



FACTS ABOUT THE IMPACT OF SPENDING CAPS ON PENNSYLVANIA

Proposals that would automatically limit the growth in state spending continue to move swiftly through the Pennsylvania General Assembly. Proponents of automatic spending limits claim that they are a “moderate” and “common sense” restraint, that legislators need the limits to contain profligate spending, and that Pennsylvania’s limits will not result in the dramatic cuts in services that led Colorado voters to suspend similar spending limits earlier this month. It is important that legislators, their staff, the media, local elected officials, and the public have a fuller understanding of the issues and are able to judge these claims based on the facts.

1. Claim: *30 states already have spending limits and Pennsylvania is just catching up with those other states.*

Fact: *Pennsylvania’s legislation would create one of the most restrictive state spending limits in the nation.*

While 30 states do indeed have spending limits, only four use the highly restrictive population plus inflation formula in the Pennsylvania proposals. In addition, Pennsylvania like Colorado proposes to place state spending limits in the state constitution. Further, legislation introduced in the House includes a voter approval provision and makes Pennsylvania’s law as restrictive as any spending limit in the nation, on a par with Colorado’s Taxpayer Bill of Rights (TABOR). The legislation that has passed the Senate would require a 60 percent or two-thirds majority (depending on the circumstances) to override the spending limits.

2. Claim: *Pennsylvania’s legislation has fixed the problems with Colorado’s TABOR so our state won’t have the same problems that led Colorado voters to suspend TABOR.*

Fact: *Pennsylvania’s legislation includes the core provision of Colorado’s TABOR, the severely restrictive formula that drove down state spending and cut services.*

TABOR proponents in Pennsylvania embraced the Colorado model in mobilizing initial support for spending caps, but are now running away from the Colorado comparison even though Colorado is the only state that has experience with spending constraints such as proposed here.

The core provision of Colorado’s TABOR law is the restrictive formula that limits state spending to population growth plus inflation. That provision -- or an even tighter one that restricts state spending growth to just inflation -- exists in all of the Pennsylvania proposals under consideration.

In a way that was not fully understood by many who voted for TABOR in Colorado and that may not be fully understood by many Pennsylvania supporters of spending caps, the formula proved to be the most limiting and destructive element of Colorado’s TABOR law.

Inflation as measured by the Consumer Price Index (CPI), typically 3 percent per year in recent years, is simply an inappropriate way to measure and control government spending. The CPI measures the increase in the cost of a “basket of goods” that a family buys: food, clothing, housing,

transportation and energy. The basket of goods that a state government purchases -- including health care, social services, transportation, prisons, and education -- rises much more quickly than the CPI. In 2004, for example, the CPI was 2.8 percent, while health care premiums have routinely been rising at 10 percent or more. When some costs rise this fast, it means there is less available for other services, such as public education, higher education and other services. Over time funding for these services is reduced.

Colorado's TABOR does differ from Pennsylvania's in some ways. Colorado's formula applies to revenue, as opposed to spending. But this is a distinction without a practical difference. In Pennsylvania's case revenue can increase beyond spending, but the funds will be unavailable to support services.

A second difference is that Colorado's spending limits also apply to local governments. Local governments in Colorado routinely override spending limits to respond to local demands. According to one analysis, 85 percent of local governments have voted to override spending limits.

3. Claim: *The Commonwealth will have \$650 million more each year even with the spending limits.*

Fact: *If spending caps are adopted, the Commonwealth will not even be able to buy the same goods and services each year as it bought the year before.*

As noted, the proposed spending caps limit the growth of general fund revenues to a formula based on population growth plus inflation. With inflation close to 3 percent, the inflation part of this formula generates roughly \$650 additional million or so each year. Proponents of spending caps have pointed to this money as evidence that the caps are not unreasonable.

While \$650 million sounds like a lot of money, however, in a nearly \$24 billion state general fund it will be more than used up meeting existing obligations, such as Medicaid, prisons, K-12 education, and higher education. In fact, as long as the inflation rate for the goods and services the state actually buys is modestly higher (more than about half a percentage point) than the economy's overall inflation rate the state will actually be able to buy *less* each year. In this case, **each year under the spending cap formula, the amount of actual goods and services the Commonwealth can buy will go down.**¹ The state will have to cut its provision of goods and services each year and have absolutely nothing for *any new expenditures* needed because of rising health care costs, the desire to invest in the workforce of the future, or an emergency.

4. Claim: *These spending caps will make state government live within its means.*

Fact: *These spending caps will make state government live on a shrinking fraction of its means.*

One of the recent refrains of spending cap proponents is that "government must live within its means." Just as an individual's "means" can be measured by growth in his or her income and wealth, the "means" of state government is suggested by the growth of the personal income, business income, and wealth (including property) of the state's residents. As proposed, the spending cap formula ignores all growth in total business and personal income and wealth. Consequently, the proposed spending caps actually require state government to shrink over time. If the caps had been in effect since 1986 in Pennsylvania, state general fund appropriations by 2005 would have dropped from 5.4 percent of state personal income to 4.1 percent.²

Although the Pennsylvania proponents of spending caps are too shy to say so in public, the real goal of caps on state spending is to shrink the capacities of state government by shrinking its budget. This is a goal that goes well beyond controlling costs and is an attempt to limit government's ability to meet the needs of ordinary people without having to discuss that goal directly in public.

The national champions of spending cap bills, such as Grover Norquist, are less shy about their agenda. Norquist's oft-quoted goal is to shrink government in the bathtub until it's small enough to strangle. He has also said that his target for state government spending in particular is to cut it in half – in Pennsylvania, this would mean from 5.4 percent of personal income to 2.7 percent, a reduction of nearly \$12 billion. The Pennsylvania spending cap proposals which Norquist and others have sought to export from Colorado are the central component of the effort to shrink government at the state level.

5. Claim: *State government is not living within its means.*

Fact: *State government is living within its means.*

Measured as a share of personal income, actual state government appropriations were 5.4 percent in 1986 and 5.4 percent in 2005. State government in Pennsylvania isn't growing as a share of the economic pie in the state.

6. Assumption: *Supporters of spending caps assume that the proposed spending cap formula has a tangible relationship to economic reality and is an objective measure of what Pennsylvania should spend.*

Fact: *There is not an economic theory held by any professional economist that suggests inflation and population growth are related in any meaningful way to appropriate levels of government spending.*

The spending cap proposal is not accompanied by any logical argument or empirical data on what state spending "should be" or to defend the idea that it "should be" at its current per capita level rather than higher or lower. The scope of government is a *political* issue that has traditionally been settled by open political debate about what citizens want their government to do. The spending cap proposal is in effect an attempt to foreclose such debate. Spending caps would make it far more difficult for citizens to seek and receive help from government and to determine its course through democratic means in response to new developments in the economy and society.

Conclusion

Looking forward, there are at least three structural reasons for believing spending on state government may need to rise to meet the needs of Pennsylvania's residents.

- **First**, health care and social costs are rising in part because of the aging of our population.
- **Second**, Pennsylvania competes in a global economy in which investment in education, workforce development, and other public goods (e.g., infrastructure) will be critical to economic development and the creation of good jobs.
- **Third**, the federal government keeps pushing more responsibility for critical programs down to the states.

Putting state government in a straightjacket when confronted with these new challenges will undercut quality of life and the middle class.³

Endnotes

¹ The statement in the text is accurate as long as the difference between the inflation rate of the basket of goods and services the state buys minus the CPI is greater than Pennsylvania's annual rate of population growth.

² "TABOR Would Have Cut State Spending by Nearly a Quarter in 2005," Budget Watch, Pennsylvania Budget and Policy Center, November 2005, online at www.pennbpc.org.

³ This paragraph draws from Stephen Herzenberg and Sharon Ward, *Leaving Pennsylvania Behind: Locking in Cuts in State Spending Would Jeopardize Pennsylvania's Future*, Pennsylvania Budget and Policy Center, online at www.pennbpc.org, October 2005. This source also summarizes the impact of TABOR in Colorado.