

Not a Capital Idea

Harrisburg is the capital of Pennsylvania, a proud coal producing state. In the early days of mining, canaries were placed in the shafts as early warnings to poisonous gas and other dangers.

If the unscented gas came, the canaries would die. Miners would heed the warning, scramble to safety, then correct the problem. The canaries did not die in vain.

Today, Harrisburg has become the fiscal canary for our cities, states, and federal government, giving us early warning to the dangers of poor fiscal policy, burgeoning debt and deficits and breaking the basic economic rules.

Will we heed the warning and act?

Harrisburg was set to default on a \$3.3 million bond payment but was saved when Pennsylvania's outgoing governor, Ed Rendell, promised \$4.4 million from the state's own budget-challenged coffers to help the city.

Yet those deficit fumes continue to build up and without corrective action it is only a matter of time before calamity occurs.

As of March 2010, 49 states faced budget deficits totaling \$174.1 billion. The problem is unsustainable spending, not the gap between revenues and expenditures. The recipe is almost always the same: spending money you don't have on projects you really do not need. States and cities find this easy to do, at first, because of federal grants. But as the Mercatus Center at George Mason University reported, temporary spending is never temporary. When federal dollars go away, the programs stick and states or cities must pay for them.

Forty-eight states grappled with fiscal shortfalls in their 2010 fiscal budgets. Totaling \$200 billion, or 30% of state budgets, this fiscal shortfall is the largest gap on record, according to the Center on Budget and Policy Priorities.

In charting this economic course, cities and states are following the federal government's poor fiscal lead. According to OMB estimates, the federal deficit will reach \$1.47 TRILLION dollars this year – 10 percent of the entire economy. That is roughly \$43,000 per American.

Yet Uncle Sugar continues to feed the spending addictions of states and cities. Federal grant spending in constant dollars shows that grant outlays increased from \$285 billion in fiscal year 2000 to \$493 billion in fiscal year 2010 -- a 73 percent increase, according to a study by the Mercatus Center.

Does this make sense to anyone? Our national spending is unsustainable. It is time we demand responsible government now – in Washington, in Harrisburg and in every state capital.

Harrisburg is an excellent example of wise and foolish fiscal policies. The city's current fiscal distress is the result of a debt of \$288 million on an incinerator that its owner, the Harrisburg Authority, was unable to pay. Though the city knew it would be on the hook as guarantor for \$68 million of that debt this year, it made no accommodation in its 2010 budget.

It was not always like this. In the early part of this decade Harrisburg had applied such common sense economic policies that *Inc.* magazine ranked the city number 18 on its March 2004 "Top 25 for Doing Business in America" for medium sized cities. It had been a remarkable turnaround. In 1981, following contractions in the steel and dairy industries, Harrisburg was declared the second most distressed city in the nation. The city subsequently experienced resurgence under its former mayor Stephen R. Reed, with nearly \$3 billion in new investment realized during his lengthy tenure. This growth contributed to a record number of 6,951 businesses in 2005 for the city. In 2010 Forbes rated Harrisburg as the second best place to raise a family.

Then came the easy money and with it, bad decisions. A failed Wild West Museum and an expensive effort to acquire a minor league baseball team and new stadium. The economy slowed, revenues declined, there were expensive pension obligations and more.

While Harrisburg was teetering on bankruptcy, Jefferson City – the capital of Missouri – was receiving help from the federal Environmental Protection Agency to develop a plan to spruce up an area that currently includes parking lots and vacant properties. This federal program is called "Greening America's Capitals." Other cities selected to participate are Boston; Hartford, Conn.; Charleston, W.Va.; and Little Rock, Ark.

Are they serious?

(This paragraph can be cut for length) Some cities are in even worse shape than Harrisburg. Central Falls, Rhode Island, recently went into receivership when it couldn't pay its bills. San Diego is said to be considering bankruptcy to get out from under its pension obligations. Miami's city council, hoping to avoid Harrisburg's fate, recently used emergency powers to slash city salaries and pensions and is now instituting hefty traffic fines and garbage fees. This year, ratings agencies have cut the debt in several cities to junk.

States and municipalities across the country are one event away from similar straits, the result of years of piling up spending commitments no matter the revenue base. The pattern in these cases is that one rescue begets another. Next stop is Washington, where Financial Services Chairman Barney Frank has a proposal to provide a federal guarantee for local debt. Putting all U.S. taxpayers on the hook for city debt would only provide local politicians with another excuse to avoid the cutbacks, furloughs and reforms necessary to balance their ledgers.

It makes fondly recall the famous *New York Daily News* headline when President Ford refused to have the federal government bailout New York City in 1975: “Ford To City: Drop Dead.”

Well, New York did not drop dead. It found a way to get its fiscal act together. It was a hard dose of needed medicine but it did the trick.

You can't spend what you don't have and if you do, you are in trouble. The canary has dropped dead. We are close to following it.

