



A Growing Economy or a Growing Government? *Notes and Ruminations on the Budget Debate*

By Curtis Leonard, Executive Vice President, The James Madison Institute

“If, from the more wretched parts of the old world, we look at those which are in an advanced stage of impoverishment, we still find the greedy hand of government thrusting itself into every corner and crevice of industry, grasping the spoil of the multitude. Invention is continually exercised, to furnish new pretenses for revenues and taxation. It watches prosperity as its prey and permits none to escape without tribute.”

Thomas Paine

“The government that robs Peter to pay Paul can always depend on the support of Paul.”

George Bernard Shaw

Regarding taxes, the Florida House and Governor have it right.

The Senate, which wanted to raise taxes last year before the class-size amendment was even approved, has it wrong.

And, of course, the media – which tends to see Cuba as a viable economic model – is infuriated at the Governor and the House and merely peeved at the Senate for not wanting to raise taxes even more.

How did Florida get into this mess? The House has taken the position that the state should “live within its means” and has made it clear to the Senate that it takes a dim view of any tax increases. The Governor boldly included in his budget a sales tax “holiday” and the final repeal phase of the intangibles tax. Meanwhile, the Senate is clamoring to raise \$1.4 billion in new taxes to navigate the “perfect storm” of the constitutional mandates coupled with Florida’s “antiquated” and “out-of-date” tax structure. And the media documents this circus by highlighting every aggrieved group and individual that might suffer the slightest scratch from any decrease in funding in any category anywhere in Florida for now and forever more.

So what do we do about it? The House and Governor should stay the course and make a better effort of articulating why the state is doing just fine. I’d like to offer a few suggestions, however, to the Senate and the media on why we should keep Florida’s *economy* growing, not its government.

TO THE FLORIDA SENATE . . .

- **How About a Hip, Postmodern Tax Structure?** It is silly to describe Florida's current tax structure as "old" or "antiquated." That makes for a good quote but it doesn't hold up under scrutiny. Increasing taxes does not make a state cutting edge, modern, or a shining star in the 21st century. Increasing taxes makes a state poor. The "antiquated" Florida tax structure has Florida in the black by about \$500 million in the 2002-03 fiscal year while other states with "modern" tax structures, which include a personal income tax and a statewide ad valorem tax on real property, are in the red by billions.
- **The All-You-Can-Spend Revenue Buffet!** Dr. Randall Holcombe's study of Florida's tax structure, published in the winter issue of *The Journal of the James Madison Institute* pointed out that Florida's revenues are actually growing. Holcombe writes, "Florida's state government revenues were at an all-time high last year, and grew by more than \$3 billion over the previous year, up from \$43.6 billion in 2000-01 to \$46.9 billion in 2001-02. Adjusted for inflation, state revenues per person increased by \$123 in 2001-02 and were 9.75 percent of personal income, up from 9.45 percent the year before... One could hardly say a government that spends an increasingly larger share of the state's income is facing a revenue crisis. If Florida is facing a budget crisis, it is being caused by spending growth, not a lack of revenue."
- **Grandma's Expanding Mattress?** Remember that, when the House intones that the state should "live within its means," the House is not acting like a nervous Grandma stuffing money into her mattress. Florida's "means" have been growing rapidly, with sales tax revenue *doubling* between 1990-91 and 2000-01. When a Legislature decides that it does not have enough money to meet the state's "basic needs," the question should be, "How do we encourage economic growth?" You should pause and wonder, "Gee, we cut taxes and the money just poured in until this most recent recession and it's still increasing. How do we do that again?" Taxes were cut, and the state's economic growth created all sorts of currently taxed economic activity.
- **Cut and Cut Again.** Some members claim that the "billions given away" in Gov. Bush's tax breaks have siphoned money from implementation of the class-size amendment and other state-sanctioned needs. The dirty little secret is that tax breaks encourage economic growth, which includes more jobs, new businesses, new homes and all sorts of things that people seek out and enjoy in a free society. Had those taxes not been reduced, the money would have been spent – we wouldn't have it sitting in some state coffer somewhere. If anything, the Legislature should be considering cutting taxes further. Getting rid of the punitive intangibles tax, which is execrable double taxation, inhibits the movement of capital, unfairly penalizes seniors, and limits corporate relocation to Florida is a good start.

TO THE ENTIRE LEGISLATURE . . .

- **Get Real.** Education and Medicaid spending are threatening to swallow the state alive. Instead of increasing taxes, continue to explore innovative ways to make Medicaid services more efficient. The federal government is desperate for good ideas from the states. Continue to introduce competition within the education monopoly to encourage competition and performance. A continued grab for more tax dollars only subsidizes the bad behavior and inefficiency of these two bottomless pits.
- **Let's Start Over.** The long and surreal Florida Constitution is starting to look like a James Joyce novel. The Legislature should take up the Governor's suggestion to ask the citizens to reconsider

the recently adopted class-size amendment and high speed rail amendment to the Florida Constitution. There's a host of others that should be reappraised, but those are a good start. If it's any comfort, an actual minority of voters, when real turnout is measured, approved these amendments. While the media did a purposefully lousy job of covering the amendments during the campaign, until Tim Russert forced the issue during the last gubernatorial election debate, the amendments have now suffered an adequate vetting and the voters are equipped to make a fairly good assessment.

TO THE MEDIA . . .

- **Can You Spare Me a VCR?** When you hear about the “poor” receiving cuts in services, just remember that American “poor” is a whole lot different than say, Bangladesh “poor.” According to a 1996 American Enterprise Institute study, 93 percent of Americans living below the poverty line owned at least one color TV. Sixty percent owned microwave ovens and video cassette recorders, and 72 percent owned a washing machine. In most instances, ownership of these appliances by poor Americans exceeds rates of ownership among the entire general populations of industrialized European countries. It has to be noted that these are the same European countries with dreary socialist tax policies that some of our state's editorial boards pine for every day.
- **Life Is Difficult.** Whether the state government is expanding exponentially or not, there will always be people who suffer the indignities of life. However, when the Legislature must prioritize its spending in a slow-growth year, suddenly everyone who has ever needed state funding for long-term illnesses or a community program is featured in the news. Those needs are still out there after the state increases spending by \$3 billion. The media just doesn't cover it. This bias in coverage is reminiscent of the coverage devoted to the “homeless” during the Reagan/Bush years during every budget debate - which stopped abruptly as soon as Mr. Clinton was elected. If you believe the press coverage, the homeless ceased to exist as soon as Mr. Clinton took office. The state can't solve every problem and fund every need. The media's emphasis on those demanding but not receiving state dollars only at certain times—say during a tight budget debate—is disingenuous and misleading.
- **Slowing Your Weight Gain Means You're Still Fat!** As the size and scope of the state government and its budget continues to swell, the media insist on reporting budget cuts as cuts in real dollars as compared to the last fiscal year. More often than not, the cuts are in the rate of growth of the program. The media does this because their imagined standard is a socialist utopia where no one anywhere lacks for anything under any circumstances. As long as a need of any kind is perceived, then any reduction in the rate of government spending is a “cut” in their eyes that need not be colored by objective analysis.

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