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A Good Time for a Pause in State Spending Spree

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Both legislative leaders and opinion leaders have criticized Gov. Tim Pawlenty for “not compromising” with the legislature—for refusing to increase marginal tax rates. But as citizens are making do with less, it’s time for state and local governments to do the same.

Let’s review a few of the ways in which the recession is already affecting people in the private sector—that is, people who pay for government.

We’re getting pink slipped. Nationally, unemployment is at a 25-year high, and the possibility statistic may increase is haunting everyone who is not a government employee.

We’re taking furloughs. Companies that prefer not to lose workers, especially highly skilled ones, are using furloughs. A survey earlier this year by the firm Watson Wyatt Worldwide Inc. found that 17 percent of companies had used furloughs. Some companies are using both furloughs and other temporary pay cuts, together with layoffs, to survive the recession.

We’re watching our dollars and buying less. We’re shopping less at Best Buy and more at Wal-Mart, replacing vacations with “staycations,” and repairing consumer products rather than replacing them.

On the other hand, the recession isn’t so bad if you work for government. That’s because it has been a tale of two workforces, one subject to the vagaries of the market and the other not. Steve Malanga, a senior fellow at the Manhattan Institute, drew this contrast in a recent op-ed in the Wall Street Journal:

“Some five million private-sector workers have lost their jobs in the last year alone, and their unemployment rate is above nine percent according to the BLS [Bureau of Labor Statistics]. By contrast, public-sector employment has grown in virtually every month of the recession, and the jobless rate for government workers is a mere 2.8 percent.”

Here in Minnesota, major private companies such as Best Buy and Thomson Reuters are laying off people, offering buyouts, and generally shrinking their workforce. Medtronic announced Tuesday it was parting ways with 1,500 to 1,800 companywide, about 600 in the Twin Cities. By contrast, the American Federation of State, County and Municipal Employees and the Minnesota Association of Professional Employees, two large unions for state workers, recently accepted a two-year contract. True, it calls for no increase in the pay scale. On the other hand, the unions have resisted any talk of furloughs.

The union leaders are doing their jobs – protecting the financial interests of their members. But when your income is down, you re-evaluate your spending priorities. It’s time for legislators, acting as the agents of the citizens, to apply the same discipline that we apply in our personal lives.

Since at least 1960—the earliest year for which I could find records—spending in Minnesota has gone up each biennium. This is true of both the general fund and of all funds as a group.

In the average biennium since 1960-61 in this state, all-funds spending went up 19 percent, and general-fund spending increased 20 percent. Over this same time, by contrast, personal income has gone up an average 13 percent per biennium. In other words, Minnesota residents are devoting a greater portion of their well-earned income to government.

All-funds spending went up 28 percent each biennium, until the Reagan area. Since the 1980-81 biennium, the average increase has been "only" 12 percent for both general and all-funds spending. Even more encouraging, personal income has actually grown faster than spending on government: Since 1980-81, personal income has grown 13 percent every two years, just slightly outpacing spending on government.

Still, the historic trend is clear. For every dollar Minnesotans earned in 1960, they earned $29 in 2007. But they have had an unsustainable appetite for government: For every one dollar Minnesota spent on state government in 1960, it spent $49 in 2007.

Minnesota has a long history of creating taxes, including an income tax in 1933 and a sales tax in 1967. It has continued to tighten the screws on taxpayers by extending measures such as ones requiring withholding (1961) and taxing out-of-state professional athletes (1989). Along the way, the states has enacted surtaxes (1949, 1981), increased them (1982) and extended them again (1983). It even put a surtax on the bonus our country gave to people who were drafted by the military (1957). And of course rate increases are nothing new, either: The first increase in the income tax came a mere four years after the tax itself was established.

Raising tax rates would certainly be consistent with Minnesota history. But it would deny citizens the opportunity to let the growth of government match (or better yet, lag) the growth of the private sector rather than exceed it.

Government should borrow a page from the private sector, in which hard times focus leaders' minds on reevaluating business methods and jettisoning non-core functions and activities.

Should opponents of tax increases "compromise"? Only if they wish to waste the opportunity presented by the recession to bring the relationship of the political sector and the private economy back into balance.

Many of us have had to make do with less—and do less. It's time for Minnesota and other governments to do the same.