SLASH AND BURN BUDGETING REVISITED: IMPLICATIONS FOR SOUTH CAROLINA'S COMMUNITIES AND NONPROFIT ORGANIZATIONS

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I wear a whole wardrobe of hats when it comes to government programs, government spending and the nonprofit sector. I have been actively involved in volunteer leadership at the local and state level in the League of Women Voters and at the local and national levels in my faith community. So I know some of the challenges that face nonprofits in raising funds and in prioritizing the many needs of communities from education to culture to health care, housing and emergency relief. I am also an economist specializing in state and local public finance, so I watch budgets and give advice to the General Assembly at regular intervals, advice that they invite, hear attentively and ignore. I recently received a degree in theology from Emory with a concentration in ethics, and I teach ethics and public policy at Clemson; so I also consider myself an ethicist. Certainly these issues of taxing, spending and setting priorities are as much ethical as they are economic. The way we spend, the things we choose to fund and not to fund, the amount of taxes we collect, and the way we collect them are a clear statement of our ethical values and priorities. Finally, I am an elected member of the Clemson city council, so I also see these issues and challenges from the perspective of citizens who want services and are not always willing to pay for them and the perspective of citizens who need services and don't know where to turn when the state and the city fail to provide them.

Nine years ago the agenda of the Gingrich revolution in Washington was to shrink government, to turn things back to states or the private sector, to free us from federal regulations and unfunded mandates and especially from burdensome taxation. U.S. citizens may pay less of their income in taxes than any other major industrial country, but they have the highest level of griping about taxes in both volume and frequency.

Freedom was the watchword then, and it still is. Freedom comes in two forms—freedom from and freedom to. Freedom from interference, from responsibility for other people, from intrusion into your personal life, from trespassing on your property. Freedom for state and local governments to make decisions without pressure or money from Washington. Those freedoms were the focus for Gingrich and his colleagues and successors in Washington and Columbia. Freedom to requires resources—freedom to get an education, freedom to move from place to place, freedom to enjoy a basic standard of living with a meaningful life, respect and dignity. Freedom to do what you want without these resources is a pretty hollow kind of freedom. We asked for *freedom to* from governments starting with the New Deal and lasting to the Carter administration.

The changed relationship to government didn't begin in 1994. After a series of block grants and aid cuts from Reagan through Clinton, states have been given more responsibility for Medicaid funding, school lunch programs, making sure schools have the resources they need to comply with no child left behind, managing TANF, deciding who got child care vouchers. Increasingly, states are being asked to do more with less, as funding for housing vouchers, food stamps, TANF, child care and other social welfare programs are funded with block grants, deregulated, and cut.

In South Carolina those decisions are made by the General Assembly. Until 2001 the General Assembly could be lured by matching federal funds into at least some support for education and social services. But it wasn't their priority even in the rosy 1990s. As the revenue system continued to churn out more revenue every year, the General Assembly gave it away, sometimes in increased spending commitments, but mostly in tax breaks, about $700 million a year in state money and another $200 million in local taxes. School tax relief for homeowners. Expanded tax breaks for the elderly on both property and income tax. Tax breaks for industry. Reduced assessment rates on cars. When the General Assembly gives a tax cut, it is a gift that goes on giving, year after year, whether there's enough money to run the state or not.

Beginning in 2001, there was not enough money to run the state—not enough money for even basic government functions. Budget revenue dropped like a rock from close to $6 billion in 2000 a year to about $5 billion this fiscal year. State employees, public and higher education, state agencies and local government have all taken big budget hits over the last three years. So did social welfare programs that rely on a mix of state and federal funding. Less federal aid combined with less state monies available is a surefire recipe for shredding the social safety net. And for the next few years, as far as revenue forecasts go, it is not clear whether there is light at the end of the tunnel or just a freight train headed in our direction.

Now I want to be fair. My title, slash and burn budgets, suggests wholesale destruction as Congress and the General Assembly took machetes and torches to school lunches, food stamps, housing programs, child care, public education, infrastructure, and welfare programs. But slash and burn has two sides. Not every program is a rain forest, a valued part of the ecosystem that will wither and die under the hot sun when its protective vegetation is slashed and burnt. Some programs are more like kudzu: a little slashing and burning leads to sunshine and open space for other vegetation to take root.

When I worked in DC, every threatened budget cut to an agency led to the Washington Monument syndrome—shorthand for agencies' responses to threatened budget cuts. If Congress threatened to cut the National Park Service budget, the agency would threaten to cut the hours of operation at the Washington Monument, the most popular tourist attraction in Washington. Congress would back down.

Remember Shakespeare's *Merchant of Venice?* There is no way to take a pound of flesh, or fat, without spilling some blood. Or a ton of kudzu without uprooting some very good vegetation. So the ultimate effect of this very different legislative environment on local communities and community organizations is hard to assess. Some good things have disappeared, but so have expendable ones. I would argue that the zeal for efficiency, economy, freedom and low taxes has thrown out lots of babies with the bathwater, chopped down a lot of good trees in order to uproot kudzu.

Programs Congress has been busy eliminating, cutting, deregulating or consolidating into block grants in the last twenty years were not all invented by Lyndon Johnson in the 60s. Many go back to the 1930s or to Presidents Eisenhower or Nixon. Poverty relief programs developed in the 1930s in response to communities in crisis. Before the Depression, local governments used property taxes to pay for K-12 education and the poor. As land values fell and mortgages were foreclosed, local tax collections dropped even as demands for unemployment relief piled on top of the needs of widows, orphans, the disabled and the elderly.

Many states turned to sales taxes to generate revenue and help local governments. But by 1935 the federal government got into the relief business with Social Security, Aid the Families with Dependant Children, unemployment compensation insurance, and the early versions of Social Security Insurance. These programs expanded over the years to include food stamps, Medicare, Medicaid, Social Security Insurance, Earned Income Tax Credits, and expanded food stamps in the 1960s and 1970s. In many cases, states created *little New Deal*—expanded social safety nets and protective regulations. In fact, some states were ahead of Roosevelt with job creation schemes, public works programs, and social safety nets of their own.

This background is important because federal and state roles in providing social safety nets are under attack. There is a yearning for the good old days when local communities and nonprofit entities took care of their own, however inadequately. Complaints often take the form of storytelling. Welfare mothers in Cadillacs buying steaks with food stamps. Teens having babies to get welfare checks. The media hypes stories of disability fraud under Social Security but ignores that many genuinely disabled persons can't make it through the two years of rejection and denial it takes to qualify for Social Security disability, if indeed you ever do. Someone has described these urban legends as "governing by anecdote." The data says that welfare recipients are overwhelmingly white, over 21, often educated, and average 2.6 children. Data also says that welfare for corporations and welfare for the middle class and the rich—tax breaks, subsidized student loans, Social Security for the rich and middle class, public recreation facilities that poor people can't afford to use—these kinds of welfare dwarf what we spend on TANF and food stamps. Data says that far more people are rejected than accepted for Social Security disability coverage. But the myths persist.

There is a strong case for federalizing at least some poverty relief. If you leave it to the states, the survival of the poorest of the poor depends on the resources of the state and the whims of the legislature. With intense competition between states for low taxes and industrial incentives, the first budget lines to be axed will be those that address the needs of poor people and communities, because their voices are not being heard.

The federal government has the same role in poverty relief as states do in public education. Neither the quality of education nor the resources available to sustain the poor or help them out of poverty should depend on the wealth of the city or school district where poor children and poor families live. There's an obligation of rich states to help poor states, and rich communities to help poor communities.

States can play a role in redistribution, but so can the federal government, with a flow of funds from rich states to poor states. And it has. Entitlement programs are weighted toward poor people, who live in poor states. A lot of grant programs have formulas in them that favor poor states. Now that Congress is scaling back social safety net, a larger gap has opened between rich and poor states and communities. Without that kind of aid, people in poor states and cities have to pay a larger share of their incomes in state and local taxes to provide the same services as people in wealthier places. South Carolina's legislators in Washington have been faithful to the slash and burn agenda even though it has not been in our self interest as a poor state.

When you try to shrink government and cut taxes, there aren't a lot of places to cut spending. Only about 20 percent of federal spending is really discretionary. The rest is entitlements like social security, Medicare and veterans' benefits or untouchable like defense or inevitable like interest on the national debt. With the war, the new tax cuts and the slow economic recovery, communities and services provided by nonprofits can expect more hits in years to come. Even as the current administration ratchets up deficits for the war on terrorism and the postwar rebuilding in Iraq and a new round of tax cuts, the administration and Congress continue to make cuts in that critical discretionary 20 percent as well as in entitlements.

Also on the chopping block over the last two decades have been grants to cities and counties for highways, water and sewer, and other infrastructure. More recent programs focused on services such as drug prevention and community policing. Grants often encouraged local communities to set their own priorities aside and match their shopping lists to what was on sale in the federal supermarket. Some really good results came out of some of these grants: parks, educational programs, day care centers, job training facilities, conservation efforts. A lot of local communities built water and sewer systems with federal monies. A lot of schools dealt more effectively with special needs children. A lot of communities provided better transportation for the elderly, access for the handicapped, recreation for the young. And yes, there was a lot of kudzu in the rain forest. But slash and burn in the last ten years has gradually eroded federal aid to public education, much of which was directed to poor children or special needs children and poor communities.

Communities and community organizations should be really concerned about cuts in food stamps, WIC (Women, Infants, and Children program), housing vouchers, and child care vouchers that have sustained many people in poor communities and many poor people in more prosperous communities. These cuts have shifted responsibility to the states —which can't do much, given their own problems—and from there to local governments, churches, and social service organizations. In South Carolina, if you look at local spending, you do not see much that is aimed at poverty other than CDBG (Community Development Block Grants), matching funds and some limited efforts in housing, child care, transportation, and health clinics in some of the larger cities. Cities have their hands full with the basic functions of police and fire protection, enforcement of ordinances and codes, water and sewer, recreation, street lights and sidewalks and fixing potholes. As for the nonprofit sector, it is a daunting task for Habitat for Humanity, the Salvation Army, the local Kiwanis Clubs, food banks, churches and homeless shelters, all seeing reduced contributions as a result of recession and a shrinking middle-class donor base. That changed donor base reflects changes in the economy. Loss of manufacturing jobs and tax cuts favoring the wealthy have increased income inequality in this country. With more rich and more poor, poverty rates are up and fewer citizens qualify as members of the middle class.

Along with the "no resources" stick, of course, is the freedom carrot, expressed in the buzzword *local control*. Behind that buzzword is the idea of fewer dollars stretched more effectively though local oversight, local experimentation, less bureaucracy, better knowledge of needs, better monitoring of abuses. From the other end of the tunnel, it still looks a lot like freedom without resources.

What we have learned once again is the two faces of freedom. Freedom from federal guidance and direction about how to spend matching local dollars is also freedom to pick up operating, maintenance and replacement costs of buildings and roads and water and sewer systems built 20 to 30 years ago with federal dollars. It is freedom to develop new and growing cities without the kind of startup help for providing infrastructure that older cities got from the federal and state governments. Again, freedom without resources.

What led to this revolt against federal aid to state and local governments and income support for the folks at the edges of the system? One driver was disillusionment. All this federal aid was managed by a growing bureaucracy, supported by special interest groups that formed around programs and was subject to all kinds of federal regulations and paperwork. This may sound like the rhetoric of the right, but there is substance behind that rhetoric. Many regulations are costly for local communities, like water testing requirements, or standards for landfills that make lining a landfill more costly per square foot than putting oriental rugs in your living room. That's the kudzu part of the problem that people use to rationalize spending cuts. But federal protection for wetlands, water quality, product safety (especially in drugs), and occupational safety are also at risk.

A second cause was resentment, arising partly from slow growth in real wages and incomes, partly from sharply increasing inequality in income, partly from a huge decline in traditional blue collar manufacturing jobs, and partly from a perception that women and minorities were making gains in jobs and earnings at the expense of white males. Some resentment was concentrated on middle class entitlement programs or on affirmative action. But much was aimed at federal grant programs that favored the poor, who took the blame for a misperceived intolerable tax burden. Listen to talk radio to discover the violent anger toward the poor, the homeless, welfare households, the federal government, immigrants, just about any convenient target. This resentment supported a shift in our national priorities, toward defense and tax cuts, toward the elderly and away from children, and away from social programs created in earlier decades.

A third cause was privatization of our democracy, an extension of the intense individualism that is so characteristic of American society. In recent decades the federal budget included increased aid to individuals for Medicare, Medicaid, and Social Security, as well as an increased income tax cuts. These entitlements and tax cuts were paid for partly by reducing aid and shifting responsibilities to the state and local level. So households have more after-tax income to spend for food, clothing, shelter and other good things, but the communities where they live have fewer resources to fix potholes, collect trash, and build community centers and fire stations that also matter to quality of life. Because local governments often partner with nonprofits to care for those on the margin and provide essential services, this shift impacts nonprofits as well.

Yes, people have more disposable income after tax cuts, so they could choose to tax themselves to provide these services. They can, but they don't. Countless economic studies verify the flypaper effect—money sticks where it lands. If the federal or state government sends money to communities, it is spent on public projects, not to reduce property taxes. If the federal or state government sends money to individuals, very little finds its way into local government coffers. In fact, lower federal tax rates have a negative effect on both local property taxes and contributions to local charities, because there is less tax benefit to paying taxes or contributing. When your marginal tax rate was 50 percent, the federal government was matching property taxes and charitable contributions dollar for dollar. At lower tax rates, you only get a dollar in tax relief for every two to three dollars of property taxes or charitable contributions.

Back in Columbia, the language is similar but the agenda is different. Freedom is not the key word, at least not for local government. Control of local government finance has always been centered in Columbia. The average state collects about 61percent of combined state and local revenue; South Carolina collects 70 percent. The average state devotes 34 percent of its budget to aid to local government; South Carolina offers only 26 percent. So a larger than average share of public funds is collected and spent at the state level. No devolution here.

In Columbia, both freedom and control have run into a wall build out of a shrinking overall budget, lower education funding, and increasing tax relief. Legislators assumed that the good times of the 90s would roll forever, so they gave away increasing amounts of state revenue in tax relief. At the same time there were inevitable cost increases, particularly for Medicaid and for education as the state mandated higher standards and better credentials for teachers. This state has a real need for internal redistribution of resources because of growing divergence between prosperous counties on the coast, in the I-85 corridor, and around Columbia, and the poorer, interior counties of the PeeDee and along the lower Savannah valley. If legislature wants to control local government, the state also needs to take some responsibility for mitigating these large, growing inequalities.

State aid to education has been a significant form of redistribution in South Carolina, taking pressure off the local property tax while meeting the state's obligation to equal education opportunity. In 1977, EFA (The Education Finance Act) called for a 70-30 division of state-local responsibility. Right now it's closer to 50-50. The current court case in Manning on school funding may change that, but in a continuing tight budget situation and an anti-tax mentality, more education funding will be at the expense of already starved state services.

South Carolina is not alone. Other states are slashing services or occasionally actually increasing taxes as we move into the third year of declining state revenues. Biggest hits are to the discretionary part of state budgets dear to your hearts, where you find the funds for services where nonprofits share responsibility with government—education, culture, recreation, environmental preservation, and of course, help to those in need because of poverty, emergency, or medical problems.

So where's the silver lining? The Pollyannas of strategic planning always encourage us to view threats as opportunities. Sometimes that's hard to do when you're under siege, but I think even these dark and stormy clouds have silver linings. The first silver lining is a consistent poll finding that people trust local governments much more than state or federal government. Local governments are seen as more accessible, more responsive. They provide services we see and use and appreciate on a daily basis. So local communities still have a positive climate for dialogue between leaders and citizens. I think that silver lining of trust and support also applies to our nonprofits, to our free clinics, our churches, our YMCAs, our arts organizations, sports programs and food banks.

The second silver lining is that it is easy to overlook what is good about the way we do business in South Carolina. South Carolina still picks up a pretty big share of the cost of schools compared to my native New England, freeing up local property taxes to provide better public services like recreation, sidewalks, street lights, police, trash collection, fire protection, and city water. Yes, that state share of education funding has declined, but legislators are aware of the problem and proposals are in the hopper to restore education funding even if it means, God forbid, raising taxes.

The third silver lining, at least at the federal level, which may eventually get to Columbia, is that there is a value to freeing up local communities, letting them control their own destinies, set their own priorities. Freedom without resources is worse than freedom with resources, but it's better than no freedom and no resources. Without the lure of federal grants, cities and counties and nonprofit service providers may rethink their own spending priorities instead of letting Washington and Columbia decide for them.

The fourth silver lining is that adversity really does lead to innovation and creative partnerships. The state has encouraged regional partnerships in areas such as solid waste disposal and created options for consolidating local governments. Every year I judge the J. Mitchell Graham Award for the most innovative county project. I see original solutions to problems and healthy partnerships between county and county, city and county, county and nonprofit, county and private business, like the shared effort between Colleton County, Edisto Island, the chamber of commerce and the school district to build a combined school, visitors' center and community building. Such partnerships enable communities to get the most out of resources, to deliver services better or at lower cost, to meet the needs of the home folks. And that is where the action is going to be for the rest of the decade and beyond.

So what is the bottom line? First, if communities and nonprofit organizations have to dig in and do what they can with available resources, local officials must demand freedom and flexibility to use those resources as they see fit. Second, those of us who work with communities can't throw in the towel. We need to start reading budgets and collecting stories and selling arguments as effectively the folks with the machetes, pointing them in the direction of the kudzu and away from the rain forest.

We the people get the government that we deserve. If we don't like what governments do, we need to tell them. We need to tell them why, and we need to offer some alternatives. I like to remind people that when they believe that their government is doing something wrong, and they don't complain, they are complicit. It's a pretty strong ethical stance, but it's essential to the preservation of our political democracy. Democracy may not seem to be working at its best right now, but the machinery is still there. It's up to us in local government and in the nonprofit sector to push our state and federal governments to do what needs to be done to create vibrant neighborhoods, healthy communities, and an inclusive nation of neighborhoods and communities that works for all of us.