TEXAS PUBLIC POLICY FOUNDATION
Testimony

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Center for Fiscal Policy

Reining in the Growth of Government Spending by Strengthening Texas' Tax & Expenditure Limit

Testimony before the Senate Finance Committee

by The Honorable Talmadge Heflin

Chairman Williams and Members of the Committee:

My name is Talmadge Heflin and I am the Director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan free market think tank based in Austin. On behalf of the Foundation, thank you for taking the time to investigate such an important taxpayer-protection issue—strengthening Texas' constitutional Tax and Expenditure Limit (TEL).

The idea of a spending limit has long been popular among Texans. In 1978, when the measure was first put before the electorate, an astounding 84 percent of voters cast their support in favor of the measure. In spite of this overwhelming level of support, however, Texas' TEL has proven to be ineffective at controlling the growth of government spending.

To better illustrate this point, consider that from fiscal year 1990 through fiscal year 2012, All Funds appropriations rose from $23 billion to $94.3 billion, an increase of 310 percent. Yet in contrast, the state's population grew just 55 percent while inflation rose only 77 percent, for a combined total increase of 132 percent.[1] This variation between government spending and the growth of Texas differs by about a factor of 2.5 to 1.

Of course, as government spending continues to grow at such an impressive rate—beyond people's ability to pay for it—the resources needed to sustain the girth of government also grows. And as all of us are keenly aware, this is a formula for economic decline as it deprives businesses and entrepreneurs of the resources they need to create jobs and grow the economy.

So with that in mind, let me briefly review some of the areas that the TEL is weakest and offer up a few ways that it might be improved. Beginning with the former, it is important to know that:

- Only certain types of appropriations are covered. In Article VIII, Section 22(a) of the state's Constitution, appropriations subject to the spending limit include only those derived from "state tax revenues not dedicated by this constitution." For the current 2012-13 biennium, those appropriations total less than half the budget.
- Personal income is a poor measure. Logic suggests that government spending on programs and services should be tied to need, not to what taxpayers can afford. What's more, as personal income grows and the population's wealth increases, the demand for government spending on social welfare programs should decrease, not increase.
- Political will represents another stumbling block. With just a simple majority vote of each chamber, the Legislature can declare an "emergency" and bypass the appropriations limit altogether.

To improve Texas' TEL and strengthen this important taxpayer protection, the Legislature should consider the following four critical reforms:

- Make sure the TEL is self-contained within the state's Constitution and does not require enabling legislation.
- Apply the provisions to the rate of growth of all appropriations—not just non-dedicated, non-federal funds.
- Base the spending limit on the sum of population growth plus inflation, the growth of Gross State Product, or the growth of personal income, whichever is less.
- Require a super majority vote of each chamber to exceed the limit rather than the current standard of a simple majority vote.

By enacting these important reforms, detailed at greater length in the Foundation's October 2010 Policy Perspective *Strengthening Texas' Tax and Expenditure Limit*, it is our belief that the redesigned TEL will provide taxpayers with better protections against runaway government spending and more closely resemble what Texans thought they were getting in 1978.

Thank you for your time and I look forward to answering any questions you may have. ✯

[1] Quintero, James and Robert McDowall, "Update: Trends in Texas Government: State Government Spending," Texas Public Policy Foundation (Apr. 2012).