Reducing the State's Urge to Spend

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February 26, 2007

Ultimately, the maxim, raise all you can, and spend all you raise, will drive the political process. A cap on spending growth through a carefully-crafted Taxpayer Bill of Rights is a must to blunt the incentive to exploit the vote-getting potential of broad taxation combined with focused spending.

But it is possible to reduce the budgetary pressure that leads to weaker spending caps and or more numerous and drastic voter over-rides of the caps. Here's the menu of possibilities. All else equal, smaller legislatures spend more than larger ones. Certainly, fewer legislators means fewer spending agendas, but the increased difficulty making deals and forming the coalitions needed to pass controversial legislation, which increases the more legislators there are, swamps the effects of the rise in the number of agendas seeking funding. Marginal deals don't get done. Other factors underlying legislative transaction costs are legislative turnover and legislative staff. So, term limits help restrain spending, as would term limits on committee assignments.

Factors that reduce the attractiveness of legislator tenure help restrain spending. For example, gerrymandering that makes legislative races less competitive (less turnover), increases budgetary pressure. The trade-off, both in terms of number of staff, type of staff, and locus of staff (assigned to members vs. assigned to committees [better], for example), between ability to make deals, and ability to cast more informed legislative votes needs much more study. Certainly, staff allocations need to be focused on issue study, not coalition-building capability.

Longer legislative terms also restrain budgetary pressure. They reduce the importance of special interest pressures; the ones that dominate lobbying. Two year budget cycles, which reduces the frequency of dealmaking – sausage production at the 'sausage factory' – produce less spending growth than annual budgeting.

Balanced budget requirements are known to underlie tax increases during economic downturns. But prohibiting deficit finance appears to outweigh the effect of increased pressure to raise tax rates during economic downturns.

A surprising result is that line-item veto authority accelerates spending growth. Yes! While some governors have used the line item veto to reduce spending growth, the more typical use of the tool is to pressure the legislature to give greater weight to the governor's spending priorities. Governors threaten line item vetoes to pressure legislators to approve marginal spending favored by the governor.

Finally, increased visibility of taxation would reduce spending growth. The most ‘visible’ taxes are personal income, sales, and property taxes. That does not mean that implementation of a state income tax would reduce spending growth, but increased sales taxation to substitute for, say, reduced oil revenues, would reduce spending growth.