



## AMERICANS FOR TAX REFORM

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I would like to share with you the trends of the taxpayer movement sweeping the nation and the momentum that is building for constitutional spending limits and Taxpayers Bills of Rights.

As State Coalitions Manager at Americans for Tax Reform, I work with officials and activists in all 50 states to advance the cause of limited government and economic growth.

The chief driver of budget crises, and of ever-increasing tax rates, is unsustainable spending growth. Constitutional spending limits are meant to address this root cause of crisis by imposing a predictable, moderate discipline on state budget growth.

Spending limits offer several benefits to a state government.

A sound, constitutional spending limit is the best method yet designed to avoid such budget crises. A spending limit amendment stabilizes budgets and assures predictability to all those who manage or depend upon government funding. But this stabilization is only one of the advantages of a sound spending limit.

A well-designed spending limit will limit spending growth to a moderate level of either inflation plus population growth or by utilizing a multi-year average of household income growth. This cap assures that no part of the budget will face an expenditure cut in real terms – inflation-adjusted dollars per person will continue unchanged. But by limiting growth to a level near the long run trend in inflation and economic growth, it avoids the boom-bust cycle that most states so painfully experienced in the past couple years.

Second, a well-designed spending limit will have provisions to save some excess revenues during good times in a reserve fund. Such provisions add to stability and predictability to state budgeting and to recipients of funds. A particularly difficult recession could force revenues even lower than the inflation plus population growth threshold, triggering a budget shortfall (though not as severe as it might be without a spending limit). The reserve fund could then be utilized to maintain services during the recession without resorting to new taxes – the worst possible solution during a recession.

Over time, a well-designed spending limit tends to reduce the burden on taxpayers while maintaining services. By restricting the growth of spending at a level below personal income growth, the wealth of society should grow faster than the burden of government. The resulting excess funds can be used to fund tax cuts or rebates. And leaving more wealth in the people's hands leaves more money for parents to save for college, more money for small businesses to invest and hire workers, more money for workers to save for retirement. Spending limits lead to a wealthier society.

Along with the tax relief that is a product of a spending limit, comes the chance for economic growth. There have been numerous studies over several decades comparing the economic performance of high tax states versus low tax states point to much higher growth and prosperity in low tax states. By freeing up money to reduce tax burdens, and minimizing the public sector portion of the economy, spending limits advance the economic growth of the state.

Two states have passed model spending limit provisions in recent times.

Colorado is the model for the nation. Passed in 1992, Colorado's Taxpayer Bill of Rights mandates three broad issues: spending can increase no faster than inflation plus population growth; a supermajority vote of the legislature is required to raise taxes; and any surplus revenue over the spending cap is immediately rebated to taxpayers each year.

Colorado's experience shows all three theoretical benefits of sound spending limits. First, budget stability: Colorado avoided the severe budget crises that gripped almost every other state in 2002 and 2003. While Colorado did experience a minor shortfall each year, in magnitude it was nothing similar to California's \$38 billion, Texas's \$10 billion, or Minnesota's \$4.2 billion, or Maryland's nearly \$2 billion shortfall in 2003. Colorado's budget went from \$5.6 billion to \$5.4 billion to \$5.5 billion. While some cuts were necessary, dealing with a shortfall in the range of a hundred million is much easier than one in the range of two billion.

In addition, Colorado's TABOR has no provision for a small percentage of excess revenue to go into a reserve fund – every extra dollar is rebated to taxpayers. The presence of a reserve fund would have helped Colorado cope with the economic downturn.

Colorado residents enjoyed the most tax relief of anyone in the nation during the 1990's. Between 1997 and 2002, Colorado taxpayers received a rebate EVERY YEAR, totaling \$3.2 billion dollars. Notice that this rebate continued until 2002, a year when most states were already struggling with their budgets. And despite rebating money back to taxpayers each year Colorado faced only mild difficulties in 2003 when compared to drastic cuts needed in other states.

That \$3.2 billion of money left in private hands, combined with a less burdensome government, paid big dividends for Colorado's economy. Colorado became a hotbed of high-paying technology and knowledge workers. It was first in the nation in Gross State Product growth from 1995 to 2000. It was second in the nation in personal income growth from 1995 to 2000. The Corporation for Enterprise Development has ranked Colorado's business climate as best in the nation. All in all, Colorado residents benefited much more than just the \$3.2 billion they saved.

Washington implemented a statutory spending cap. In the beginning, the law was remarkably effective, but after a few years, it demonstrated the inadequacy of the statutory approach.

Passed in 1993, Washington's spending limit soon began to rack up large surpluses. That extra money was used first to reduce, then to eliminate, Washington's car tax, saving voters about \$1 billion. Unfortunately, by the late 1990's, the Washington legislature discovered it could rewrite the spending limit, since it was not written into the constitution. Since 1999 or 2000, there has been little effective limit on spending in the state.

In 2005, Colorado taxpayers voted to suspend TABOR for 5 years, allowing the government to keep an estimated \$3.7 billion, though that amount has risen above \$4 billion and is expected to grow. There is a lesson to be learned from the Colorado experience. The spending limit was not the source of Colorado's budgetary problems, as evidenced by the economic growth that occurred in the state under TABOR, but rather mandated spending provisions undermined the positive effects of TABOR. Colorado's constitutional Amendment 23, passed in 2000, required that government spending on "education" increase faster than inflation (inflation plus one percent). This put the spending pressure of Amendment 23 and the spending limit of TABOR on a collision course. Rather than adjusting Amendment 23, the governor chose to attack taxpayers and the spending limit.

The lesson here is not that a spending limit failed, but that the spending interests' tool to destroy reasonable limits—Amendment 23—succeeded in damaging TABOR. One should not allow spending interests to create such a spending juggernaut through amendment, pension promises or mandated spending sprees.

Washington State and Colorado were the vanguard states. Washington demonstrated the weaknesses of statutory limits, while Colorado demonstrated the strength of constitutional limits. Colorado is now moving to improve and refine its limit. At the same time it has become a model for the nation.

As with any movement in politics, it will take time to build momentum. But the movement has started, and the successful model exists, ready to be copied. If Pennsylvania's leaders have the foresight to approve the measure, Pennsylvania will position itself as a dynamic state that attracts the best new businesses, technology and knowledge workers, and rising incomes.