

Arizona Government Needs a Firm Spending Limit

By Chad Kirkpatrick and Tom Jenney

“Don’t spend more than you earn.”

In our personal lives, we don’t always follow this rule, but we know we should. If we get into the habit of spending more than we earn, we will face increasing debt, and we will fail to accumulate savings for use in retirement or in emergencies.

Of course, if we wish to be irresponsible, we can always throw caution to the wind and say, “It’s my money.” We can then face the consequences, which may include bankruptcy.

But politicians should not be allowed to spend irresponsibly. That’s because the money they spend is ours. And when they increase debt, they not only put that debt on us, but on our children and grandchildren.

Right now, Arizona government has a spending problem.

As the graph shows, government spending as a percent of Arizona’s personal income—a rough measure of the size of the entire economy—has been increasing since Fiscal Year 2003. The cause? Government spending has been growing at a much faster rate than state personal income.

During the last four years, spending by the state government has grown at an annual average rate of 14.3 percent, while personal income has grown at 7.7 percent. And there is little indication of a change in that trend: the Governor’s proposed budget for this year calls for a 12 percent increase in General Fund spending alone, which is (once again) significantly higher than the forecasted increase in personal income.

Apologists for runaway government spending may argue that the rapid spending increases in Fiscal Years 2004-2006 were necessary to return spending to pre-recession levels. But it is clear that we are now spending significantly more than we were before the recession. As the graph shows, if we continue to spend at the rate established during the last four years, by Fiscal Year 2009 we will hit the state’s constitutional spending limit of 7.41 percent of personal income.

The problem with the current spending limit is that it's far too high. The limit was established in 1979, during the Carter era, when Arizonans and Americans in general were staggering under the weigh of Big Government. Thanks in large part to the tax cuts enacted under Gov. Symington, Arizona has become much more competitive, and—until recently—we were staying well below the current spending limit.

We are now moving back toward the spending levels of the 1980s. If allowed to continue, overspending will negatively impact the future economic growth of the state in the medium to longer run (there is always a lag to policy changes), and will fuel the demand for tax increases during the next recession, when revenues will prove inadequate to meet the expectations of high spending. In the post-Reagan, post-Symington era, Arizonans deserve better than a Carter-era spending limit.

The good news is that some Arizona legislators are working to pass HCR2025, which would allow Arizona voters to reduce the spending limit from 7.41 percent of personal income to 6.4 percent.

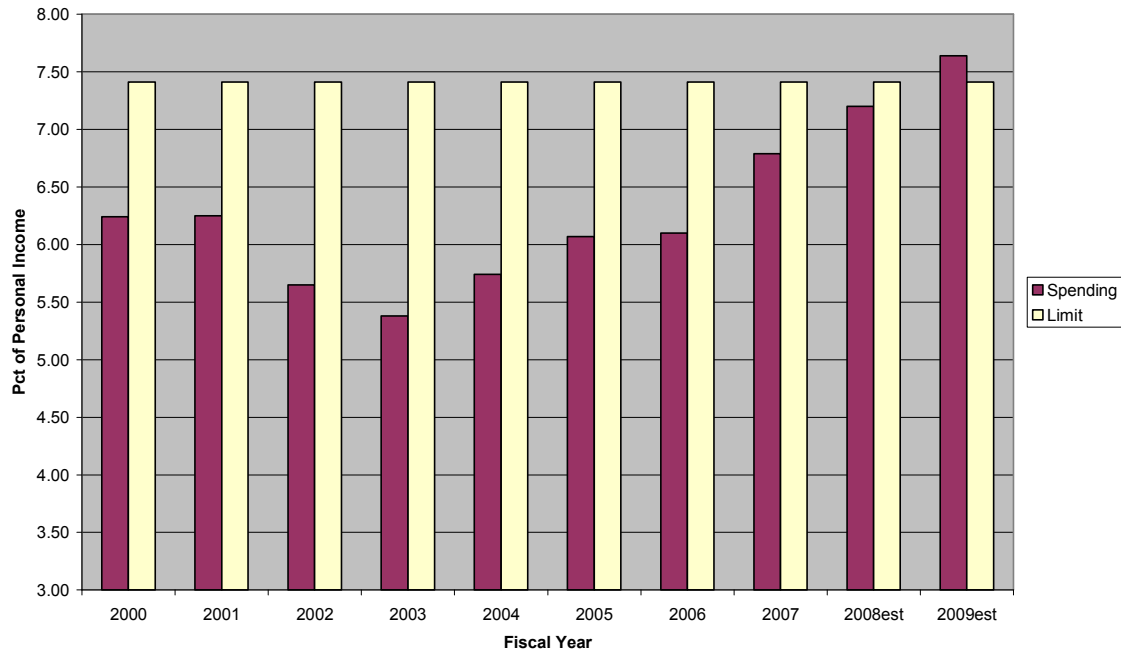
The only drawback to HCR2025 is that it does not restrain government spending as much as the Taxpayer Bill of Rights, aka TABOR. Under TABOR, government spending increases would be limited to the rate of growth of population plus inflation, which is nearly always slower than the rate of growth of personal income. Over time, TABOR would cause state government to shrink slowly as a portion of state personal income.

By comparison, HCR2025's personal income limit merely requires that state government stop expanding as a portion of the state economy. Every budget from FY1995 to FY2006 would have qualified at the 6.4 percent level. HCR2025 also allows the Legislature to lift the cap in emergency situations with a two-thirds vote.

Those who oppose HCR2025 believe that government should be allowed to grow faster than the state economy—in other words, they're arguing that government should be allowed to spend our money faster than we can earn it. That stance is neither moderate nor fiscally responsible.

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**AZ GF Agency Expenditures as a Pct of Personal Income, 2000-2007 (OSPB)
2008-2009 Projections by AFT**



(This graph is also available in PDF format at www.aztaxpayers.org/HCR2025.pdf)