

# Policy Texas Public Policy Foundation

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# Perspective



## Principles for Determining Budget Priorities

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*Government programs persist not because they help to alleviate social problems but because they develop political constituencies.<sup>1</sup>*

The primary task of the Texas Legislature when it meets in a regular session is to pass the state's budget for the next two fiscal years. Without the appropriations act, funds cannot be disbursed. Most state government activity would simply come to an abrupt halt on the September 1<sup>st</sup> following a regular session in which no budget was enacted.

With only five months to write the state's budget, it is understandable that the need to get it written becomes paramount. Deliberate and careful consideration of each budget item takes on less importance than just getting the job done. Nevertheless, there is a duty to taxpayers for lawmakers to ensure tax funds are spent as effectively as possible. This can only be accomplished if decisions are made according to specific criteria designed to guarantee that taxes purchase real benefits for taxpayers, rather than just being spent because the resources happen to be available.

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Budget writers must ask the right questions—critical questions—questions that taxpayers would ask if they had the time. Checking to see if state employees are following accounting rules or if they are trying to keep costs low, while desirable and necessary, is not enough. Legislators must ask the kinds of questions whose answers the legislators themselves might not like.

What follows is a discussion of proposed principles for determining budget priorities. This is not a detailed ranking of agencies or programs in order of their importance. Instead, it is intended to propose *some* criteria for legislators to use in thinking critically about each of the programs and agencies the state's budget funds. Separating wheat from chaff is not an easy task, especially when the chaff has powerful and noisy advocates, but hard decisions must be made in the face of limited funds—and funds are *always* limited.

### Determining Whether a Program Should Exist

The first question a policymaker should ask is whether or not a given agency or program should be funded at all. This is a fundamental question that, if answered in the affirmative, is not the end of the decision making process.

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Five criteria for determining whether a program is worthy of taxpayer funding are proposed here. These might only be a starting point. Other appropriate criteria might be added. Nevertheless, these are the big questions that must be asked of every program or purpose for which taxpayer funds are, or might be, expended. If the answer to any one of these questions is “no,” the program in question should not be funded.

***Is a program or agency consistent with the mission of Texas’ state government?***

More than anything else, government programs should be judged by this criterion. In fact, every program evaluated by a state elected official should have this as its first mark on the yardstick by which it is measured. A program might have advocates. It might garner sympathy. It might even fulfill a truly useful purpose. But if a program does not comport with the central mission of Texas’ state government, it is a program that should not exist.

This begs the question: What *is* the mission of Texas’ state government? There is nothing in the state constitution that constitutes a mission statement. Governors have, on occasion, promulgated mission statements, but these have proven transitory.<sup>2</sup> However, reference to the Republic of Texas’ Declaration of Independence does yield something of a mission statement, if only in terms of what the Mexican government was not providing to the founding fathers of the Republic of Texas. The first paragraph reads:

When a government has ceased to protect the lives, liberty and property of the people, from whom its legitimate powers are derived, and for the advancement of whose happiness it was instituted, and so far from being a guarantee for the enjoyment of those inestimable and inalienable rights, becomes an instrument in the hands of evil rulers for their oppression.<sup>3</sup>

This first grievance against the Mexican government clearly places the founders of the Republic of Texas in the tradition of a long line of liberal thought that has promoted individual rights over totalitarian

states—past and present. John Locke promoted the concept of, “life, liberty, and estate (or property).” Adam Smith built on that when he coined the phrase, “life, liberty and the pursuit of property”—a term modified by Thomas Jefferson when he wrote the Declaration of Independence. A fundamental mission statement of government almost writes itself from this.

The **primary mission** of any government of a free people is to ensure individual liberty. The state must therefore protect individuals’ ability to own their own labor and property and employ them to their own benefit; support the operation and efficiency of free enterprise activity; provide a framework for efficient local government; and provide for efficient and just civil and criminal justice systems.

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State governments are, at least theoretically, fundamentally sovereign in this nation. Though state sovereignty has increasingly yielded to the federal government, local governments in Texas exist by the authority of state government. Hence, they have the same basic mission as the state government, albeit at a different level.

Those in government must always be cognizant that everything government does is funded by denying property and wealth to private individuals, whether funding through taxes or borrowing.<sup>1</sup> Economic liberty is just as fundamental as political liberty. Government spending must therefore be measured against the very real fact that while, on the one hand there are benefits from government action, on the other hand there are also costs, especially to liberty.

By denying property and wealth to individuals, their freedom of action is necessarily limited. For instance,

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<sup>1</sup>State government does not have the power to print money. Printing money costs individuals as well, by causing inflation.

the right to travel is meaningless if government confiscates the means necessary for an individual's travel to take place. Private, individual action that is uncoerced—what we generally consider economic activity—is not “zero-sum.” That is, private exchange does not just transfer wealth. Private exchange *creates* wealth. The essence of government's mission is to allow, and even promote, private activity that creates wealth—not create wealth itself.

The mission statement suggested above leaves out some things that seem to be emphasized in state government today. It does not mention the maximization of federal funds accruing to state and/or local government entities, job creation, competing with other states to attract industry, the protection of individuals from their own irresponsible behavior, nor relieving individuals of the necessity of holding others accountable through the legal system.

***Are the benefits from a program or agency unambiguous and universal?***

Benefits have to be unambiguous. Preferably, the benefits from a government program or function would be measurable. Absent that, the benefits should be very large and obvious. The benefits of a court system are obvious, though impossible to measure. The benefits from having government produce and provide clothing are much less certain. In fact, there is plenty of evidence that if the government took on that role, it would be detrimental.

If a program or function of government is generally believed to have certain desirable effects for society, this belief should be tested rather than taken for granted. Whatever presumptions are made about the benefits of certain programs, they should ultimately be confirmed. It should be clear that the benefits are what they are assumed to be, and if it turns out those benefits are not really there, the programs should be eliminated or justified due to some other obvious and identifiable benefits.

Benefits must be universal. That is, it must be clear that everyone benefits from a given state endeavor. Benefits for some individuals from a specific expenditure might be small and indirect but if it is clear that there are general benefits to everyone, the expenditure might be justified. However, it is the height of tyranny to exact tribute from an individual for a pur-

pose that accrues no benefit at all, or even harm, to that individual. All too often, government action has been justified on the basis of uncertain benefits to taxpayers in general when the real motivation is to benefit very few.

***Do the benefits of a program or agency clearly outweigh the costs?***

Policymakers must be clear-headed and insistent that the costs of government programs and endeavors be less than the benefits conveyed. Otherwise, government is a drain on the economy and government loses its effectiveness. It certainly appears that when costs outweigh the general benefit, a policy is being funded for something other than the general interest. This could be the result of honest error, but could also be indicative of an intentional abuse of taxpayer resources.

Direct benefits from government expenditures do not have to outweigh direct costs for every individual taxpayer. Benefits can be real but not easily recognized even by a taxpayer who is getting the benefits. This fact, though, is all too often used as a justification for government action. If it is difficult to convince taxpayers that they really are getting benefits from a particular program, the default should be that the taxpayers are right, not that they are simply ignorant.

Not all costs are *explicit*. That is, costs are not only the monetary costs involved in providing a program. Costs are also *implicit*. There is, in other words, a value to lost opportunity. What must be considered is that when funds are taken from taxpayers, these individuals presumably would have spent those funds on something that would have yielded them more benefit than the dollars represent in cost. The full cost to a taxpayer of a program is, therefore, the full value of the lost benefit. Counting only the dollars undercounts the true cost.

Obviously, implicit costs cannot easily be taken into account. Benefits, too, can be uncertain and remote. But this uncertainty makes it all the more important that policymakers be sure programs' benefits *greatly* outweigh programs' costs.

***Is the program or agency fulfilling a need only government can effectively fill?***

Another way to put this might be: *Is a program or agency usurping the role of markets?* It should be

understood that philanthropy is as much a market as going to the mall. A market is any circumstance in which private, voluntary exchange takes place. Markets increase value for both participants in an exchange. Too often, government action is justified in some individuals' minds because they consider certain activities (usually philanthropic) to be under-provided, the excuse being that people can "free ride."<sup>ii</sup> Policy-makers must keep in mind, however, that for government to fulfill the preferences of a few for increased resources in a particular endeavor, the costs of those preferences are imposed on others, i.e., taxpayers.

Markets most efficiently convey information about what people truly value through the price system. Even in a democratic republic, when government usurps the market's role and provides or subsidizes basic goods and services individuals can, at best, convey their wishes very imperfectly and imprecisely. Government officials, elected and unelected, have too much opportunity to substitute their own priorities for those of individuals in the population as a whole. Except for areas where government subsidizes or taxes activity, markets most effectively take account of true costs and true benefits. Government might have a role in imposing explicit costs where activities would otherwise indirectly cost other individuals. However, in most cases the true cost of an endeavor is best determined in markets, whereas costs are often ignored or masked with government. Certainly, government officials are in no position to understand the lost private opportunities for taxpayers represented by the dollars spent on government programs.

Markets only work, and spontaneously arise, when individuals are free to pursue their own best interest. Because individuals' interests aggregate to become the general interest, markets promote the well-being of everyone in society. Thus, liberty of action is absolutely essential. This does not mean, however, that government plays no role. It is well-known that markets break down when people start acting outside the framework of voluntary exchange—either through violence or fraud. Government has the important role of making general rules (laws—the purview of the legislative branch) and acting as referee (the purview

of the courts as arbiters and the executive as enforcer), but it must not be the determining factor in deciding winners and losers.

The government's role is to facilitate markets' operations. Ultimately, there are no "losers" in markets. There are only winners.

### ***Does an existing program or agency show evidence of past success?***

To this end, every program should have measures associated with it, measures of long-term and short-term success. If there is no such evidence or if it is impossible to develop such measures, then there is no way to judge benefits versus costs, and the program should end. Many individuals providing testimonials of how they are personally benefited does not constitute an adequate measure.

Every program or agency must have a clearly defined goal or mission that comports with the mission of state government. All of them must constantly be tested to see if they are accomplishing that goal or mission. Therefore, meaningful information and history must be maintained. Curiosity about trivial information must be controlled so that program and agency managers can focus on that which is important. How "stakeholders"<sup>iii</sup> *feel* about a program is meaningless. If a government endeavor's actions cannot be objectively evaluated for success, then the program should be eliminated.

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### **Prioritizing Programs**

The five criteria outlined above are stringent. Even for a state government considered relatively frugal

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<sup>ii</sup>Free-riding is enjoying the benefits of something without bearing any of the costs.

<sup>iii</sup>Though not always the case, "stakeholder" is generally just the latest euphemism for "special interest."

like that of Texas, an honest and careful evaluation of every state program would result in the discontinuation of many programs, and probably a few agencies. However, even if a program meets all five criteria, choices must still be made.

Advocates of specific government programs are rarely satisfied that the programs are “fully” funded. They always have a compelling story for why more resources are needed in a particular area. There will always be someone ready to demand these resources, too. But a republican form of government, more than anything else, is intended for the protection of those who do not have the time or the resources to become fully informed regarding the government’s activities.

Compared to true democracy, a republic economizes on the amount of information individuals (citizens or voters) must possess.<sup>iv</sup> This assumes, however, that the citizens’ representatives are truly representing their interests. Because no single individual bears even a large amount of the cost of a program, net benefits for advocates are large, providing a strong incentive for them to boldly make their case before elected officials. The low cost per individual taxpayer for any given program, however, causes the vast majority of citizens to be inactive in defending themselves against spending and the taxation that supports it.

Despite their best efforts, elected officials’ perspectives can be skewed by the fact that they almost exclusively hear from advocates, and rarely from the uninformed taxpayers. While this is understandable, it is not particularly excusable. It *is* inexcusable, though, to blame taxpayers for not being better informed and ready to constantly defend their pocketbooks. Representatives are elected to be informed when their constituents cannot be, and to rise above the parochial interests of the pocketbook. Therefore, elected officials must always be on their guard and ready to ask the following hard questions.

### ***Does a program or agency protect private property?***

Programs and agencies for which the answer to this question is “yes” should receive the highest priority

in the government budget. Private property is fundamental to a sound economic system. The accumulation of wealth leads to higher standards of living for everyone, but wealth will not be accumulated where it can be arbitrarily taken away by anyone with the strength and lack of ethics to do so.

The most fundamental private property right is that of one’s own life and limb. Thus, a legal system that protects individuals from physical harm and outright fraud is integral to a system that protects private property.

### ***Does a program or agency protect liberty?***

This is a corollary to the question above. There are some programs or agencies that should continue to exist despite the fact that markets can conceivably provide the government good or service. For example, one reason government is in charge of roads is because ribbons of land once owned by many different individuals must be assembled into one long strip. On occasion, eminent domain proceedings take place in order that a lone holdout cannot extort excessive payment from everyone else who might benefit from a new road. Having the power of eminent domain exercised by individuals is unthinkable.<sup>v</sup>

Another example is the maintenance of justice. Punishment of individuals for crimes is carried out by the state in order to keep society from devolving into anarchy characterized by civil unrest. Nothing can destroy an economy and its wealth faster than feuds and warlords. A legal system, criminal and civil, prevents civil society from dissolving, but it does it through the selective denial of liberty to some individuals. This is done collectively, following certain rules so as to enhance overall liberty by preventing individuals from violating others’ liberty—only because they can by virtue of their brute strength or ability to deceive.

### ***Does a program or agency enhance private enterprise?***

An affirmative answer to this question means this is a high-priority item. Private enterprise—the freedom to use one’s own labor as one sees fit—is integral to our economy and the major source of our prosperity. The protection of private property certainly enhances pri-

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<sup>iv</sup>Economizing on information allows specialization which, in turn, increases prosperity. Therefore, attempting to force everyone to know, in detail, about everything that affects them is tantamount to advocating for a lower standard of living.

<sup>v</sup>This is one of the problems with the *Kelo* decision. In essence, the government is allowed to use eminent domain for the sake of select individuals in fundamental violation of private property rights.

vate enterprise, but there are other “rules of the game” government must have a hand in establishing. Government can and should play a role in prohibiting fraud. Government can also provide a forum (courts) for settling disputes.

***How difficult is it to measure the performance of a program or agency?***

The easier it is to measure performance, the higher the funding priority should be. If two agencies are otherwise “equal,” the one for which performance measures are clear should get the priority. In order to maximize net value for taxpayers, the benefits have to be known. The easier they are to measure, the more likely it is that net value will, indeed, result.

***How well does an agency’s performance stack up compared to others?***

The best performers should get the highest priority. Unfortunately, all too often just the opposite is true in government. Government endeavors are rewarded for failure while success is overlooked. Failure means advocates can continue to point to “need” as a reason that funding should be increased. However, failure is indicative of lost value for taxpayers. Failure should not be rewarded.

At the same time, just as investors do not seek to buy high and sell low, policymakers should not overspend on successful programs. Diminishing returns can lead to negative returns, thereby actually reducing value for taxpayers.

One of the advantages of giving priority to those programs that are most successful, with success being measured according to the value produced for a taxpayer dollar, is that agencies have an incentive to “compete.” Instead of only attempting to prove that they could potentially accomplish more with more resources, agencies will have an incentive to prove that they are the wisest users of taxpayer dollars. Not only will they have an incentive to be effective; they will also have an incentive to be efficient—to keep costs to taxpayers as low as possible.

***How well does the success of a program or agency stack up over time?***

A successful program should get a high funding priority. That does not necessarily mean funding should be increased, although that could be the wisest use of

limited taxpayer resources. Again, diminishing returns are as much a problem in government as they are in the private sector. Nevertheless, the tendency in government is to neglect success and reward failure.

Failure *does* at least present an opportunity for policymakers to find value for taxpayers, not through increased funding but through restructuring. Failure of a program might not mean that government can or should stop funding that program. What it might mean is that the structure of the program should be scrapped for something different. Retail trade should not cease because a once large and prosperous retailer like Woolworth’s has become inefficient and ossified. Instead, Woolworth’s is replaced by K-Mart and then K-Mart is replaced by Wal-Mart. Policymakers have to be willing to restructure despite sometimes massive disruption and protest.

Repeated failure despite restructuring is, though, a reason to stop funding a program. This is a strong indicator that government cannot be successful in an endeavor.

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***Is there evidence that continued or increased funding will significantly improve or maintain outcomes?***

While this is self-explanatory, the operative word here is *outcome*. Activity, however, is often easier to see and measure. Accordingly, activity often substitutes for outcome. For example, when the state’s health agencies were recently restructured, a good deal of emphasis was placed on state employees potentially losing their jobs. The same sort of discussion often surrounds the other big ticket item in Texas’ budget—education. Employment is an activity. Employing educators and social workers is not equivalent to producing an educated and healthy populace.

***Are the general benefits of a program evenly distributed across the state?***

Programs whose benefits are more evenly distributed should get higher priority. There is always uncer-

tainty with respect to the true costs and benefits of government action. Therefore, it is incumbent on decision makers to ensure individual taxpayers, on net, benefit from government action. The more concentrated the benefits of a given program geographically or demographically, the less likely it is that any given individual taxpayer benefits from government overall. With liberty of paramount importance, this is a very important consideration.

### ***Does a program or agency exist only for the sake of gaining federal funds?***

Though a highway department for Texas had previously been proposed, the law to create the Texas Highway Department was suddenly passed in 1917 to specifically take advantage of the *Federal Aid Road Act of 1916*. A state department to oversee the construction and maintenance of roads might meet all of the criteria in the first section above, but federal money is neither a necessary nor a sufficient condition for the creation of an agency or program.

Federal funds are never free. Some sort of state match or administrative cost is always necessary. Oddly enough, this fact is often used to justify the creation of a new program. The argument is variously stated as “otherwise we will leave federal money on the table” or “it’s an excellent return on investment with [some number more than one] federal dollars for each state dollar expended.” This is reminiscent of “saving money” by purchasing an item on sale that one might otherwise never have considered buying. Regret is almost always the result.

Federal funds carry strings in terms of how funds can be spent and what they can be spent on. These strings often get longer and more tangled over time. In addition, federal funds have a way of disappearing. Federal funds are just as much taxpayer funds as state funds. Increasing demand for federal funds puts the same taxpayers on the hook as increasing state spending.

A program or agency, partly funded by the federal government, should be judged on its merits according to its entire expenditure, not just that funded by the state. If a program otherwise meets prioritization cri-

teria, by all means the state should seek to maximize federal funding. Otherwise, leaving federal money on the table can be a wise course of action.

### ***Is the program’s existence owed to the fact that other states fund similar programs?***

Funding a program or increasing funding to a program just because other states are doing so<sup>vi</sup> is like the proverbial “jumping off a cliff because everyone else is doing it.” This is not to say that there are not lessons to be learned from other states. It is to say that the tough and meaningful questions need to be asked such as: Are other states able to measure success?; Are their measures meaningful?; How successful is this program as compared to others?; and Does this program meet the criteria for whether it should even exist?

## **Conclusion**

Everything proposed in this paper makes one important assumption—that decision makers will have the courage and fortitude to say no to advocates of programs. Some programs that should be expanded might not be popular with vocal advocates. Some that *are* might not meet the criteria for continued existence. Others might not meet the criteria for expansion, or even need to have their funding reduced.

If the criteria for determining whether or not a program is worthy of taxpayer funds are clear, understandable, and generally accepted, it is seen as less arbitrary should policymakers deny funds to those programs that do not meet the criteria. Policymakers can at least refer to the criteria and ask advocates to justify the expenditure of taxpayer funds for favored programs. In many cases, even advocates will have to admit they cannot justify their proposals. It is also easier for advocates to accept a negative response when they see the same criteria consistently applied to other spending.

Governing according to core principles has been likened to taking care of a plant. Plants have to be pruned in order to complement their surroundings and in order to be healthy. But, it is acknowledged, different people have different tastes about plants. Some might look at a plant as invasive while others view it

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<sup>vi</sup>One of the biggest complaints against Texas’ spending levels on health and education is that the state has failed to keep up with the national average. In other words, we are not doing what everyone else is doing. Usually, the legislature responds by increasing funding.

as beautiful. Some might just want to prune while someone else wants to pull it up by the roots.

The plant analogy for government can be extended. For example, photos of the Texas Capitol taken over a decade ago show large trees growing next to the building. They are not there now for one simple reason: their roots were in danger of undermining the building's foundation. So it might be with some aspects of government. In some areas of government, agencies and programs may do damage to the foundations of our society.

This analogy breaks down in one important respect. A plant grows by itself. Government does not grow by itself. When a plant grows, it extracts resources from nature, costing people nothing. For government to grow, it costs someone something. Those whose preference is that government grow, cannot fully fund that growth from their own resources. Their prefer-

ences can only be satisfied at the expense of others—that is, through the denial of others' economic liberty.

Government programs must constantly be reviewed for more than whether there is duplication or whether correct accounting procedures are followed. They must be fundamentally evaluated again and again for the value they give to taxpayers—the citizenry in general. This means the din of advocates must be tuned out to a great extent. Only then can priorities that matter for everyone be established and acted upon. ★

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## Endnotes

<sup>1</sup>Arnold Kling, *Libertarianism and Poverty*, TCS Daily (5 June 2006) <http://www.tcsdaily.com/article.aspx?id=060506B>.

<sup>2</sup>Governor Bush's mission statement can be found at [http://www.tsbvi.edu/school/strategic\\_plans/strat2000/bush.htm](http://www.tsbvi.edu/school/strategic_plans/strat2000/bush.htm). Governor Perry's mission statement can be found at: Legislative Budget Board and Governor's Office of Budget, Planning and Policy, *Instructions for Preparing and Submitting Agency Strategic Plans, Fiscal Years 2007-2011*, March 2006, p. 73, [http://www.lbb.state.tx.us/Strategic\\_Plans/StrategicPlansInstructions\\_forFY\\_2007-2011.pdf](http://www.lbb.state.tx.us/Strategic_Plans/StrategicPlansInstructions_forFY_2007-2011.pdf).

<sup>3</sup>*Republic of Texas, Declaration of Independence, 1836*, Texas State Library & Archives Commission, <http://www.tsl.state.tx.us/treasures/republic/declaration.html>.

<sup>4</sup>Bob Williams and Lynn Harsh, *Determining Core Functions: Stewardship Series Part I*, Evergreen Freedom Foundation (June 2003) 1-1, [http://www.effwa.org/pdfs/NewSteward\\_1.pdf](http://www.effwa.org/pdfs/NewSteward_1.pdf).

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