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THE ISSUE

The opportunity to improve the benefits of government programs is offered by limited revenues, competing budget priorities, and revenue deficits. Using the principle of public benefit, state policymakers can make agencies and programs more efficient and effective by focusing on outcomes. Public benefit requires policymakers to guide decisions with the following questions.

- ★ How much money is available to be spent on government activities?
- ★ How should government functions take priority in the budget?
- ★ What is the goal of each government activity and what programs are most effective at achieving these goals?
- ★ How do tax and spending policies improve economic competitiveness?
- ★ How does the state budget reduce deficits and increase surpluses?

Competition is an essential tool for increasing the public benefit of government activities. The cost and quality of government services can be improved by introducing market forces, such as competition and economic incentives, into agency activities.

The most effective way of making government more responsive and responsible to the public is through comprehensive, whole-cloth reform. Partial, incremental, and gradual reforms have shown small success in changing the way government operates. Public school reforms furnish an example of the failure of incremental reform, while the success of school choice provides evidence that comprehensive, market-based reform maximizes public good.

New Zealand offers a model for governing according to the public benefit principle. In 1984, New Zealand was considered one of the most socialistic of nations. Government took 44 percent of the Gross Domestic Product and the budget deficit represented 15 percent. A new majority in parliament took control and initiated comprehensive, immediate, systemic reform. Parliament halted deficit spending, cut taxes, and reduced government services while improving public programs and increasing public satisfaction with essential services.

THE FACTS

- ★ New Zealand fully eliminated its budget deficit within six years and produced annual budget surpluses within nine years.
- ★ When New Zealand cut income taxes by 50 percent, revenue rose 20 percent in the first year.
- ★ When Turkey cut taxation by 40 percent, revenues rose 27 percent.



- ★ By introducing competition to road construction and maintenance, New Zealand cut costs by 40 percent and improved the quality of roads.
- ★ By allowing agencies to keep a percentage of annual efficiency gains, New Zealand achieved as much as 11 to 15 percent productivity gains by each government agency.
- ★ After school choice was established in New Zealand, more cents on the education dollar went to the classroom, more money was available to build schools and raise teacher salaries, and the achievement gap between public and private schools disappeared.
- ★ When legislators focus on public benefit, government services improve and costs decline.

RECOMMENDATIONS

- ★ Apply the principle of public benefit to all policy decisions.
- ★ Conduct ongoing budget analyses of spending and results.
- ★ Eliminate government activities except required activities or activities expressly required to achieve statutory charges.
- ★ Eliminate government activities that are ineffective or inefficient.
- ★ Fund only essential activities that produce direct public benefits.
- ★ Encourage private capital investment.
- ★ Do not increase taxes.
- ★ Introduce competition in all functions of government.

RESOURCES

- *Converting Challenges To Opportunities* by Maurice McTigue, Texas Public Policy Foundation (Feb. 2003) <http://www.texaspolicy.com/pdf/2003-02-03-mctigue.pdf>.

THE ISSUE

State and local governments replicate many commercial services that are available to Texans today. Government production of commercial goods and services pre-empts competition in the private sector, depresses economic growth, raises the cost of services, and lowers average family income.

Governments are directed to provide certain essential services that are deemed public good and cannot be commercially purchased—such as police protection and welfare. However, state law does not require that governments or government agencies be responsible for producing these services themselves.

Many states are increasing use of competitive contracting because the private sector can provide services more efficiently and effectively—finding that the private sector is capable of providing most government functions. Some states are divesting themselves of commercial operations, recognizing the financial penalties of state ownership on taxpayers.

In Texas, state and local governments are contracting out some administrative and support services today, but competitive contracting represents a small portion of government activity. Governments still command a sizeable segment of the commercial consumer market in Texas and compete with private enterprise at a significant advantage—bolstered by subsidies and tax breaks.

The cost of government competition challenges state policymakers to redefine the role of state and local government in Texas. What is the business of government? Should government own businesses? Should government produce consumer goods and services? Is government responsible for maximizing the economic good of its citizens? Is the primary job of government deciding policy or providing services?

THE FACTS

- ★ State government operates hospitals, correctional institutions, and universities; it runs licensing bureaus and maintains roadways.
- ★ Local governments operate airports, utilities, transit lines, radio stations, emergency services, and convention centers; they pick up garbage and run animal shelters.
- ★ Government businesses get subsidies and tax breaks—putting private enterprise at a significant financial disadvantage.
- ★ Texas governments earn more than \$11 billion annually selling consumer services that duplicate services that can be purchased from the private sector.
- ★ Texas governments spend more than \$8 billion annually operating support services for which there are well-developed commercial markets.



- ★ Government competition accounts for nearly \$20 billion dollars in Texas—the equivalent of 3 percent of Gross State Product.
- ★ Taxpayers pay extra when government gets involved with business—government costs are higher and government prices are usually subsidized below cost.
- ★ Government involvement in commercial business depresses personal income—depressing economic development, job creation, and wages.

RECOMMENDATIONS

- ★ Prohibit state and local governments from establishing commercial activities that are conducted by the private sector.
- ★ Annually review all government commercial activities to determine the potential for and implications of privatization.
- ★ Subject commercial activities of government to the same taxes and regulations as levied on private sector commerce.
- ★ Create incentives for governments to increase competition in all activities—administration, support services, and direct services.
- ★ Establish a “Petition of Interest” process to allow private companies to notify government of interest in providing a government service and initiate a competitive bidding process.

RESOURCES

- *The Business of Government? Competition Between Texas Governments & the Private Sector* by Wendell Cox, Texas Public Policy Foundation (Sep. 2003) <http://www.texaspolicy.com/pdf/2003-09-24-govt-competition.pdf>.