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The Rise in Revenue

The State doesn't 'invest'; it spends

The place for excess funds is citizens' hands, not programs for beneficiaries

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These are perilous times for economic conservatives. Arizona state tax revenues are through the roof. Forecasters predict a state budget surplus in the $1 trillion range. The spenders are ecstatic.

This surplus is simply an overpayment by the taxpayers relative to the needs of state government. But our chances of getting our money back are questionable. Gov. Janet Napolitano and her legislative allies like state Sen. Linda Aguirre are urging that we "invest" it in "the future." This is scary stuff, coming from a crowd that has already driven up state spending 14 percent last year and 36 percent over the last three years — all when they were facing operating deficits.

Investing in Arizona sounds so sober and responsible. But the dictionary says "invest" means using money to generate interest or profit. Let's get real. The state isn't investing money, nor should it be. Obviously we hope policymakers are using our money wisely, but we should call it what it is. It's not investing. It is spending on government programs.

The spending advocates claim that we have lost ground to make up. The Children's Action Alliance's Dana Naimark believes, "there are a lot of areas," including counseling services, "where we are leaving kids behind." The governor has repeatedly criticized the tax cuts of the '90s as "bad decisions" that damaged the "long-term fiscal health" of the state.

The state economy seems to have survived all the damage pretty well. Moreover, budget data over the last decade don't support the notion that state government is being starved or has a lot of catching up to do. According to the Joint Legislative Budget Committee (JLBC), the General Fund spending a decade ago (fiscal year 1996) was $4.5 billion. This year $8.2 billion will be spent out of the General Fund, an 81 percent increase. (Spending from all funds has grown from $11.5 billion to $23 billion.) During that same time period, inflation has grown 20 percent and population 33 percent for a combined growth of 53 percent. In other words, government has grown about 30 percent in per capita spending over inflation. A growing family that had 30 percent more spending power per member than a decade ago would hardly warrant sympathy for falling behind economically.

Still, lawmakers are besieged by beneficiaries of government spending who insist they require more funding. Our representatives would be wiser to prioritize the health of the state's private sector. Much of the current surplus comes from capital gains taxes on real estate and sales taxes on construction. But the real estate boom is unlikely to last forever. Using some of the surplus to stimulate the economy and help keep the good times going would be smart.

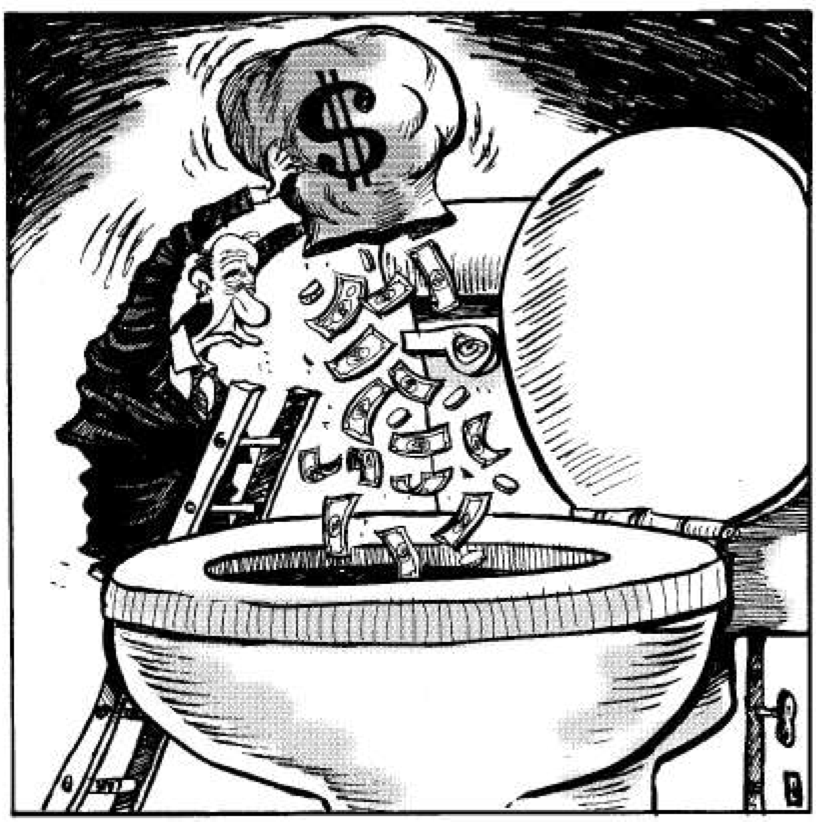
The Free Enterprise Club has proposed a broad-based 10 percent reduction of personal income tax rates and corporate tax reductions of $100 million for a tax reduction that would total $400 million. Their plan wouldn't be targeted to lucky winners. It would enable all taxpayers to boost their investing and spending. Unsurprisingly, decreases in income and corporate taxes have the highest impact on economic growth.

Not everyone is impressed. Rob Melnick of the Morrison Institute sees it as just a political maneuver, a chance for legislative Republicans to take Napolitano down a notch. The economic effect of this size of tax cut would be “marginal” in his opinion.

Melnick’s viewpoint may seem intuitively reasonable but the economic research tells a different story, at least about the cumulative effects of state fiscal policies. Richard Vedder of Ohio University has demonstrated that over a 40-year period, the 10 states with the most restraint in their income tax rates had personal income growth 2 1 /2 times that of the 10 states with the most growth in income taxes. The Morrison Institute itself published a 1997 study by Bob Robb showing that Arizona real per-capita income growth and earnings per employee exceeded national averages during periods when we cut taxes and lagged behind national norms when taxes were raised.

Tax cut critics fret that if we cut too much, raising state taxes requires a two-thirds vote. But as Ronald Reagan pointed out, government programs have the next thing to eternal life itself. The budget decisions made this year, in any case, will be relatively permanent and will materially affect us all.

Let’s hope our policymakers come down on the side of taxpayers and economic growth.



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