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Big Texas Deficit Puts Governor in Tight Spot

Perry Wants Cuts Alone to Close Gap, But Critics Say Solution is Shortsighted

By ANA CAMPOY

DALLAS—A Texas-size hole in the Lone Star state's budget is putting pressure on Gov. Rick Perry, who is running for re-election this year as a model fiscal conservative.

Mr. Perry, a Republican in office for a decade, is touting his tax-cutting prowess and tight-fisted spending record as proof that he remains the right man for the job. He has maintained a wide lead in polls.

But as the state's budget shortfall widens—to as much as \$18 billion, or about 20% of the next two-year budget, according to the state legislature's latest analysis released earlier this month—critics are complaining that Mr. Perry's policies have left the state with little room to reduce spending.

"There is no way that they will be able to come up with \$18 billion in cuts," said Eva DeLuna Castro, a senior budget analyst at the Center for Public Policy Priorities, a nonprofit that advocates for low-income Texans. "They would have to shut down our prison system."

Conservatives say that while cutting enough to balance the budget will be hard, it can be done, and that the governor is the right man to do it. "He has worked hard to encourage the legislature to keep spending within the revenue available," said Talmadge Heflin, director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a conservative think tank that backs limited government.

The governor's cost-cutting zeal is being questioned after the Associated Press reported he had spent some \$600,000 of taxpayer dollars over the past couple of years to rent and maintain a luxurious home while the official governor's mansion was repaired after a fire.

The state's Democratic Party responded to the report with a YouTube video that flashes images of the governor's rental home—complete with wood paneling, a chandelier and a heated pool—and plays the theme music from the television show "Lifestyles of the Rich and Famous."

"While Texas families tighten their belts...why should we pay for Perry's extravagant rental mansion?" is the video's closing line.

A spokeswoman for the governor said that he, too, is cutting back, slashing his office budget by 10.8% and asking the agencies that fund his living quarters to reduce spending by 5%.

Texas doesn't levy an income tax and boasts that it has one of the nation's lowest overall tax burdens. Those policies, Mr. Perry has argued, have attracted businesses to the state and strengthened its economy. While many states saw their economies shrink in 2008, the first year of the national recession, Texas continued to grow.

But the economic downturn is catching up with Texas. Sales-tax revenue started falling in February 2009 compared with the previous year, and only started to recover a bit in April of this year.

Although Mr. Perry has railed against the federal economic-stimulus program, billions of dollars from that initiative helped Texas legislators balance the current budget. Those funds won't be available for the next budget.

Political analysts say the state's financial woes may bolster the campaign of the Democratic gubernatorial candidate, Bill White, the former mayor of Houston.

Mr. White said the governor has focused on shortsighted fiscal policies, including plugging budget holes with stimulus money. "For 10 years Rick Perry has failed to develop a long-term budget," he said.

Mr. Perry countered that he has ample budget-balancing experience and that he overcame a \$10 billion deficit in 2003. He has promised to put the state's finances in order without raising taxes. As an initial step, he and other state leaders this month ordered budget cuts of \$1.2 billion across state agencies.

"These reductions reflect our state's ongoing commitment to keeping taxes low by limiting government spending, a key aspect of the continued strength of our state's economy," he said.

Local officials, meanwhile, worried they would end up bearing the brunt of state cutbacks.

"Our great fear is that they will dump a bunch of unfunded mandates on counties," said Elna Christopher, a spokeswoman for the Texas Association of Counties.

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