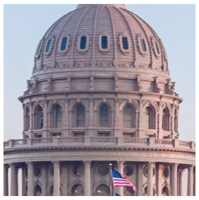


TEXAS PUBLIC POLICY FOUNDATION

Testimony

April 3, 2019
Center for Economic Prosperity

SB 1891
Let People Prosper by Limiting Government Spending

Testimony Before the Texas Senate Committee on Finance

by Vance Ginn, Ph.D., Director

Chair Nelson and Members of the Committee:

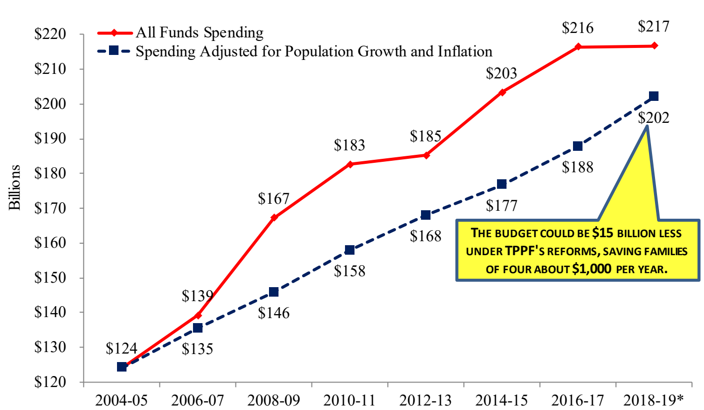
My name is Dr. Vance Ginn, and I am a senior economist and the director of the Center for Economic Prosperity at the Texas Public Policy Foundation. I am testifying today *for* Senate Bill 1891 because it would provide key structural reforms to the state's weak spending limit, which would protect taxpayers by keeping the growth of government within their ability to pay for it.

Texas' spending limit weaknesses. Texas has done better economically and fiscally than most states during much of the last two decades. This success is a result of a limited government philosophy known as the Texas Model. However, the state's weak spending limit threatens this success, as excessive government spending has necessitated higher taxes and debt. Among its weaknesses, the limit 1) covers less than half of the budget, 2) uses personal income which is an unreliable indicator of taxpayers' burden, and 3) relies on a growth rate from practically impossible projections.

Recommendations for a spending limit to reflect taxpayers' burden. With many possible limits on a government's budget, a limit must reflect the average taxpayer's ability to pay for government spending, not an appropriator's cost of providing provisions. The latter results in excess spending because the government's provisions often dominate those markets, so the cost is likely inflated, meaning spending, and therefore taxes, would be higher than necessary. To reflect the average taxpayer's tax burden, we recommend that a spending limit, which was adopted by the American Legislative Exchange Council as model legislation and was outlined in SB 943 during the 2017 regular session, include:

- Limiting the growth of the total budget, helping avoid perverse incentives and budget gimmicks;
- Basing the growth rate on the lowest of three metrics:
  1) Census Bureau's state population plus Bureau of Labor Statistics' consumer price index for all items,
  2) Bureau of Economic Analysis' state personal income, and
  3) Bureau of Economic Analysis' gross state product;
- Calculating the growth rate with data from the two fiscal years immediately preceding a regular legislative session when the budget is adopted; and
- Requiring a supermajority vote of two-thirds in each chamber to exceed the limit.

Figure 1. Texas' government budget comparison



Source: Legislative Budget Board's Fiscal Size-Up and authors' calculations.
*Indicates appropriations.

Figure 1 shows how the state's budget compares with just population growth plus inflation, which is usually the lowest metric each period, since the 2004-05 budget.

These data note that the state's budget is up 7 percent above this compounded metric over time, translating to $15 billion higher this biennium and costing $1,000 more, on average, for a family of four this year.

continued

Reasons for population growth and inflation. Historically, state population growth plus inflation has often been the lowest metric and relatively more stable over time than the other two metrics considered. However, we are mindful of the Great Inflation during the 1970s and do not find it appropriate to excessively burden taxpayers by growing government spending at that pace, which is why we suggest the lowest of the three metrics. Population growth and inflation are two economic measures influencing the state's economy that reflect the average taxpayer's ability to pay. Specifically, these measures hold budget growth to no more than the means of the average taxpayer as more Texans pay taxes and wages are historically correlated to inflation. Capping the total budget by these measures provides more flexibility for legislators to appropriately fund different spending categories instead of limiting spending of each category to that population served and costs of representative goods and services, which are primarily government-driven and difficult to calculate.

Benefits of a stricter spending limit. Research finds that strengthening the spending limit to population growth and inflation could lead to tax relief and accelerated economic growth. Adding these measures accounts for economies of scale whereby the average cost of providing many government provisions may decline over time. Moreover, the current limit of personal income growth can be represented as population growth plus inflation plus productivity. However, a more productive private sector signals that the marginal return per dollar would be greater in the private sector, so more dollars should remain there instead of being taxed to pay for higher government spending, resulting in a negative third factor. If government productivity is considered in this calculation, it would be practically impossible to measure and would likely be zero over time. Therefore, population growth plus inflation is a reasonable metric.

Details of SB 1891. This legislation would strengthen the spending limit by:

- Limiting the growth of consolidated general revenue, which is more than half of the total budget;
- Basing the growth rate on population growth times inflation, which is not ideal as it is not used by any other state and would compound faster than adding them while not accounting for economies of scale, but it is more stable and relevant to the average taxpayer's means than personal income;
- Calculating the growth rate by averaging the growth rates of the previous biennium and the upcoming biennium, substantially improving the current flawed projections; and
- Requiring a supermajority vote of three-fifths in each chamber to exceed the limit.

Considering that high taxes and debt are always and everywhere a government spending problem, the state's current weak spending limit has contributed to excessive government spending that has resulted in less economic prosperity for Texans. Although SB 1891 could be strengthened, we support it as a valuable step to limiting the footprint of government, allowing Texans more opportunities to flourish.

Thank you for your time and the work you do, and I look forward to continued discussion on this topic.

ABOUT THE AUTHOR

Vance Ginn, Ph.D., is a senior economist and director of the Center for Economic Prosperity at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free market think tank based in Austin. He is a former college lecturer, and an expert on economic and fiscal issues with research to let people prosper by removing government barriers in Texas, D.C., and beyond.