

# ***POLICY BRIEF***

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## **Governor's Opposition to Spending Cap Bodes Ill for Pennsylvania**

Since the pay-raise debacle, Pennsylvania lawmakers have been calling for reform of state government. One long-overdue—and currently proposed—reform is a spending cap on state government. Spending limits have been enacted in several states and have proven very effective in controlling the rate of spending growth. Unfortunately, as the idea gains traction in the Legislature, the Governor has published his strong opposition to spending caps.

In the June 20<sup>th</sup> issue of *Budget Sense* Governor Rendell and Budget Secretary Michael Masch argue that the bulk of the state's spending growth is a result of social service programs and therefore any limitations placed on budget expansion will hurt "Pennsylvania's most vulnerable residents: children, the elderly, and people with disabilities."

The Governor and Secretary Masch point to six areas of the budget with increases of more than 10 percent since 2002-03. Five of the six areas are in social services ranging from County Child Welfare (10 percent growth) to long term medical assistance for the elderly (26 percent growth). One category with double digit spending growth not tied to social services is Debt Service which, in large measure, is traceable to the Governor's economic stimulus package with its 22 percent growth in outlays. The defense offered in *Budget Sense* is that the stimulus package "ha(s) provided a dramatic boost to Pennsylvania's once-flagging economy." If that is true, why have welfare related outlays risen so dramatically? A good economy should be reducing the need for welfare expansion, and certainly should not be accompanied by sharp increases in welfare expenditures.

To support the economic boost claim, the article points to the three percent growth in Pennsylvania's non-farm jobs from January 2003 (when the Governor first took office) to May 2007. By comparison, national non-farm jobs grew 5.8 percent over the same period—nearly twice as fast as Pennsylvania. What's worse for Pennsylvania, many states grew much faster than the national average, eclipsing the Commonwealth's lackluster performance. Moreover, in all likelihood, Pennsylvania's economic advance can be attributed to the federal tax cuts and low interest rate environment of the past several years and not to the "stimulus package."

Indeed, if spending caps were in place, government could stop raising taxes and have greater opportunities to reduce them, creating a more business friendly environment where the economy can begin to realize its potential.

The Governor and Budget Secretary warn advocates of spending caps that they "must be prepared to explain how they propose to restrain growth in the very limited number of programs with high rates of spending..." They then postulate worse case scenarios showing how people will be harmed by drastic cuts to social service programs. The problem with this argument is that rapid growth in social services spending inevitably begets demand for more spending. Besides, no one

is seriously recommending cutting social services spending drastically or otherwise. However, there is a clear and overwhelming need to slow their rate of increase. It's an old rhetorical trick: Claim that advocates of slower growth are calling for drastic cuts when that is obviously not the case. In any event, if health and social services spending increases are deemed of overriding importance by the Governor and the Legislature, a spending cap would simply mean having to decide which budget items rank lower on the funding list and cut those.

In this regard, it is interesting to recall some recent gubernatorial spending choices. For example, the Governor chose to spend money on a new arena for the Penguins as well as to fund expansion of the Philadelphia convention center. The decision was also made to provide state money to assist in digging the light rail tunnel under the Allegheny River and to provide money to American Eagle Outfitters to move from one part of Allegheny County to another. The Governor opted to shift desperately needed road and bridge repair funds to bail out inefficient mass transit systems rather than demand cost reductions and efficiency enhancements at those systems. Were these items more important than the social services mentioned in the Governor's rebuke of spending caps? Does wasteful, unproductive spending on economic development rank as high as social services spending? In short, does everything the Governor wants to do rank equally in importance with social services? If that is the case, there will never be enough tax revenues to meet expenditures.

Defending uncapped spending growth, as the Governor and Budget Secretary have done, blithely ignores the fact expenditures must be met with tax revenues and that Pennsylvanians cannot continue to bear up under the weight of incessant attacks on their wallets. Whether the spending is done today, as is the case with social services, or comes through issuing debt and must be paid in the future, as was done for the economic stimulus package, the burden falls on Pennsylvania's taxpayers. As taxes rise, the economic climate in the Commonwealth erodes, driving more taxpayers and producers out of the state.

The bottom line here is the unavoidable reality of having to make choices. State taxpayers can only afford so much government. A cap on spending will force the Governor and Legislature to put a stop to the rising burden of taxation. It has been famously said that the "power to tax is the power to destroy." The power to spend uncontrollably will produce the same unhappy result.

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**Jake Haulk, Ph.D. President**

**Frank Gamrat, Ph.D. Senior Research Associate**

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
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