

February 19, 2010

**Cost reduction in state government:**

**Remarks by Walter Baran, former secretary of general services (1979-1987)**

**And chairman, Governor Dick Thornburgh's cost reduction study team**

Thank you, Mr. Chairman. (Senator Argall?) I appreciate the opportunity to meet with your committee and share some recollections of the statewide cost reduction program that was undertaken three decades ago here in Pennsylvania. Back then, like today, the commonwealths' finances were in a very precarious condition-so much so that there were cost reduction requirements written into the general appropriations act of 1979.

That was the first year of the Thornburgh administration, and no one was more serious about cost reduction in state government than Dick Thornburgh. So, with the support of the general assembly, he created a "Cost reduction study team" of six cabinet members, which I, as secretary of general services, was appointed chairman.

Our goal was to curtail this spiraling cost of state government, bring spending increases to well below the rate of inflation, and ultimately to reduce tax rates in the state that had gotten known as a high-tax, rust-belt state.

Two principles governed this effort throughout:

1. It should be accomplished in an orderly fashion, according to a careful plan.
2. Essential government services should never be sacrificed.

Despite the misleading name, "costs reduction study team," we began making significant changes within the first weeks of the administration.

That was also the era of oil embargoes and gasoline shortages, so anyone seen driving a state car-one of more than 7,000 gas-guzzling, full-size sedans-was fueled with rage and anger by Pennsylvania taxpayers. Many cars were on permanent carte-blanche assignment, merely as an un-vouchered commuter benefit.

Within weeks, 500 of those cars were sitting in the farm show parking lot awaiting auction. Ultimately, we reduced the fleet by a total of 1400 cars, or 20%.

The cost reduction study team was asked to conduct a top - to - bottom review of all government operations, looking for not only one time savings, such as the divestiture of unneeded real estate, but, more importantly, ways to permanently streamline the machinery of state government to make it more efficient, more effective, less complicated and less costly. Our slogan was "do more with less!"

Every state agency was examined, and our first year's annual report-this simple white booklet listed 142 cost - reduction actions that had been implemented by November 1, 1979, in just the first 10 months of the administration.

In this first annual report, and each year thereafter, we listed the savings achieved and additional savings proposed.

Although some of the easiest and most obvious savings were accomplished first, we continued to find new and more comprehensive avenues for streamlining government and eliminating waste. And we established controls and directives to ensure that wasteful practices did not get back into the system.

In our 1982 report, we noted that increases in state spending had been kept to about half of the national inflation rate. Had the commonwealth merely kept pace with inflation in those years, it would have required a 45% increase in the state sales tax or a 40% increase in the state income tax – or a 120% increase in the corporate net income tax-to fund a "business as usual" government.

Not only did we not raise taxes... But for three years in a row, state taxes were lowered! By 1986, the last full year of the Thornburgh administration, the personal income tax rate of 2.1 percent was at its lowest in eight years, and the corporate net income tax was lowered to 8.5 percent, its lowest in 18 years. This substantially changed Pennsylvania's reputation and image to a business-friendly state. This was a genuine and significant accomplishment that went hand-in-hand with Gov. Thornburgh's economic development innovations and initiatives, such as the Ben Franklin technology partnership program.

At the end of our eight years, I was pleased to be able to report to Gov. Thornburgh and the general assembly that the cost reduction study team had instituted and documented a total savings of 6.1 billion dollars-an amount equal to the entire general fund budget for 1979-1980.

In other words, we have produced eight years of government for the price of seven!

This blue booklet was our final cost reduction report. In it, we enumerated all the actions that have produced the savings of \$6.1 billion. Converting \$6.1 billion over eight years is the equivalent of \$2 million a day, every day, for each of the eight years of the Thornburgh administration.

I sincerely hope that you will find a great many of these cost-saving practices still in effect. If that is the case, the compounded savings to our fellow taxpayers over the past 30 years would be enormous.

On the other hand, if you discover that some of the savings have fallen by the wayside-for whatever reason-nothing would please me more than to see these very logical and valid cost reduction measures instituted twice in my lifetime!

In fact, if it were not my advanced age (85) I would be tempted to come out of retirement to return to Harrisburg and work with you to see the job through.

I applaud all of you for the seriousness of your endeavor. I thank you for your courtesy and hospitality today. And I share my best wishes for resounding and lasting success in making Pennsylvania once again the national model for cost reduction in state government.

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