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NOW MORE THAN EVER: THE NEED FOR A SELF-IMPOSED SPENDING CAP FOR THE LEGISLATURE

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Executive Summary

At first glance the Kansas Legislature's attempt to limit the growth of government spending for fiscal year 2008 was promising. The \$5.9 billion state general fund budget that the House and Senate initially approved gave the impression of spending restraint. That first round of budgeting limited the growth in state spending to roughly five percent. Unfortunately, the "wrap-up session" gave lawmakers plenty of opportunity to break the fiscal piggy bank with excessive spending – and they did. Big spending lawmakers took this opportunity and spent nearly \$200 million more – resulting in a State General Fund spending increase of 8.1 percent over 2007.

State General Fund spending now exceeds \$6 billion – that's over 66 percent in real growth since just 1992. If lawmakers would have restrained spending growth beginning in fiscal year 1992 by limiting the growth of government to the rate of increase of population plus inflation, this spending restraint would have cumulatively saved Kansas over \$15 billion.

Kansas government is unquestionably spending beyond its means. Now is the time for lawmakers who describe themselves as "pro-taxpayer" to also exercise fiscal responsibility on the *spending* side of the government ledger. The following policy brief analyzes the growth of government spending in Kansas over the last fifty years and explains why a self-imposed spending cap is necessary to control the real cost of government in the future.



Introduction

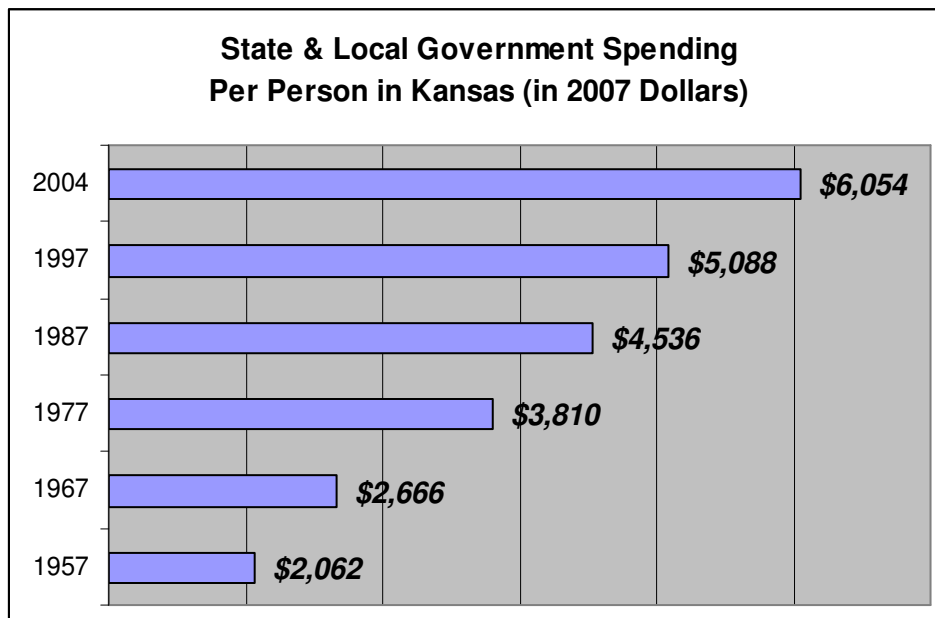
Every day thousands of families and businesses throughout Kansas must make hard decisions and set spending priorities to live within their means. Kansas lawmakers under pressure to increase spending, however, seem to operate under the assumption that such constraints do not apply to state and local government.

Nobel Laureate economist Milton Friedman famously argued that the true cost of government is the total level of spending, not simply the tax burden. The economic reality is that all spending ultimately must be paid through tax revenue – either now or sometime in the future. Simply stated, spending decisions are the first choices made by lawmakers. The second decisions merely involve how to raise the revenue needed to finance government spending.

Dr. Friedman also observed an institutional bias towards higher levels of government, where the benefits of spending are highly visible and concentrated. That’s why it’s no surprise that powerful special interest groups always fight budget reforms to the bitter end – in an effort to protect their politically gained earnings. At the same time, the costs of government spending are therefore also hidden and widely spread throughout the economy, so the average Kansan hardly realizes the true total cost.

Today, the combined spending from state and local governments in Kansas exceeds \$16 billion annually, up from \$4 billion in 1957. Even when adjusted for inflation, it represents a state and local government spending growth rate of 279 percent during that period. In 1957, combined spending by state and local governments was roughly \$2,000 per person in Kansas. As illustrated in Figure 1, over the years Kansas’ state and local spending skyrocketed and exceeded \$6,000 per person in 2004 – the latest year that local data is available.

Figure 1



Source: United States Census Bureau



Many times, lawmakers face a challenging paradox. Our elected officials love to be seen as tax-cutters, but at the same time legislators feel they are “graded” by their constituents on how much funding for their districts they are able to procure. Many legislators do not wish to raise taxes or cut spending and, during robust economic cycles, they have little incentive to do either.

On the other hand, pressure to increase spending comes from many directions: Apart from the enormous appropriations made by the Kansas Supreme Court to “fully” fund K-12 public education, substantial funding requests from Medicaid, transportation, and the state’s underfunded state employee retirement plan loom large on the horizon.

A Brief History of Kansas Government Spending

The constant pressure on lawmakers to continually spend more has taken its toll on the size of the budget. In the last two decades alone, state spending in Kansas increased dramatically. According to statistics from the Kansas Division of the Budget, inflation adjusted, State General Fund (SGF) spending equaled nearly \$3.7 billion in 1992. By fiscal year 2008, State General Fund spending increased to nearly \$6.1 billion – that’s over 66 percent in real growth.

If you consider total Kansas spending, the numbers tell a similar story. In fiscal year 1992 total spending in Kansas equaled \$8 billion. By fiscal 2008, the budget had ballooned to \$12.6 billion. The bottom line is that no matter the method of calculation, Kansas government is spending beyond its means.

Figure 2

Fiscal Year	State General Fund	All Funds
1992	\$3,652,719,924	\$8,045,654,360
1993	\$3,829,601,660	\$8,446,659,957
1994	\$4,318,255,254	\$9,414,455,560
1995	\$4,467,603,496	\$9,743,326,337
1996	\$4,509,114,588	\$10,002,072,595
1997	\$4,534,705,377	\$10,054,299,011
1998	\$4,794,552,325	\$10,195,881,173
1999	\$5,055,242,643	\$10,256,338,611
2000	\$5,124,187,821	\$10,056,243,173
2001	\$5,145,212,834	\$12,147,381,909
2002	\$5,106,776,163	\$11,208,895,776
2003	\$4,625,655,845	\$11,271,554,327
2004	\$4,700,544,263	\$11,104,647,788
2005	\$4,940,102,241	\$11,149,655,676
2006	\$5,244,173,578	\$11,665,743,567
2007	\$5,632,858,030	\$12,428,439,073
2008	\$6,088,939,480	\$12,624,851,725
1992-2008 Growth Rate	66.70%	56.92%

* All Numbers in Real 2007 Dollars

Source: Author’s calculations, based on the *FY 2008 Comparison Report and previous reports, which are available at: <http://budget.ks.gov>*



From Dodge City to Salina, every day thousands of families and businesses throughout Kansas must make hard decisions and set spending priorities to live within their means. Of course, if we lived in a perfect world, all of us would have unlimited resources at our disposal and could avoid making tough choices that maintain fiscal responsibility.

However, we live in a world of limited resources and that means we are forced to understand the difference between needs and wants. Therefore, it is completely unreasonable that governments should be exempt from the same budget constraints that working Kansans face everyday.

If concerned policymakers could go back in time and change spending habits to reflect the constraints of working Kansans, they would save the state significant resources. For instance, if lawmakers would have restrained spending growth beginning in fiscal year 1992 by limiting the growth of government to the rate of increase of population plus inflation, the true cost of government would be drastically less today.

Using the “population growth plus inflation formula” promotes fiscal discipline while still accommodating reasonable government growth. This allows for growth in response to increased prices and inflow of residents – two items that significantly influence the ability to preserve a given level of government services. This limited form of government spending restraint would have saved Kansas over \$15 billion during those years. At the same time, it would have forced Kansas state government to operate under the same budget constraints that ordinary Kansans face.

Looking to the Future

Of course it's easy to look back and highlight the massive savings available if government had implemented budget controls. The more germane question is what measures can we take today to control the real cost of government in the future? During the budget negotiations on the Governor's budget for the upcoming fiscal year, lawmakers will have their chance to say “no” to excessive government spending.

If policymakers want to get serious about controlling spending, they should use fiscal 2008's budget as a baseline and limit the rate of growth to a three year average of inflation plus population growth, which now adds together to equal 3.54 percent. In fiscal year 2009, that formula allows lawmakers to increase spending up to a level of \$13,071,771,476. If lawmakers would prefer to consider limits on spending in the State General Fund, the allowable limit for fiscal year 2009 is \$6,304,487,938. Any spending above this cap would be fiscally imprudent and represent government overspending.¹

Due to many years of overspending by the legislature, it is probably more than generous to allow even this amount of spending increase. Since FY 2004, the annual percentage increases in spending in the State General Fund have all exceeded 5 percent, with the FY 2008 budget sharply increasing spending by 8.1 percent.

Paying close attention to detail shows that even under our proposed spending restraint, government would not “wither on the vine,” but actually retain the ability to grow and meet citizen needs. For instance, this year's limit would allow government spending to increase by



over \$446 million. The State General Fund would also be given a healthy increase in fiscal 2008 – allowing it to grow by nearly \$215 million, while producing a fiscally responsible budget.

Moreover, by creating a culture within the Legislature that opposes excessive increases in spending, this “self-imposed spending cap” will provide much needed self-discipline and compel the Legislature to explore innovative policy initiatives in areas of public education, Medicaid, transportation, and the state employee retirement system.

To ensure the government faces the highest level of accountability, it is imperative that citizens are properly informed of both the tax and the spending sides of the government’s fiscal equation. Lawmakers who describe themselves as pro-taxpayer should also exercise fiscal responsibility on the *spending* side of the government ledger.

How can we change the current system where the "benefits" of increased spending are highly visible and concentrated, but the costs are hidden and widely spread? What can we do about this growing problem where institutional biases ensure governments continue to become more and more powerful?

Thomas Jefferson strongly believed there are no safe depositories of power in society besides the people themselves, and we must therefore strive to inform their discretion. Concerned individuals, groups and policymakers must come together and inform the population that the true burden of government is not simply the tax burden, but the total level of government spending.

The key to good budgeting is the ability to say no. Once voters in Kansas understand Milton Friedman’s concept that total spending equals the truest cost of government and realize the cost of excessive government spending, this knowledge will surely give lawmakers a powerful incentive to say "no."

We must remember that government has nothing to give anybody except what it first takes from somebody, and a government that's big enough to give you everything you want is big enough to take away everything you've got.



About the Author



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Notes:

¹ We focus the attention of our analysis on the State General Fund budget and the All Funds budget because they are generally the most published and widely available to residents of Kansas.

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