continue to allocate an estimated \$70 billion a year in tax breaks to lure businesses to locate within their borders.

In essence, states are responsible for this mess. One state offers a tax break to lure a company to relocate, prompting another to offer a bigger tax break, prompting still another to join the action, and, before you know it, you have a bidding war among states.

At a time of high unemployment, elected officials are desperate to show their constituents that they’re doing something to create jobs. A new corporate headquarters or plant in, say, Indiana, will mean more jobs in the Hoosier State, lower unemployment, and a more contented public.

Even a governor like Ohio’s John Kasich, the former House Budget Committee chairman in the late 1990s who had criticized “corporate welfare,” told Bloomberg Businessweek, “When other states come in and they offer significant ways for people to have lower costs, you either compete with it and win, or you lose.”

Well, that’s one way of looking at it. But, here are two others:

First, let’s think about the \$70 billion in lost revenue. That’s money that states could have invested in education to build a more skilled workforce, or infrastructure to ensure that people can get to work more efficiently and companies can move goods from factories to stores.

Though not in every case, over the years many corporate executives have said that a skilled workforce and a modern infrastructure are far more instrumental in location decisions than tax breaks. If so, states are merely rewarding companies for location decisions that they would have made anyway. Perhaps states should save their money and invest in the future.

Second, the states themselves admit that, in allocating these tax breaks, they’ve suffered a bit of buyer’s remorse. In late April, the Wall Street Journal reported that some states are demanding

that companies return some of their tax breaks because the companies didn't come through with all of their promised new jobs.

That's still another reason for states to think about getting off the treadmill of business-luring tax breaks.

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Unemployment Cuts a Cruel Way to Save Money By LAWRENCE HAAS

Florida has joined a handful of states whose leaders think that, at a time of high unemployment and widespread hardship, a good way to save money is to cut benefits for unemployed workers.

The *New York Times* reported yesterday that Florida's legislature voted Friday night to gradually cut the number of weeks for basic unemployment benefits, which has been a standard 26 weeks around the country, or lower. The 26 weeks would fall to a maximum of 23 – and to as low as 12 weeks when unemployment falls to 5 percent or lower.

Florida is not alone. Last month, Missouri's legislature approved, and Governor Jay Nixon signed, legislation to cut the standard 26 weeks to 20. Michigan's leaders did the same thing in late March.

Yes, times are tough in the states, with the recession taking a huge bite out of state revenues while forcing states to pay more for unemployment benefits, Medicaid, and other programs that expand automatically during times of distress.

However, cuts in unemployment benefits seem a particularly cruel way to save money. Consider the context in which these cuts are coming.

Nationally, unemployment remains painfully high at 9 percent, based on Friday's employment report from the Bureau of Labor Statistics. Even after 14 straight months of job creation, we still have seven million fewer jobs in America than when the recession began in December 2007.

Moreover, the labor force participation rate (which measures people at least 16 years of age who are working or looking for work) remains at its lowest level, 64.2 percent, since 1984. More than 40 percent of the unemployed have been looking for a job for at least 27 weeks – the highest rate for any recession over the last 60 years.

Now, here's the kicker.

In Florida, Governor Rick Scott is pushing a plan to cut the corporate income tax to 3 percent, from 5.5 percent, and eliminate it entirely by 2018. That would only make his state's budget

situation worse, forcing lawmakers to do things like cut unemployment benefits. By the way, Florida's unemployment rate is currently 11.5 percent.

In Michigan, Governor Rick Snyder wants to eliminate his state's main business tax and replace it with a flat corporate income tax that would generate less revenue. The less revenue you have, the more spending you need to cut.

As for the jobless at least in Florida, Michigan, and Missouri, I guess the appropriate motto is, "let them eat cake."

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