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PROTECTING THE TAXPAYERS
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Thank you Senator Corman, Senator Folmer, and members of the Senate Majority Policy Committee for the opportunity to testify on the proposed Taxpayer Protection Act (SB 7) and Taxpayer Protection Amendment (SB 707).

For too long, policymakers in Harrisburg have attempted to grow our economy by growing state government. Both political parties have embraced—to varying degrees—the philosophy that Harrisburg can somehow tax, borrow and spend our state into prosperity. Unfortunately, the results of this policymaking approach have been harmful to our citizens fiscal and economic health.

Between 1970 and 2006—when state spending increased by 160% in inflation-adjusted dollars—our commonwealth ranked:

- 49th in job growth,
- 45th in personal income growth, and
- 48th in population growth among the 50 states.

In the 1990s, only Mississippi outpaced Pennsylvania's growth rate of government spending on a per capita basis. Worse yet, this spending trend has continued into this century.

In Governor Ed Rendell's first four years in office (FY 2003-04 to FY 2006-07), state spending increased by 28%, yet Pennsylvania still ranked:

- 40th in job growth,
- 35th in personal income growth, and
- 42nd in population growth among the 50 states.

Nonetheless, Pennsylvanians are regularly told by Harrisburg that this tax increase, or that program, or another borrowing plan is necessary to “stimulate” or “revitalize” our economy. Yet for all the busyness in the executive and legislative branches to try to spur our economy with taxpayer-funded grants, abatements, subsidies and other government handouts, Pennsylvania continues to muddle around the bottom of every key economic indicator.

Why is this? Well, it would behoove Gov. Rendell and members of the General Assembly to consider Sir Winston Churchill’s words of wisdom when he said, “I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”

Yes, state government produces a lot of sound and fury by yanking on the bucket handle, but the truth that Churchill was noting is that government-directed “economic development” schemes tends to be a losing proposition in the long-run. Government can only *redistribute* wealth from one group of Pennsylvanians to another group in the name of spurring the economy, but it does nothing to actually **create** wealth.

The most fiscally and economically beneficial policy state government can embrace is to just get out of the way. Harrisburg would do more to stimulate and revitalize our economy by simply stepping aside and freeing up entrepreneurs and working Pennsylvanians to exercise their God-given rights to pursue life, liberty and property. The historical and economic evidence confirms this.

Consider the 10 states which reduced their tax burdens the most since the 1970s and compare them to the 10 states with the highest tax increases (one of which is Pennsylvania). The low tax states enjoyed a job growth rate that was **four times greater** than the high tax states.

Also consider Pennsylvania’s Gross State Product—which is the market value of all goods and services produced by the labor and property within a state, and is the broadest indicator of economic performance. One would think that if Harrisburg can indeed tax, borrow, and spend our state into prosperity that our growth rate in GSP would rank amongst

the highest in the nation—particularly since we had the second highest per-capita state government spending growth rate in America in the preceding decade. But according to the most recently available data, Pennsylvania’s economic growth rate was less than 75% the national average during the five-year period between 2001 and 2005. Instead of ranking among the highest performing states in the nation, Pennsylvania placed an abysmal 39th in the nation in GSP growth. The result is a widening “growth gap” between Pennsylvania and competitor states.

As Fred Anton of the Pennsylvania Manufacturers’ Association noted: “Decisions made in Harrisburg have caused this ‘growth gap’ in Pennsylvania’s economic performance” and it “represents billions of dollars in lost investment and tens of thousands of missing jobs—wealth that Pennsylvania should have gained over those five years but didn’t.”

Yet despite the proven inability to tax, borrow, and spend ourselves to prosperity, the special interest lobbies who benefit from higher taxes and more government spending will attempt to mislead both policymakers and the general public about the impact of the Taxpayer Protection Act.

For example, they will argue that spending limits will require “cuts” in government funding. Nothing could be further from the truth. The reality is that if SB 7 were applied to the upcoming fiscal year General Fund budget, spending could increase—not decrease—by more than \$823 million. This is not to suggest that we should grow government spending by that amount, but that spending limits do not starve state government—they mere force much needed prioritization. Indeed, the Commonwealth Foundation has identified hundreds of millions of dollars in General Fund Budget spending and over \$2 billion in operating budget spending that should be eliminated.

Opponents of fiscal restraint will also argue that the Taxpayer Protection Act places a “hard cap” on spending and that the index of inflation plus population growth is flawed. These too are red herrings. First, there are a number ways in which lawmakers can exceed the spending limit. They are not easy, but they hardly represent a “hard cap.” But we need to remember that this is the Taxpayer Protection Act—not the Government Protection Act.

Second, we also need to remember that while critics will argue that the inflation and population growth index is flawed, there are no indices that are acceptable to them. Like Act 1 of 2006—the so-called Property Tax Relief Act—the spending lobbies argued against the weak spending limit index that is still permitting districts to increase property taxes by more than half billion dollars in the coming school year.

The reality is that if we do nothing to restrain future spending increases (and the growth in General Fund spending continues on the historical trend of the past decade) the General Fund budget will increase by 59% to nearly \$42 billion by FY 2016-17. But if we imposed reasonable limits on the annual growth of state government spending such as those contained in the Taxpayer Protection Act, General Fund spending would still be able to increase by 31% (to \$34 billion). The cumulative “savings” to taxpayers (relative to the historical trend projections) would be \$36.5 billion—or \$11,600 for each family of four. So instead of starving state government of tax revenues, as opponents will claim, the Taxpayer Protection Act merely ensures that tax increases on working Pennsylvanians better reflect their ability to pay.

Finally, the spending lobbies will also tell you that Colorado’s experience with spending limits has been a fiscal disaster. Well, it certainly was for those feeding at the trough of taxpayer money—their increases in tax subsidies were actually held in line with the taxpayers’ ability to pay. But the average Coloradan benefited greatly from a booming economy and restrained government spending.

In the eight years before their spending limit, the median family income growth in Colorado was 43rd in the nation. Job growth was 33rd, and economic growth per capita was 43rd. But from 1992 to 2005—in the years after TABOR—family income growth was 7th in the nation. Job growth was 6th, and economic growth per capita was 7th. In addition, since 1992, more than \$3,200 in overpaid taxes were returned to the average family of four in Colorado.

Despite the factual benefits of restrained government spending, opponents will cite myriad statistics to try to confuse and scare policymakers and citizens. Attached as an addendum to my testimony are a few publications that directly address the rhetoric, lies,

and distortions that are aggressively promulgated by those opposed to spending restraint in Harrisburg.

You will, of course, hear from many special interest lobbies who are opposed to Senate Bills 7 and 707. You will be pressured to oppose these sensible limits on government spending growth. But at the end of the day, your decision to support or oppose the Taxpayer Protection Act an Amendment comes down to who you believe can make Pennsylvania a better place to raise a family, create jobs, and foster a more civilized society: the Citizens of Pennsylvania or State Government in Harrisburg? We, at the Commonwealth Foundation, believe in the hardworking people of Pennsylvania.

We've seen the harm inflicted on Pennsylvania's fiscal and economic health by the overspending in Harrisburg. The growth in Pennsylvania state government spending over the years has confirmed the truism that we can grow the government or we can grow our economy, but we can't grow both.

For the fiscal and economic health of our citizens and our state, it is time we put Pennsylvania on a spending diet that balances taxpayers' ability to pay and begins to restore the proper role of government in our daily lives.

Thank you again for this opportunity to testify in support of Senate Bills 7 and 707, and I look forward to answering your questions.