

CPI-SPENDING LINK ENCOURAGES EFFICIENCY

"CPI-Expenditures Link. A short-term budgetary link should be established between the Consumer Price Index (CPI) and total operational expenditures by agencies." Arkansas Policy Foundation, Efficiency Project report (October 2016)

"As Governor, I would like to recognize the Arkansas Policy Foundation for its contribution to transforming government in the State of Arkansas. This independent research organization is a cornerstone in the effort to streamline government operations in our state." Gov. Asa Hutchinson (January 16, 2019)

(November 2020) The practical effect of a CPI-Expenditures link is that it incentivizes officials to search for efficiencies in a low-inflation environment.¹ The goal is not unrealistic: total operational expenditures *declined* at 13 Arkansas state agencies FY2014-to-FY2015, according to an Efficiency Project report compiled by the Policy Foundation for Gov. Asa Hutchinson's administration.

CPI-Spending Link Since 2015

Gov. Hutchinson's efforts to streamline state government started when he took office in 2015. A reorganization plan was later enacted in 2019 and is in its early stages. Five of 21 state agencies surveyed by the Efficiency Project reported *lower* operational expenditures (FY2015-to-FY2019): Emergency Management, Health, Insurance, Labor, and Workforce Services.² Another seven spent *less* than CPI (8.7%)³ in the four-year period: Career Education (5.5%), Military (4.7%), Agriculture (4.3%), Correction (4.2%), Education (2.2%), Finance and Administration (2.1%), and Assessment Coordination (1.5%).⁴

Conclusion

A CPI-spending link can limit state spending. Since 2015, twelve of 21 agencies surveyed reduced spending or limited increases to rates less than inflation (CPI).

--Greg Kaza

¹ An equity argument can also be made: government should not spend at a rate greater than household or personal income growth.

² DFA, Agency Actual Expenditures (arkansas.gov) Emergency Management (FY2015) \$39,812,016 (FY2019) \$26,583,911; Health; \$370,387,770, \$284,657,883; Insurance \$57,736,238, \$57,176,314; Labor \$6,486,450, \$6,109,793; and Workforce Services \$460,258,462, \$182,755,369.

³ Consumer Price Index, 1913- | Federal Reserve Bank of Minneapolis (minneapolisfed.org)

⁴ DFA, Agency Actual Expenditures. Career Education (FY2015) \$136,641,334 (FY2019) \$144,216,735; Military \$60,832,606, \$63,682,811; Agriculture \$44,167,159, \$46,049,519; Correction \$375,658,284, \$391,575,571; Education \$3,457,588,679, \$3,534,829,391; DFA \$985,935,822, \$1,006,680,838; and Assessment Coordination \$17,430,818, \$17,700,936