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**THE WALL STREET JOURNAL.**  
WSJ.com

OPINION: THE WEEKEND INTERVIEW | AUGUST 22, 2009, 5:57 A.M. ET

## Fiscal Conservatism and the Soul of the GOP

*The Texas governor on Arnold, Sarah, ObamaCare and the future of his party.*

By [EMILY ESFAHANI SMITH](#)

*Austin, Texas*

California needs a strong leader, says Texas governor Rick Perry. That strong leader, Mr. Perry thinks, needs to go to Sacramento and "take special interests out" of government. He needs to "make massive cuts" in spending and taxes. And he needs "to make major changes in the constitution," including tort reform.

What about Arnold Schwarzenegger? "Arnold—I think Arnold squandered that chance."

Six years ago, Mr. Perry's state underwent a critical tort reform that was codified in the state constitution. The payoff is that Texas is now outpacing California economically. According to the Texas Public Policy Foundation, between 1997 and 2006 Texas' economy grew an average of 4.3% while California's grew at a rate of 3.7%. But as of 2002 (to 2007), with tort reform in place, Texas' annual economic growth jumped to 5%, while California's remained essentially the same at 3.6%.

With a tan baseball cap hanging off one knee, Mr. Perry is proud to report that "Texas created more jobs in 2008 than the rest of the states—combined." As of July, the state, which taxes neither capital gains nor income, had an unemployment rate of 7.5%, two points below the national average, while California's hovered at 11.5%, two points above.

No wonder over half a million people flooded into Texas between 2000 and 2007. Meanwhile, 1.2 million residents left California in the same seven-year period.

The bottom line? Tax-and-spend governance is as bankrupt as California's bank account. By way of illustration, the governor replays a conversation he had with Rudy Giuliani during the presidential primaries.

They were talking about Michigan. "The Michigan governor was making statements about having to raise taxes so [they could keep] services at the level they were, instead of, like we did in Texas, cutting, not raising, taxes and cutting spending. There was a great difference in political philosophy. In Michigan, a liberal democrat raised taxes and kept their government programs at the same level. And guess what? Their economy continued into the toilet, it continued down.

"Our economy on the other hand [improved]—let me give you a great example: We had a \$10 billion budget deficit when we got here in January of 2003. We cut that budget deficit; we did not raise taxes; we came back in '05, and we had an \$8 billion surplus. That's how fast it can happen.

"That's the reason I have hope, not only for the country, but for states like California that are in dire financial predicaments. You can turn it around in a hurry, but you have to make hard, principled decisions."

Mr. Perry insists that Texas' success "is a broader story than just tort reform." As governor, Mr. Perry has honed in on four policy issues he believes are drawing people and businesses to the state in record numbers. Businesses like Medtronic and Caterpillar, to name two, are "coming here [because] we haven't spent all the money, the taxes are low, the regulatory climate is fair—they won't be frivolously sued—and they know when they get here that they'll find a skilled work force."

But do Mr. Perry's pro-business, low-tax policies mean that Texas' investments in education and other crucial areas are lagging behind? Just the opposite: While California slashed education funding this year, Mr. Perry notes that a Texas "grant program for kids to go college and university . . . expanded by 44%" this last session. In that same session, the Lone Star State cut taxes for small businesses.

And when it comes to the Obama administration, Mr. Perry doesn't mince words: "To me, this is one of the great Frankenstein experimentations in American history. We've seen that movie before. It was from 1932 to 1940."

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Sitting in his white tee and running shoes, the governor begins guiding me along the path that led him from the small Texas town of Paint Creek, where he grew up, to Austin, the state's capital. "I grew up in a house with no running water, 16 miles from the closest place that had a post office," he recalls. "I had a very parochial view of the world."

He became an Air Force pilot and went off to countries like Saudi Arabia, Iran and Italy, returning to Paint Creek in 1977—only to grow restless on the family farm. He sought a political outlet.

In 1985, Mr. Perry represented a rural West Texas district in the state legislature; in 1990, he was elected state commissioner of agriculture; in 1998, he was elected lieutenant governor under then-Gov. George W. Bush. He became governor when Mr. Bush won the presidency in 2000, and Mr. Perry was chosen by the voters themselves in 2002 and 2006.

Mr. Perry now has the distinction of being the longest-serving governor in Texas history. The state's senior U.S. senator, Kay Bailey Hutchison, announced this month that she will challenge Mr. Perry's unprecedented bid for a third term. She's running on a platform that attempts to appeal to women and moderate conservatives, and she criticizes the governor's rejection of \$555 million in federal stimulus funds—even though she opposed the stimulus herself.

The 2010 gubernatorial primary will be a slugfest between the two biggest names in Texas politics. But Mr. Perry claims he isn't paying too much attention. "She's in Washington, I'm in Texas" he says, shrugging his shoulders. "I'm busy running a state . . . I'm a results guy and that's process . . . It's important to run the state. Politics will take care of themselves."

Naturally, the governor is concerned about what is happening in Washington. When I ask him if Mr. Obama's policies would send this country down the same path as California, Mr. Perry lunges forward, "If you want to know what this guy's policies are doing, it's been written about before."

"Read that book. Read this book," he says, gesturing toward the nearby table. I see something from *Weight Watchers* and a Harry Potter paperback—but the governor is referring to the "The Road to Serfdom" by Frederick Hayek and "The 5000 Year Leap" by W. Cleon Skousen. "Read Amity Shlaes's 'The Forgotten Man.' Amity's book is very eye-opening—scary—for me."

To the governor, one of the scariest policies is the national health-care bill. "I think it'll die. I think Americans are catching on. That's the reason that Rahm Emanuel and his guys were trying to push it through so fast, because they know [that once] Americans see what this is going to do—limiting their access to health care, costing them more—they're going to oppose it. And interestingly, you know who's against this more than anybody? The elderly.

They figured this bill out.

"They like what they got right now, they like their access to health care. Particularly, the aspect of this [bill] that has to do with end-of-life decisions . . . are pretty cold-hearted in my opinion. You're a little too old to be spending money on, so we're just going to put you over here in the 'gonna die' category. 'Bye.' That's pretty gruesome and scary to people that are my mom and dad's age."

Another important reason Mr. Perry believes the bill is flawed is because it ignores tort reform. "To talk about health-care reform and not talk about tort reform is like whistling past the cemetery. . . . In this administration's case, it's because they're bought and sold by the trail lawyers." The governor puts his cap back on, adding, "I'll be the pope before we get tort reform with this administration."

As opposed to a federal and "vanilla . . . one size fits all" government, the governor's "goal is to have states compete against each other. I don't want to look like Connecticut, no offense, I don't want to look like Oklahoma, I don't want to look like California. I want to be uniquely Texas. And that's not to diss anybody else."

Though the GOP has been hurting in recent years, the governor says it can make its "path to recovery substantially faster" if its members embrace something like the Texas model and vow to be "clear, committed fiscal conservatives."

Reflecting on his party's recent history he recalls, "They spent too much money. They acted like Democrats. They got up in 1994 and said elect us, here's our contract with America and here are the things that we're going to do. And Americans said, by gosh, that sounds good, we're for you, let's go. And you know what, they went and did it for a while. And then, we took over everything, the presidency, Congress, senate—shoot, man—they lost their way. . . . And they started being more focused on maintaining power. They had ethical lapses. They had moral lapses, but the big issue was they started spending like Democrats. When they passed that pharmaceutical bill for everybody forever—I mean, one of the most expensive entitlement programs that this country's ever seen before—we started on the road to hell."

He adds, "I love George Bush, [but] the previous administration's bailout, I happen to think, was as bad as any program on [Obama's] stimulus side."

Mr. Perry does not see social issues as the *raison d'etre* of the Republican Party. "You may elect me if I am pro-life. You may elect me if I'm pro-family values. But you probably will not elect me if I'm not a proven fiscal conservative."

Recently, Republican Sen. George Voinovich of Ohio complained that the GOP is "being taken over by Southerners." Mr. Perry responds with a laugh. "He's a piece of work, isn't he? 'You Southerners!'" he points his finger in imitation. The political divide, the governor insists, is between "mushy, middle of the road" Republicans and clear, devoted fiscal and social conservatives, like himself and Sarah Palin.

On that last point, he states emphatically, "I love Sarah Palin, I love her positions, I think she was a good governor. . . . I want her to be engaged in this rebuilding of the Republican Party. . . . She is substantially more the face of this country than some other people who might want to be the face of the Republican Party. To me she's the face of America. I mean she's a hard worker, she didn't come from money, she didn't come from privilege, she just worked hard. . . . I have not seen another person who invigorated the Republican base [like she did] with the possible exception of Ronald Reagan in 1976—the speech he made at the Republican Convention. People were looking around and saying, 'we nominated the wrong dude.'"

One speed bump along the GOP's path to recovery could be demographics. In 2004, Texas became a minority majority state, a trend that's predicted to go national within a generation. In 2020, the Hispanic population of Texas may outnumber the White population.

While Texas has been GOP-controlled since 1994, some say Texas may soon change from red to purple to blue because of the demographic shift.

The governor disagrees, and believes even the hot button issues of illegal immigration and amnesty have been mishandled by national leaders. "The McCain folks totally blew it in my opinion on their immigration deal the moment they mentioned the word amnesty. When the word amnesty came in—American Hispanics don't want anybody getting amnesty. 'If you want to be an American citizen, get it the way I got it,' that's how they think. The Hispanic voter is a very intuitive and a very expansive individual, one issue doesn't drive him. . . . They are strong family values people, they are religious, they are patriots, they are hard working. Gee, sounds like the GOP to me."

Mr. Perry thinks education will help the GOP face the demographic trend. An educated work force, says the governor, will embrace the Texas model and will say so at the ballot box.

And his state's ballot box is the only one he's worrying about. Mr. Perry insists he does not plan to take the Texas model to the nation's capital one day. "Unless my family is at gunpoint, I will not go to Washington, D.C."

Leading me out the door, the governor explains, "Washington is not the place that great change is going to occur in America. It will occur in the laboratory of innovation called the states. I want to be a part of that."

**Ms. Smith is a Robert L. Bartley Fellow at the Journal this summer.**

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