PENNSYLVANIA
BUDGET AND POLICY CENTER

Testimony of Sharon Ward, Director
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Senate Majority Policy Committee
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Chairman Corman, Committee members. Thank you for inviting me to comment on Senate Bill 7 and 707. I am particularly grateful for this platform given that my testimony is likely to differ substantially from much of the testimony you have heard to date.

I am here today to register opposition to this legislation and to warn you of its potential consequences. While proponents tout spending limits as a miracle cure that will stimulate economic growth and maintain and improve Pennsylvanians' quality of life, it will do neither. Instead, a constitutional amendment, or statutory provision to limit state spending will stifle economic growth and greatly diminish Pennsylvania's ability to provide adequate services to its residents, much less meet the demands of the future.

I want to make four points today.

Let me begin, first, by questioning the premise at the very heart of this debate, that state spending is too high or out of control. Pennsylvania spending consistently ranks in the middle of all states and its growth has been essentially flat when measured against personal income.

Second, investing in the state's economy and in its citizen's quality of life is a necessary precondition for economic growth, not a deterrent to it. Constitutional spending limits will make the state less attractive, not more, to business and to potential new residents.

Third, limiting state spending to a formula of inflation and population will require significant cuts in state funding for education, libraries, health care, public safety and other services Pennsylvanians rely upon. If it is your intention to slash state spending on schools, higher education, and prisons, then you have picked the right vehicle. State spending limits will lead then, inexorably, to higher local property taxes, as school districts and local governments are forced to pick up the slack in funding for services that people continue to demand, but the state can no longer provide.

Finally, lawmakers should abandon what has proven to be a failed policy strategy. Voters around the country have rejected TABOR laws and ballot initiatives, coming to see them as nothing more than budget gimmicks. TABOR laws reinforce citizens' negative perceptions of state lawmakers. Pennsylvanians are better than that, and so are their policymakers.

In order to illustrate these points let me draw your attention to the attachment, exhibit A. I'll starting with the first chart and move through to page six.

Pennsylvania's spending is neither too high nor out of control. First of all, inflation is the wrong measure against which to evaluate state spending levels. It's like taking your

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temperature with a ruler; you'll never get the right answer. The Consumer Price Index measures goods that individuals buy, not governments.

Economists evaluate state spending as a share of personal income. The first chart shows that, over the last 20 years, state spending has essentially remained flat when measured against growth in the economy, ranging from 5.4% to 5.6% of personal income over that time. Far from exploding, spending has lumbered along like a freight train along a flat track.

The next table is an attempt to demonstrate what runaway spending might look like. In this analysis we took the year with the greatest percentage increase in general fund spending and assumed that spending increased at the same rate over time. As you can see, real spending grew along a slowly rising line, paralleling personal income growth.

Pennsylvania spending tends to lag behind the national average. The third chart illustrates this point. In 10 out of the last 14 years, including three of the last four, state general fund spending increases have lagged behind the national average. So, far from being a national leader in spending, we tend toward the back of the class.

Finally, taken another way, we are a big, high revenue state than manages to stay in the middle, in revenue and spending, over the long haul. Pennsylvania is the 5th largest state in population and ranked 6th in state revenues, but ranked 22nd in per capita revenues and 26th in spending per capita. In terms of state and local taxes, over three decades, we remain in the lower half of all states.

Proponents of spending limits assert that state spending is the impediment to economic growth. This simple calculus fails to consider other factors that strengthen or undermine a state's economic fortunes. Pennsylvania is a manufacturing state and US manufacturing has been hit hard over the past 30 years. The Commonwealth lost almost 300,000 manufacturing jobs during the 1990s, even as overall non-farm employment grew by more than 600,000 jobs.

The story is more complex. Businesses depend on public sector investments, and look for those investments when making decisions to locate or to expand. A skilled workforce, good quality of life for employees, a strong transportation infrastructure, access to markets, and a safe environment are critical to business success in the new economy. A decline in state investment or, uncertainty about the state's ability or willingness to deliver on its end of the economic bargain harms the prospects for growth. Look at Colorado. The biggest supporters of Referendum C, the ballot initiative imposing a 5 year moratorium on TABOR, were members of the state's business community. Here's what they had to say to colleagues in Maine:

"As business leaders who have been analyzing, researching and evaluating TABOR for many years, we recommend strong and unified opposition to TABOR in Maine…"

"If it passes, TABOR will push Maine to the edge of the cliff as it did in Colorado."

Colorado's business leaders and public officials have fanned out across the country to bear witness to the devastating impact of state spending limits in Colorado. Their message has not gone unheeded; in 2006 ballot initiatives in Oregon, Nebraska and Maine were defeated.

Moreover, prominent business leaders played a key role in the defeat of TABOR referenda in these states and preventing legislative passage in others, including Oklahoma. What is interesting to note is the anti-tax groups, typically from out of state, line up to condemn taxation as the root of all evil and promote efforts to limit state spending in states that are wildly divergent in their levels of taxation and their rates of growth. For these individuals and organizations, TABOR is the solution, whatever the conditions and in all circumstances. Business leaders across the country, who have to live with the consequences of these decisions, have proven reluctant to drink the cool aid.

In 2005 former Colorado House Budget Committee Chair Brad Young, a Republican came to Pennsylvania to discuss pending TABOR legislation with lawmakers. He remarked in a conference call with reporters that if someone had done an analysis showing just how much state spending would be cut in Colorado, lawmakers would have never allowed it to happen. With that challenge, the Pennsylvania Budget and Policy Center did just that. The analysis is included in charts 5 and 6.

We went back to 1986 and charted state spending as it occurred, then calculated what spending would have been if limits had been in place over that 20 year period. What we found was that state general fund spending would be 25% less in 2005 under a TABOR formula. Imagine school districts, libraries, colleges and universities, all with a 25% cut in funding. Would the state's economy be much better off? Unlikely. Would our communities be better off? Absolutely not. Would our property taxes be higher? You bet.

The second chart shows the impact of spending limits another way. If Pennsylvania had fully funded the three big budget items, education, Medicaid and welfare programs and corrections, in 2005 there would have been $38 million dollars left for every other service and program.

I think that there are two kinds of TABOR proponents. There are those who would like to see spending limits enacted regardless of the impact on state services, who believe there is no room for the public sector. Then there are those who will evaluate the impact and weigh the benefit against the likely costs. One can oppose spending limits and still stand for fiscal restraint.
I sincerely hope that the members of this committee are the latter.