

TOMORROW'S FISCAL REFORMS

*"Government, in order to be lean and effective, needs to be infused with market forces; less of a monopoly provider of services and more a broker of services in a competitive; and measured for accountability and performance."*¹

Murphy Commission, Policy Foundation Project

First in a series on how to advance Arkansas' fiscal progress.

(February 2019) Arkansas has made fiscal progress in the post-Clinton era.² But policies that place it at a competitive disadvantage with other states must be answered with tomorrow's fiscal reforms if the goal is a stronger economy.

Fiscal Problem: Spending

The first problem is state spending that exceeds U.S. and regional averages on a per capita basis. Data from the Henry J. Kaiser Family Foundation shows³ Arkansas total state expenditures per capita were \$8,367 (FY 2017) versus the \$5,976 U.S. average, and second-highest in the southeast region.

Total State Expenditures Per Capita

1. West Virginia	\$9,372	7. Alabama	\$5,466
2. Arkansas	\$8,367	8. Tennessee	\$4,890
3. Kentucky	\$7,364	9. South Carolina	\$4,887
4. Mississippi	\$6,828	10. Georgia	\$4,760
5. Louisiana	\$6,067	11. North Carolina	\$4,688
6. Virginia	\$5,939	12. Florida	\$3,640

Per capita state spending was also higher than every border state.

1. Arkansas	\$8,367	5. Tennessee	\$4,890
2. Mississippi	\$6,828	6. Missouri	\$4,179
3. Louisiana	\$6,067	7. Texas	\$3,925
4. Oklahoma	\$5,918		

¹ Murphy Commission. *The Role and Function of State Government*. (1998)

² Bill Clinton was Arkansas governor (1979-1981, 1983-1992). Post-Clinton fiscal reforms include indexing state income tax brackets to CPI (1999), lowering state capital gains (1999, 2013) and income tax (2013-2019) rates; and virtually eliminating the grocery tax (2007-2019).

³ www.kff.org/other/state-indicator/per-capita-state-spending/ Data include general fund, federal funds, other state funds, and bonds. "General Fund: The predominant fund for financing a state's operations. Revenues are received from broad-based state taxes. There are differences in how specific functions are financed from state to state. Federal Funds: Funds received directly from the Federal government. State Funds: General fund plus other state fund spending, excluding state spending from bonds. Bonds: Expenditures from the sale of bonds, generally for capital projects."

Arkansas ranked 10th in the U.S. in per capita state spending.

1. Alaska	\$13,171	6. West Virginia	\$9,372
2. Delaware	\$11,097	7. North Dakota	\$8,991
3. Hawaii	\$10,274	8. Vermont	\$8,910
4. Oregon	\$9,665	9. Connecticut	\$8,840
5. New Mexico	\$9,380	10. Arkansas	\$8,367

A more efficient Arkansas state government would spend tax dollars at lower per capita levels.

Solution: Limit Spending to CPI

One solution⁴ is to limit state spending to the Consumer Price Index (CPI). The practical effect is to incentivize officials to search for efficiencies in a low-inflation environment. The goal is not unrealistic: total operational expenditures increased less than the inflation rate at 12 Arkansas agencies.⁵ But spending was greater than CPI⁶ at six other agencies: Community Correction, Correction, Economic Development, Education, Environmental Quality, and Health.⁷ Arkansas per capita state spending would have declined if spending had equaled CPI at these six agencies, a \$102.6 million savings.⁸

-- Greg Kaza

Part Two: Cumulative Savings from a CPI-State Spending Limit (2007-)

⁴ Another solution is to limit state spending to growth in Arkansans income, the subject of a future research memo.

⁵ Policy Foundation. *Arkansas Efficiency Project* (2016), p. 13. The agencies were Assessment Coordination, Career Education, Emergency Management, Finance and Administration, Heritage, Higher Education, Insurance, Labor, Parks and Tourism, State Bank, Veterans Affairs, and Workforce Services.

⁶ CPI was 1.6% (2014) and 0.1% (2015), according to the Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/community/financial-and-economic-education/cpi-calculator-information/consumer-price-index-and-inflation-rates-1913>

⁷ The report did not review Human Services, a major source of Arkansas spending growth.

⁸ Community Correction (\$9.8 million), Correction (\$35.4 million), Education (\$6.9 million), Environmental Quality (\$2.8 million), Health (\$15.7 million), and Education (\$32 million).