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Rising Above Mere Politics: General Principles for Spending Taxpayers' Money - Abridged*

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"I conceive that the great part of the miseries of mankind are brought upon them by false estimates they have made of the value of things."

—Benjamin Franklin

Five Questions to Consider Before Spending Taxpayer Money

Job one for the Oklahoma legislature, every session, is passing a budget. Without one, most state government functions would shut down. Given the time crunch and the importance of having a budget, it's understandable when passage trumps perfection. However, legislators owe a duty to taxpayers, present and future, to spend our money wisely. They should carefully weigh true costs against tangible benefits before spending taxpayer money.

Legislatures have been known to spend money on projects they sincerely but mistakenly believe will be of

benefit to the public. They have also, at times, engaged in vanity projects or the courting of special interests which might help their reelection campaigns, but which fail in their public trust because the projects cost far more than the value they return to the public. Though intentions undoubtedly matter when measuring the character of a person, they matter considerably less when weighing the costs and benefits of tax-funded programs - especially when accounting for the things taxpayers might otherwise have purchased.

By creating and using a constant yardstick to evaluate every proposed expenditure, legislatures can:

- 1 Ensure taxpayer money is spent wisely;
- 2 Head off criticism and opposition when money is not spent—by showing that the same criteria have been applied consistently to prevent boondoggles and end pork-barrel spending; and
- 3 Guide policymakers toward winning proposals in the future.

Voters respect consistency, even when it might defeat a proposal they support. In the long run, developing

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consistently-applied spending criteria will be a winning strategy for representatives who apply them openly, fairly, and without exception. The questions below can serve as a solid starting point for such a rubric.

I. Is a program or agency consistent with the mission of Oklahoma's state government?

What is the mission of Oklahoma's state government?

The preamble to our constitution offers guidance: "Invoking the guidance of Almighty God, in order to secure and perpetuate the blessing of liberty; to secure just and rightful government; to promote our mutual welfare and happiness, we, the people of the State of Oklahoma, do ordain and establish this Constitution." The constitution constrains governments as much as it empowers them. It does not authorize the state to provide mutual welfare and happiness, but only to promote it. The goal is to foster an environment where citizens can create their own happiness. Protecting personal liberty, enforcing property rights, and facilitating free trade are all examples of these legitimate functions.

The state must therefore:

- 1 protect individuals' right to own their labor and property and employ these resources to their benefit;
- 2 support the operation and efficiency of free enterprise activity;
- 3 provide a framework for efficient local government; and
- 4 provide for efficient and just civil and criminal justice systems.

This mission excludes counter-productive governmental functions such as maximizing the flow of federal funds into the state, job creation, and competing with other states to attract (i.e. bribe) industry. It also bars activities like protecting private entities from their own irresponsible behavior, and the redistribution of wealth.

II. Is the program or agency fulfilling a need only government can effectively fill?

When a government makes demands of its citizens, it does so down the barrel of a gun. Imagine you decide not to pay your taxes. If you ignore the bureaucrats, and then the judge, eventually men with guns will come and take you away. Government has a monopoly on the legitimate use of force, so lawmakers must think carefully before committing taxpayer money to any expenditure. Is the use of force to accomplish a given end morally justified? If people resist, should we send men with guns after them?

Some government functions can be done better by private entrepreneurs. Others are so far from the legitimate role of government that they do not bear contemplation.

Government should provide only those services which are essential to the stability of society and indispensable to the smooth functioning of free markets. When governments prop up corporations with special tax loopholes, grants of land, and outright cash gifts, it robs consumers of spending power they could have used in proportion with their own subjective valuations. Instead, corporate welfare funnels the money into politically-favored businesses, distorting the free market, and leaving everyone but the recipient a little worse off.

III. Are the benefits from a program or agency unambiguous, obvious, and universal?

Benefits have to be unambiguously present for a program to be legitimate. But, almost any program or department is going to benefit someone. A legitimate program must at least benefit almost everybody. Even if everyone benefits, but most benefit only in small, remote ways, the benefits are ambiguous and not obvious, and government is acting illegitimately.

All too often, government action has been justified based on uncertain "community" benefits, when the real benefit accrues to the few. Economic development schemes are one example. Government financing of entertainment venues benefit the well-connected rather than the general public. Not everyone enjoys football, rock concerts, or the symphony. The supposed economic benefits of such expenditures - often their main justification - are dubious at best.

Ideally, the benefits from government programs would also be measurable. When this is infeasible, they should be large and obvious. The benefits of courts, police and fire departments, and sewer systems, are obvious, though virtually impossible to measure. These benefits accrue to everyone.

IV. Do the benefits of a program or agency indisputably outweigh the costs?

Government spending must be constrained by the knowledge that while there are benefits to every government action, there are also costs: to liberty and to economic well-being. Diverting wealth through taxation necessarily limits freedom of action. Rampant lawlessness in the form of theft, fraud, and violence from lack of government, would also limit freedom of action.

Policymakers must insist that the benefits of government spending be greater than the costs. Otherwise, government is a drain on the economy. Costs include more than just the dollars put into a program. Added costs result from misdirected incentives, as well as lost economic activity. While difficult to measure, this opportunity cost is quite real. Every dollar spent by government is a dollar that is not spent in the free market. Though the money will eventually flow back into the economy, there is no telling how many additional trades it might have facilitated had it not been spent like “other people’s money.”

Every trade benefits both sides, otherwise there would be no deal. The buyer values the goods or services they receive more than they value the money spent. So when citizens pay taxes, the value they really lose is the price they would have willingly paid for everything they would have bought with their tax dollars - not just the value of the dollars they give to the government. The full cost of a government program is, therefore, the total value of all lost benefits to all taxpayers. Counting only the dollars spent on a program undercounts this true cost. Benefits and implicit costs are difficult to measure, making it even more important that policymakers ensure that a program’s benefits greatly and obviously outweigh its costs.

V. Does the existing program or agency show evidence of past success?

Every program or agency should have a clearly defined goal in line with the mission of state government. They must be tested constantly to see if they are accomplishing that goal. To do this, meaningful information about outcomes must be maintained. Successful programs should be high funding priorities, and lackluster programs should be restructured or eliminated.

Failure of a program might not mean that government should stop funding that program. In some cases the structure of the program should be scrapped for something better. Lawmakers have to be willing to restructure despite sometimes massive disruption and protest. Repeated failure despite restructuring, however, is a strong indicator that government cannot be successful in an endeavor. This is a reason to stop funding a program and re-direct priorities elsewhere.

Public employment is not a jobs program. The number of people employed by an agency must be balanced against the outcomes that they produce. Government employees — while often vital to the success of a program — belong on the cost side of the ledger. When agencies are restructured, a good deal of emphasis is often placed on government

employees losing their jobs. But employing educators and social workers is not equivalent to producing an educated and healthy populace. Public schools and Medicaid cannot be justified as jobs programs; they must live or die on their ability to create positive educational and health outcomes. Moving qualified workers out of the private-sector job market is one cost of creating a new government program, as talent may be diverted from its most efficient ends. In some cases this is justified due to the critical benefits derived from the program, but it is a mistake to view governmental job creation as economically beneficial.

A critical gap in evaluating success is lack of oversight. There is no governmental entity empowered to evaluate efficiency and effectiveness of programs and departments on an ongoing basis. State auditors are primarily tasked with catching fraud against public funds. Poor performance, even systemic, long term poor performance, is not a criminal offense. Executive officers, like governors and heads of agencies, often work to maintain and increase efficiency, but only within the narrow scope of their office and expertise.

The entity best positioned to evaluate and compare policy alternatives is the legislature. Unfortunately, voters tend to measure legislative success in terms of bills passed, so legislators are incentivized to prioritize those activities. Oversight requires ongoing, year-round work, and specialized knowledge most legislators don’t have time for. Short legislative sessions would seem to encourage oversight, but yearly sessions cause most legislators turn their attention to bills for the next session or to re-election campaigns once a session ends. The possibility of returning oversight to its proper place under the purview of the legislature is one argument in favor of short biennial sessions. This yields long interims for oversight and encourages legislators to make oversight an issue in campaigns.

Federal Funds

In addition to these important questions, it is important that state policymakers not let matching-funding offers by the federal government crowd out their better instincts about wasteful spending. Federal funds are never free. Some sort of state match or administrative cost is always necessary. Justifying spending so as not to “leave federal money on the table” is akin to “saving money” by purchasing an item on sale that one might otherwise never have considered buying.

Federal funds carry strings as to how and where funds can be spent. These strings tend to get longer and more tangled over time. Federal funds also have a way

of diminishing as new Congresses shift priorities. Federal funds are taxpayer money, the same as state funds, so increasing demand for them squeezes the same taxpayers. A program or agency funded in part by the federal government should be judged according to its full cost, not just the state expenditure required. If a program otherwise meets prioritization criteria, the state should certainly seek to maximize federal funding. Otherwise, leaving federal money on the table is a best practice.

Symbolism over Substance

Too often, government is seen as a solution to all ills. Programs are proposed and enacted without any evidence that they will improve matters because, "Something has to be done!" Policies are approved despite credible predictions that they will have negative impacts. The minimum wage is symbolic for its aspiration to increase incomes with the passage of a single law. Yet it is the direct and traceable cause of increased unemployment, unless legislatures also

find a way to repeal the laws of demand and supply, which are as innate and natural as the law of gravity.

Most policy is implemented by bureaucracies. Laws are often left vague, giving agencies wide latitude. Legislators give indefinite, aspirational instructions which avoid accountability; they leave the difficult details to bureaucrats, who are supposed to have the expertise and altruistic motives to make the very best happen. Legislators must take responsibility for their policies, and ensure they are backed by proven, workable methods. Agencies should administer policy, not create it.

Lawmakers whose first mission is to preserve liberty with just and rightful government for our mutual welfare and who are in a position to forcibly confiscate resources in pursuit of such policies, must be pragmatic and thick-skinned to avoid making laws from hopeful wishes and good feelings. Policies must have discernible impacts that actually benefit the public. And that means everyone, not just the powerful and the politically connected.