

It All Adds Up
Unnecessary Spending in the Arizona Budget

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Executive Summary

The primary cause of this year's fiscal deficit is excessive government spending. State spending has grown far more than needed to keep pace with Arizona's growing population. Whereas population has grown by only 36 percent, government spending has grown by 63 percent.¹ Contrary to some reports in the media and the legislature, the mild recession has not left the state withering on the vine. The current state budget is the largest in Arizona's history.

The cure for the deficit is not to raise taxes, shift earmarked revenue from other accounts, issue bonds, or use budget gimmicks. Those are temporary solutions at best. The long-term, sustainable, and responsible solution to a bloated budget is to rein in spending.

If government spending had increased at a rate consistent with population growth since 1990, there would not be a deficit today. Instead, legislators would be debating what to do with a \$217 million surplus.

This study identifies more than \$233 million of spending cuts in the general fund that the legislature should consider. Some of the programs are identified for elimination because they exceed the bounds of a properly defined role for government, such as the Arizona Commission on the Arts. Some programs are redundant, and others could be reduced, privatized, or devolved to the local level. These spending cuts can be achieved without challenging federally mandated spending or substantially altering the way education and health care are currently provided in Arizona.

The future savings from this belt-tightening should be returned to taxpayers. Money left in state coffers will inevitably be spent. Finally, strict budget rules should be enacted to ensure that future budgets do not increase faster than the rate of population growth. A spending cap would force legislators to reassess the state's priorities on a more frequent basis, keeping the budget and the state tax burden at manageable levels.

Introduction

The current budget shortfall is primarily a result of too much spending. The booming 1990s were very kind to state budgets across the nation. Now, a short-term economic setback has Arizona elected officials wondering what to do.

The problem is not that government has received too little revenue.² The truth is that government has grown too quickly. On average, two of every three dollars of new revenue since 1993 was spent, with only one dollar given back to taxpayers through tax cuts. In other words, budget increases were at least twice as big as tax cuts.³ Revenue from 1993, the decade's first full year of tax cuts, to 2001 grew at an annual rate of 4.2 percent after accounting for tax cuts.⁴ Spending grew faster, at an annual rate of 4.6 percent.⁵ The legislature's cry of poverty simply does not ring true. Even after adjusting for inflation and reduced spending from the 2001 and 2002 special sessions, the 2002 budget is still the biggest in Arizona's history.

While population has only grown by 36 percent, government spending has grown by 63 percent.⁶ If inflation-adjusted spending had been held to population growth and the surplus refunded to taxpayers, Arizona citizens would have received a total of more than \$5.5 billion in tax cuts since 1990.⁷ Instead of facing a deficit today, legislators would be debating what to do with a \$217 million surplus.⁸

The state government has survived recessions before. The recession at the beginning of the decade also affected the state's budget: 1991 revenue growth was close to zero. At that time, though, the legislature found the worst way out of the problem—it passed a \$248 million tax hike that boosted the revenue growth rate to 8.2 percent while personal income grew by only 5 percent.⁹

Raising taxes to get the government out of the deficit doldrums, whether as a rate increase or by closing so-called "tax loopholes," is a poor idea because it depresses long-term economic growth. Lowering taxes, however, spurs economic growth. Several studies have shown that the states that cut taxes in the 1991 recession were the states that rose out of the recession most quickly.¹⁰ The 10 states that maintained the lowest relative tax burdens during the decade also had substantially higher employment growth and higher personal income growth than the national average.¹¹

Unfortunately, the tax burden in Arizona has grown with the adoption of the Proposition 301 sales tax, which outweighs virtually all of the tax cuts enacted since 1999.¹² The state government needs to get serious about changing its budget priorities and becoming a more effective steward of the public purse.

Transfers from other funds and revenue sources are also no way to balance the budget. Such gimmicks only ignore the fundamental problem: out-of-control spending. Unfortunately, the budget fixes of the 2001–2002 special legislative sessions have relied heavily on transfer gimmicks. To solve the projected \$815 million budget deficit, the legislature only cut spending by \$223 million, less than one-third of the amount needed to

cover the budget gap. The fix was also aided by transfers into the general fund from other accounts, such as the School Construction Fund, the Lottery Fund, and the Conservation Assistance Fund.¹³ That money had been earmarked for specific purposes that do not include covering up the mistakes of a profligate legislature. Moreover, most of the transfers will have to be paid back, further straining future budgets.

A \$227 million transfer from the rainy day fund completed the fix.¹⁴ While it is advisable to dip into the rainy day fund when encountering a deficit, it should only be done as a last resort. The existence of the rainy day fund should not be used as an excuse to spare programs that are obsolete or have no place in a limited government. As this study shows, much more spending can be trimmed before resorting to rainy day transfers.

Criteria: What Should Be Cut?

The best way to restore fiscal responsibility is to eliminate programs that are unnecessary and that fall outside the legitimate purview of government, properly defined.¹⁵ The current budget negotiations are an excellent opportunity to eliminate non-essential programs. With a lean budget, legislators will be able to lower the tax burden and make a firm commitment to keeping fiscal discipline in future budgets.

Whether or not a program should be eliminated depends on the answers to several questions, including:

- ? Is the program essential to a free society?
- ? Is the program duplicated elsewhere in the state budget?
- ? Could the program be better handled by local governments or privatized?
- ? Does the program unfairly provide subsidies to special interests, or does it benefit all citizens?

Suggested Cuts

Suggested cuts are listed in Table 1, and a brief explanation of each proposed cut is provided in the Appendix. By no means should this list be considered authoritative or complete. These suggestions are meant to spur debate on the proper role of government, and this list could serve as a starting point. At the very least, these suggestions should encourage discussion regarding the structural reforms needed to clean up the budget and prevent deficit spending in the future.

Table 1. Program Cuts		
Agency	Action	Proposed Cut/Savings (in dollars)
Department of Agriculture	Collect fees to cover the full cost of the agricultural consulting and training program, or privatize these services.	\$79,300
	Collect fees to cover the full cost of the animal food product inspection program, or privatize this service.	\$1,235,600
	Eliminate the commodity development and promotion program.	\$250,000
	Total savings:	\$1,564,900
Arizona Health Care Cost Containment System	Eliminate subsidies to the graduate medical education program.	\$6,821,600
	Eliminate the Indian Advisory Council.	\$117,900
	Total savings:	\$6,939,500
Arizona Commission on the Arts	Permanently eliminate the general fund deposit to Arts Endowment Fund and end government support.	\$2,371,100
	Total savings:	\$2,371,100
Department of Commerce	Eliminate entire general fund appropriation.	\$5,711,000
	Eliminate the Commerce and Economic Development Fund.	\$2,632,100
	Total savings:	\$8,343,100
Department of Corrections	Use Corrections Fund money to buy private beds.	\$17,011,200

	Privatize the existing Phoenix and Tucson prisons. Total savings:	\$14,121,046 \$31,132,246
Department of Economic Security	Eliminate Governor's Advisory Council on Aging. Eliminate the summer youth program. Eliminate the summer youth employment and training program. Total savings:	\$287,500 \$1,000,000 \$1,000,000 \$2,287,500
Department of Education	Eliminate the Career Ladder program. Eliminate state-funded early childhood block grants. Total savings:	\$34,230,400 \$19,498,200 \$53,728,600
Department of Emergency and Military Affairs	Eliminate Project Challenge. Total Savings:	\$1,562,800 \$1,562,800
Arizona Geological Survey	Eliminate the general fund appropriation, and privatize the Arizona Geological Survey. Total savings:	\$879,900 \$879,900
Governor's Office for Excellence in Government	Eliminate the general fund appropriation. Total savings:	\$1,518,600 \$1,518,600
Department of Health Services	Eliminate Alzheimer's disease research. Total savings:	\$1,000,000 \$1,000,000
Arizona Historical Society	Eliminate the general fund appropriation, and fully privatize the Arizona Historical Society. Total savings:	\$4,491,100 \$4,491,100

Prescott Historical Society	Eliminate the general fund appropriation; devolve the Prescott Historical Society to the locality or fully privatize it. Total savings:	\$730,500 \$730,500
Commission on Indian Affairs	Eliminate the general fund appropriation. Total savings:	\$224,000 \$224,000
Department of Mines and Mineral Resources	Eliminate the general fund appropriation; collect fees to cover the full cost of these services or privatize the duties. Total savings:	\$734,600 \$734,600
Office of Tourism	Eliminate all general appropriations not mandated by Proposition 301, and collect fees to cover the full costs of these services. Total savings:	\$10,332,400 \$10,332,400
Arizona Board of Regents	Reduce spending on Western Interstate Commission for Higher Education.	\$894,720
Arizona State University	Reduce the main campus general fund appropriation.	\$27,432,970
	Reduce the east campus general fund appropriation.	\$334,855
	Reduce the west campus general fund appropriation.	\$11,216,815
Northern Arizona University	Reduce the main campus general fund appropriation.	\$21,388,560
University of Arizona	Reduce the main campus general fund appropriation. Total savings:	\$43,963,615 \$105,231,535
	Grand Total:	\$233,072,381

The Tip of the Iceberg: General Fund Spending Cuts Are Only the Beginning

This study identifies \$233 million in general fund reductions. However, the recommended spending cuts leave unreformed the following areas:

- ? The funding formulas for K-12 education
- ? Most health care programs
- ? Federally mandated entitlement programs
- ? Most state trust and land programs
- ? Programs that are funded from the operating fund rather than the general fund
- ? Programs that are funded by tax money earmarked for a specific purpose (for instance, the fuel tax money deposited in the Transportation Trust Fund for highway construction and maintenance)

Legislators should also review those areas of spending. For example, scholars have researched and studied successful market-oriented ways to provide highway construction and maintenance without relying on fuel taxes.¹⁶ Health care and education, too, are ripe for reform, but fall outside the scope of this paper.¹⁷

What about FTEs?

The state payroll has been expanding every year. The current state payroll lists more than 50,000 full-time equivalent employees (FTEs).¹⁸ If the program eliminations suggested herein were enacted, the number of FTEs would also shrink, because there would be fewer programs to administer. At least 275 state jobs could be terminated as a result of these program cuts.¹⁹

Not out of the Woods Yet: Keys to Balancing the Budget

It is obvious that these cuts alone will not balance the budget. But they will lower the spending baseline of the general fund budget. Lowering the baseline is vital to a taxpayer-friendly solution to the current crisis. It is also the key to future fiscal health, because it decreases the overall commitments of the government. Small percentage cuts like the ones enacted during the special legislative sessions of 2001 and 2002 do not halt the growth of government. They merely slow government growth by incrementally reversing the large percentage increases of the past five years. As such, they do not substantially lower the baseline from which future budgets will grow.

As mentioned previously, tax increases must be ruled out as a solution to balancing the budget. Issuing debt should also be ruled out, because taxes would have to be raised in the future to pay off that debt. Further, issuing debt would allow the legislature to evade the hard choices created by over-spending. The pressure to cut excess spending would disappear if the government chooses to borrow its way out of a budget hole.

To balance the budget, the best alternative is to cut more spending. The Joint Legislative Budget Committee has listed close to \$1 billion in other spending cuts that could be used to erase the deficit.²⁰ Those spending cuts, along with the permanent spending cuts outlined in this paper, would be sufficient to put the Arizona budget back in the black.

Beyond Spending Cuts: Balancing Future Budgets and Cutting Taxes

Trimming spending is only the first step. Arizona's legislators should then undertake an overall reassessment of the budget process. One of the main problems with the budget process is that each year, the legislature automatically increases the previous year's budget. This is called "baseline budgeting." During the 1990s, rapid revenue growth allowed legislators to avoid hard questions about whether the baseline was reasonable or whether or not particular programs were needed in the first place. Reducing the fundamental spending baseline is essential to keeping future spending under control.

A taxpayer-friendly step for the legislature to take this year is to guarantee that taxpayers see the savings from the spending cuts outlined in this study. One way to do that would be to pass a bill that automatically triggers tax cuts when surpluses begin to emerge starting in 2003 and the years after. The tax cuts should continue at least until \$233 million is returned to taxpayers. As a general rule, any surplus resulting from budget cuts should be returned to taxpayers. The trend of the past decade—spending most of the surplus instead of using it to cut taxes—should end.

There are two main reasons for committing future surpluses to tax cuts. First, if the money is not returned to taxpayers immediately, it will simply be spent later. Excessive spending is what got us into this deficit, and it is best to make sure that the ability to spend more is curtailed. Second, as mentioned previously, lowering tax burdens encourages more economic growth.

The final step that should be taken is probably the most important. A more taxpayer-friendly spending limit should be added to the state's constitution. The current limitation of 7.41 percent of personal income growth is too lax.²¹ A better limit would hold spending to population growth (plus inflation) and refund the rest directly and immediately to taxpayers. This Taxpayer's Bill of Rights amendment, modeled after the successful Colorado amendment, would also allow voters to lift the limit for a year by popular vote. If such a limit had been enacted at the beginning of Governor Jane Hull's term, for instance, the state would have given back \$2.7 billion in tax refunds by 2001, more than five times the amount of tax cuts actually enacted during that period, and the deficit would be almost nonexistent this year.²²

Conclusion

The primary cause of Arizona's massive fiscal deficit is excessive government spending. Population has only grown by 36 percent over the past decade, but the state budget has grown much faster—about 27 percentage points faster. The current budget is the largest in Arizona's history, and the state tax burden could grow heavier.

Legislators have proposed various remedies to cure the deficit, including higher taxes, shifting of revenue accounts, bond issues, and other budget gimmicks. At best, these are temporary solutions. Reining in spending is the only long-term, sustainable, and responsible way out of Arizona's current deficit quagmire.

Outlined below is a summary of steps legislators can take to put Arizona on the path to long-term fiscal health.

- ? Programs that are not legitimate or essential functions of government should be cut first. As shown in this study, at least \$233 million can be cut from the current budget without touching essential state programs.
- ? Market-based reforms of entitlement programs, including health care and education, should be enacted.
- ? Tax surpluses after 2003 should be returned to taxpayers, not used for new spending.
- ? Arizona should enact firm constitutional limits to taxation and spending. One promising proposal is to pass a spending limit along the lines of Colorado's successful Taxpayer's Bill of Rights.

Firm limits on spending would force legislators to reassess the state's priorities on a more frequent basis, keeping the budget and the state tax burden at manageable levels. At the same time, reduced taxes will allow Arizonans to save more, invest more, give more to charity, and spend more on consumer goods. By allowing the citizens of the state to increase their wealth and productivity, the legislature will put the state on the path to long-term prosperity.

Appendix: Explanation of Budget Cuts

Below is a list, by agency or budget entity, of the programs that would be reduced or eliminated in this budget proposal. A short explanation of each proposed reduction follows.

Department of Agriculture (Total savings: \$1,564,900)

Agriculture Consulting and Training—Provides advice and consultation to the agricultural community on how to comply with state statutes, regulations, policies, and federal mandates. This program should be paid for by the direct beneficiaries through user fees, or privatized.

Animal Food Product Inspection—Regulates and licenses rattle, poultry, milk, and egg producers. Unlike the inspection programs for commercial feed, fertilizer, pesticides, seeds, fruits, and organic food, this inspection program is funded mostly through general tax revenue. It should be up to the industry, not taxpayers, to pay for these functions through fees, as do other food producers. Like other inspection programs, this one could also be reformed. One reform would be to allow all food manufacturers to waive paying the state for an inspection if they receive inspections by state certified or private inspection firms. This would save taxpayers money in the long run.²³

Commodity Development and Promotion—Provides marketing assistance, advertising, and accounting services for numerous trade associations from general tax revenue. This program is a textbook case of corporate welfare and should be eliminated.

Arizona Health Care Cost Containment System (Total savings: \$6,939,500)

Graduate Medical Education— Upon completion of medical school, most physician graduates continue training by completing a residency of three or more years in a medical specialty. This period of clinical training is called graduate medical education. The AHCCCS subsidy program reimburses hospitals for the costs of this training. These costs could be covered by the various federal programs that currently cover these costs, or by the hospitals themselves, since hospitals benefit directly from having better-trained doctors. Hospitals should be free to provide graduate medical education programs, but the state should not subsidize them or affect their decisions.

Indian Advisory Council—Assists Arizona’s Native American population in developing a comprehensive health care delivery system. Tribes should make and fund their health care decisions autonomously.

Arizona Commission on the Arts
(Total savings: \$2,371,100)

Arts Endowment Fund—The program attempts to promote art by offering matching grants to communities and arts organizations. During the 2002 special session, the general fund commitment to this program was eliminated until 2004. It should be eliminated permanently, and the legislature should let the commission raise private money, as it already does for a portion of its budget. In addition to the principle that forcing taxpayers to give money to the arts is not a proper function of government, there is ample evidence that the arts fare better when they are funded entirely by the private sector. Prof. Tyler Cowen, an expert on economic and art history, writes, “Music and the arts have been moving away from government funding since the Middle Ages.”²⁴ Historically, “democratic systems as a whole do extraordinarily well when they allow an accompanying capitalistic market to fund their artistic activities.”²⁵

Department of Commerce
(Total savings: \$8,343,100)

Entire General Fund Appropriation—The state government should not be involved in micromanaging county and city development. Nor should it force taxpayers to fund grants directly to businesses or provide services that help profit-making enterprises advertise or promote themselves. The Department of Commerce is primarily a vehicle for these sorts of corporate welfare. It is certainly not a proper role of government to woo Hollywood producers through the Motion Picture Office, or to provide special treatment to sports teams through the Office of Sports Development. Indeed, government should provide no special treatment to any business. The environmental funds within Commerce could be transferred to the Department of Environmental Quality.

CEDC Fund—The Commerce and Economic Development Commission fund should be closed. The commission, which consists of 35 public- and private-sector members serving at the request of the governor, oversees the handing out of subsidies to industries and corporations in the name of “short-term and long-term economic development initiatives in the statewide economic development strategic plan.”²⁶ As many studies have shown, there is “no statistical evidence that business incentives actually create jobs and incentives are not the primary or sole influence on business location decision-making.”²⁷ Although subsidies and special treatment for some companies might work in the short run, what ultimately determines whether a company will relocate to the state or leave the state is the tax burden and the climate of regulation and litigation.²⁸ Money saved by abolishing the Commerce Department and the CEDC fund should not go to pay for new general-fund spending. It should instead go to new tax cuts. Cutting taxes is a better strategy to help businesses and the economy than providing special-interest subsidies through the Department of Commerce.

Department of Corrections
(Total savings: \$31,132,246)

New Prison Beds—The governor’s 2003 budget appropriates general fund money for 979 publicly provided beds in various counties. If new beds are necessary, they could be purchased more cheaply from a private provider. Funds could be generated by eliminating the money in the Corrections Fund earmarked for new prison construction in Tucson.

Privatize the Phoenix and Tucson Prisons—The state’s current private prisons save taxpayers money. Privatizing the Phoenix and Tucson prisons could serve as a first step to privatizing additional state prisons, which could save taxpayers even more money.²⁹

Department of Economic Security
(Total savings: \$2,287,500)

Governor’s Advisory Council on Aging—This program does little more than lobby for new legislation. In fact, one of its key performance goals is to increase the number of bills passed regarding “aging issues.”³⁰ Moreover, its functions duplicate the other elderly care programs in the Department of Economic Security.

Summer Youth Program and Summer Youth Employment and Training—These programs fund summer youth employment, education, and gang prevention programs. The last of these is duplicated by Superior Court programs, federal anti-gang programs, and Project GITEM. The training programs are not a proper function of a limited government, nor are they likely to be effective.³¹

Department of Education
(Total savings: \$53,728,600)

Career Ladder—This is an optional achievement program that gives extra funding to schools that have achieved a series of academic “steps.” Schools will be made better and taxpayers will save money through genuine competition for students, not through more state aid.

Early Childhood Block Grants—This program pays for low-income kindergarten classes and services for students in kindergarten through third grade. There is little evidence that preschool significantly benefits children, regardless of income.³² Private alternatives exist to government-funded preschool and kindergarten.³³ A more cost-effective way of improving schools is through competition and local innovation.

Department of Emergency and Military Affairs
(Total savings: \$1,562,800)

Project Challenge—This is a quasi-military school for dropouts, run by the National Guard. This school can be privatized or eliminated.

Arizona Geological Survey
(Total savings: \$879,900)

This agency creates and indexes geological maps and data, provides support for other agencies, and regulates the production of geothermal resources. The regulation components could be shifted to the State Land Department. The other functions could be privatized. For instance, they could be run by a nonprofit foundation.

Governor's Office for Excellence in Government
(Total savings: \$1,518,600)

This program provides management consulting services for the executive branch. If agencies are truly seeking greater efficiency, they will pay for these services through their existing budgets. In any case, this program is not essential to the function of individual agencies.

Department of Health Services
(Total savings: \$1,000,000)

Alzheimer's Disease Research—This program funds grants to hospitals, universities, and research centers for research on the causes of Alzheimer's disease. This program duplicates a great deal of work being done by private companies and much federal money goes to this research as well. The money that does go to corporations is used to underwrite their research budgets, and is a form of corporate welfare. This program should be eliminated.

Arizona Historical Society
(Total savings: \$4,491,100)

This program is a membership-supported, non-profit state trust agency that gives money to preserve and maintain museums pertaining to the history of Arizona. This program can proceed without support from government, and a nonprofit foundation could accomplish the same task and collect the same dues from its members without a commitment by the state government.³⁴

Prescott Historical Society
(Total savings: \$730,500)

This program funds historical preservation and museums in Prescott and could easily be financed by the locality or a member-supported nonprofit foundation. It should be devolved to the local government or privatized.³⁵

Commission on Indian Affairs
(Total savings: \$224,000)

This commission assists the tribal governments in communicating with each other and attempts to help them develop methods of self-governance. These are functions that can be handled better by the tribes themselves. There is no need for taxpayers to fund a government agency to promote “self-governance.”

Department of Mines and Mineral Resources
(Total savings: \$734,600)

This nonregulatory agency provides technical assistance to mining companies at taxpayer expense and runs the Mining and Mineral Museum. The technical and economic development assistance provided by state government to miners amounts to corporate welfare. That function, which subsidizes a remarkably small portion of the state economy, should be funded by voluntary fees or eliminated. The museum could be privatized and run by a nonprofit foundation.³⁶

Office of Tourism
(Total savings: \$10,332,400)

This agency promotes tourism through visitor centers and advertising. The visitor centers could be privatized or run by fees. The advertising campaigns constitute a transfer to the leisure industry in the state and should be considered corporate welfare. The trade associations of this industry are capable of paying for such advertising.

Arizona Board of Regents
(Total savings: \$105,231,535)

WICHE—The Western Interstate Commission for Higher Education program subsidizes tuition for students enrolled in participating out-of-state programs not offered in Arizona. This program should be cut to match the corresponding subsidy decrease in the state universities (see below).

Universities—Personal benefits should typically be paid for entirely by the beneficiaries. The Arizona constitution says that university education should be provided to the taxpaying residents of the state with a cost “as nearly free as possible.” The state attorney general has interpreted the clause so that its meaning depends on relative circumstances (how much in-state tuition costs in other states).³⁷ The Arizona Board of Regents has decided it will satisfy this constitutional provision by keeping state tuition ranked “in the bottom one-third of the 50 American public flagship universities.”³⁸ To satisfy all of these principles, it is reasonable to make the universities responsible for at least one-third of their budgets through tuition and independent fundraising by their well-funded development departments (they currently are only responsible for one-fourth). Even if 100 percent of the increase in budget obligation were covered by increases in tuition, tuition for in-state students would still fall within the bottom one-third of flagship American public universities. Also, the state universities should be given more autonomy to find savings in their individual school budgets.

More thought must be given to innovative ways to supply higher education in the state. State money could follow students (through vouchers or subsidized loans) instead of automatically going directly into school budgets. Vouchers or tuition tax credits would not only encourage more competition between state schools but promote the creation of more private alternatives in higher education.

Notes

The author wishes to thank Andrea Ferrin for research assistance on this study.

¹ All rates-of-change calculations adjusted for inflation.

² Predictably, some Arizona legislators have voiced support for taking more revenue from taxpayers. This year's push to close so-called "loopholes" in the state sales tax is a case in point. See Robbie Sherwood, "Kill tax breaks, some say," *Arizona Republic*, January 13, 2002, www.arizonarepublic.com/special12/articles/0113reform13.html.

³ Calculations based on Joint Legislative Budget Committee data.

⁴ All years in this paper refer to fiscal years, unless otherwise noted. Adjusted for inflation.

⁵ Calculations based on JLBC data. Adjusted for inflation.

⁶ Calculations based on JLBC data. See Stephen Slivinski, "Put a Cap on It: How to Control Government Spending and Balance the Budget," Goldwater Institute Issue Analysis no. 167, November 2001.

⁷ Calculations based on JLBC data.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ See Stephen Moore and Stephen Slivinski, "A Fiscal Policy Report Card on America's Governors," Cato Institute Policy Analysis no. 391, February 12, 2001; Zsolt Becsi, "Do State and Local Taxes Affect Relative State Growth," *Economic Review*, March–April 1996; and "State and Local Taxation and Economic Growth: Lessons for Federal Tax Reform," Joint Economic Committee of the U.S. Congress, December 1995.

¹¹ *Ibid.*

¹² Calculations based on JLBC data.

¹³ JLBC, "Staff Memorandum: FY 2002 Budget Materials," December 31, 2001, www.azleg.state.az.us/jlbc/fy02budmat.pdf.

¹⁴ *Ibid.*

¹⁵ The proper role of a government in a free society is an important point to be defined and defended, especially since recent ballot initiatives in Arizona have tended to expand the reach of government, rather than contract it. In the traditional American conception of politics, government exists to protect the rights of citizens. Defined in this way, the ideal state government is just big enough to efficiently provide law enforcement, jails, and a court system for the enforcement of contracts and the resolution of civil disputes. By almost any definition of limited government, the Arizona state government is out of bounds.

¹⁶ See Robert W. Poole, Jr., "Commercializing Highways: A 'Road-Utility' Paradigm for the 21st Century," Reason Public Policy Institute Policy Brief, August 2001, available at <http://www.rppi.org/pbrief19.html>.

¹⁷ Some immediate principles of reform come to mind in the categories of health care and education. Health care reforms should be aimed at a change in the regulatory climate to allow more market-based alternatives and greater freedom of choice. Allowing parents a greater say in where their children go to school — through the expansion of scholarship tax credits, so poor families would be able to send their children to private schools — would have the two-fold purpose of expanding liberty for families, and saving taxpayers money in the long run. For a brief exploration of health care reform alternatives in Arizona, see "Keeping the Doctor Away: What Makes Arizona Unattractive to Physicians," by Jeffrey A. Singer, M.D., and Craig Cantoni, Goldwater Institute Arizona Issue Analysis 165, October 2001. A more authoritative discussion of market-based health care reforms is provided in *Patient Power: Solving America's Health Care Crisis*, by John C. Goodman and Gerald L. Musgrave (Washington, D.C.: Cato Institute, 1994). For a discussion of reforms that would expand educational freedom, see: Carrie Lips and Jennifer Jacoby, "The Arizona Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money," Cato Institute Policy Analysis 414, September 17, 2001; Darcy Olsen, "Education Scholarships: Expanding Opportunities for Students, Saving Taxpayers Money," Goldwater Institute Issue Analysis no. 169, March 26, 2002; and, Andrew Coulson, *Market Education: the Unknown History*, (New Brunswick, New Jersey: Transaction Publishers, 1999).

¹⁸ Joint Legislative Budget Committee, Appropriations Report, FY 2002 and FY 2003, p. BD-18.

¹⁹ Author's calculations based on "Master List of State Government Programs: 2000-2001," Office of Strategic Planning and Budgeting, September 1999, available at <http://www.state.az.us/ospb/master.html>.

Eliminating these state jobs means no money has to be committed to giving many of these employees the recently-enacted salary increases. However, those savings have not been calculated or used in this study.

²⁰ See JLBC, “FY 2002 and 2003 Budget Estimates,” January 23, 2002, www.azleg.state.az.us/jlbc/02_03budget.pdf.

²¹ Even though the state general fund has not reached this percentage (it has averaged 5 percent of personal income in the past few years), the budget has still fallen into a deficit. That is because personal income has grown faster than population during the past 10 years, as is often the case during economic booms.

²² For a more detailed explanation of this limit, see Slivinski, “Put a Cap on It” (op. cit.), and Michael New, “Limiting Government through Direct Democracy: The Case of State Tax and Expenditure Limitations,” Cato Institute Policy Analysis no. 420, December 13, 2001.

²³ Canada has privatized its national food inspection system to great success. See Ted C. Shroeder, Clement E. Ward, James Mintert, and Derrel S. Peel, “Beef Industry Price Discovery: A Look Ahead,” in *Concentrated Markets: Issues, Answers, Future Directions*, ed. Wayne Purcell, Research Institute on Livestock Pricing, Virginia Polytechnic Institute and State University, Blacksburg, Virginia, February 1997, p. 31. Gov. Frank Keating of Oklahoma has recommended privatizing the animal inspection program in Oklahoma. See “Budget Proposal Highlights Listed,” Shawnee News, February 2, 1999, www.news-star.com/stories/020299/new_budget.shtml.

²⁴ Tyler Cowen, *In Praise of Commercial Culture* (Cambridge, Mass.: Harvard University Press, 1998), p. 36.

²⁵ Ibid.

²⁶ “Appropriations Report: Fiscal Years 2000 and 2001,” JLBC, 1999, p.63.

²⁷ See Roger Wilson, *State Business Incentives and Economic Growth: Are They Effective? A Review of the Literature* (Lexington, Ky.: Council of State Governments, 1989), as quoted in Lawrence W. Reed, “Time to End Economic War between the States,” *Regulation* 19, no. 2 (Washington: Cato Institute, 1996), available at <http://www.cato.org/pubs/regulation/reg19n2b.html>.

²⁸ For a case study, see Dennis A. Rondinelli and William J. Burpitt, “Do Government Incentives Attract and Retain International Investment? A Study of Foreign Owned Firms in North Carolina,” *Policy Sciences* 33, no. 2 (2000).

²⁹ The auditor general has reported that private prisons save taxpayers 12 percent of the cost of comparable prison beds and services. It is on this estimate that this budget savings is based. See “Arizona Department of Corrections—Private Prisons,” Office of the Auditor General, Report no. 01-13, July 2001.

³⁰ See *Master List of State Government Programs 2000-2001*, Office of Strategic Planning and Budgeting, www.state.az.us/ospb/master.html.

³¹ Whether government-run job training programs actually help workers is questionable. See Government Accounting Office, “Job Training Partnership Act: Long-Term Earnings and Employment Outcomes,” March 4, 1996, GAO/HEHS-96-40 (Washington: Government Printing Office, 1996), and James Bovard, “The Failure of Federal Job Training,” Cato Institute Policy Analysis no. 77, August 28, 1986.

³² See Darcy Olsen, “Universal Preschool is No Golden Ticket,” Cato Institute Policy Analysis no. 333, February 9, 1999.

³³ Michigan has had considerable success with privatizing school programs. See Janet Naylor Vandenebee and Craig Garrett, “Privatized Programs Cut Costs in Public Schools,” *Detroit News*, May 4, 2001, www.detnews.com/2001/schools/0105/04/a01-220298.htm.

³⁴ There are numerous privatized museums across the country. For a case study from Philadelphia, see John McCalla, “Expanding History,” *Philadelphia City Paper*, January 1, 1998, www.citypaper.net/articles/122597/h&r1.shtml. Portions of the historic Civil War battlefield in Gettysburg, Pennsylvania, have been privatized. See “Gettysburg Park Plans Privatization,” in *Entertaining Privatization*, Mackinac Center for Public Policy, Spring 1999, www.mackinac.org/1862.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Opinion of the Arizona Attorney General, no. I99-011 (R99-099), May 11, 1999, www.ag.state.az.us/opinions/I99-011.html.

³⁸ See Elizabeth Ervin, “As Nearly Free As Possible,” *Higher Education Issues*, update to vol. 1, no. 1, University of Arizona Office of the Provost, April 2000, w3.arizona.edu/~provost/issues/issue1-2000.html.