



THE BUCKEYE INSTITUTE

Principled Spending

Using Ohio's Capital Budget to Benefit Ohioans

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Introduction

Every two years, Ohio policymakers unveil a new capital budget. Among the appropriations and funding for the upkeep and construction of the state's infrastructure – whether it be roads and bridges, or state government buildings and schools – millions of dollars are also set aside for pet local projects and pork spending that Ohio taxpayers should not be forced to fund.

Unfortunately, historically Ohio policymakers have not always done a great job of limiting and eliminating pork spending. The 2016 capital budget included millions of dollars in spending that falls well outside needed infrastructure.¹ For example:

- \$80,000 for the Bowling Green Curling Club;
- \$200,000 for the New Madcap Puppet Theater;
- \$250,000 for the Triumph of Flight statue;
- \$1.5 million for the Toledo Museum of Art's Polishing the Gem Project; and
- \$600,000 for Chagrin Falls Center of Community Arts.

As the 2018 capital budget process begins, special interests and communities are once again looking to state taxpayers to fund their pork projects.

Some ridiculous projects that have been proposed for this year's capital budget include:

- \$750,000 for the Foundry Community Rowing and Sailing Center in Cleveland;²
- Renovations to the Rock and Roll Hall of Fame in Cleveland;³
- Upgrades to Playhouse Square in Cleveland;⁴
- \$750,000 for renovations at the Franklin Park Conservatory in Columbus;⁵
- \$750,000 for renovations at the Palace Theater in Columbus;⁶
- \$1.25 million for an orangutan habitat and indoor facility at the Columbus Zoo;⁷ and
- \$4 million for a soccer stadium in Cincinnati.⁸

Given the unrelenting lobbying and the engrained nature of the capital budget process, taxpayers have lost faith that the system can be fixed and that their money won't be wasted on special interest projects or corporate giveaways.

¹ **Senate Bill 310**, The 131st Ohio General Assembly, 2016.

² Jackie Borchardt, **Rowing center, RTA's Brookpark Station on Greater Cleveland Partnership's wish list for capital budget**, Cleveland.com, December 18, 2017.

³ *Ibid.*

⁴ *Ibid.*

⁵ Jim Siegel, **State money requested for COSI and new orangutan habitat at Columbus Zoo**, *The Columbus Dispatch*, January 29, 2018.

⁶ *Ibid.*

⁷ *Ibid.*

⁸ Jessie Balmert, **Pared-down list would ask state for \$4 million - not \$10 million - for FC Cincinnati project**, *Cincinnati Enquirer*, January 3, 2018.

However, the system can be fixed if state policymakers use these three principles for responsible government spending which Buckeye uses each year in compiling its *Piglet Book*:

1. **Constrain the Growth of State Government** – Large governments are a burden to their taxpayers and inhibit economic growth and prosperity. Ohioans should look for ways to decrease the size of government, rather than giving it more control.
2. **Eliminate Corporate and Special Interest Welfare** – The government should not use taxpayer dollars to subsidize companies or special interests. Crony capitalism does not drive economic growth, nor is it a responsible use of taxpayer dollars.
3. **Focus Spending on the Core Functions of State Government** – Non-essential spending needs to be curtailed in Ohio. Government spending limits the ability of policymakers to embrace free-market reforms that will benefit the economic growth and prosperity of this state, today and in the future.

Principles for Responsible Government Spending

All Ohio policymakers, regardless of their political leanings, want job growth and better wages for Ohioans. Unfortunately, policymakers have for many years abused government spending and, as a result, the size of the Ohio's capital budget has grown immensely. We know from history, however, that the bigger the government becomes, the higher taxes must eventually become to support the ever-expanding government waistline. This growth in government leads to gluttonous behavior, which is difficult to rein in.

The role of government is not to influence consumer decisions, create jobs, or build puppet theaters. However, government is responsible for wisely spending taxpayer dollars on necessary infrastructure and functions. For an economy to prosper, a state does not need government spending and higher taxes. In fact, these things lead to waste, inefficiency, and a lack of growth.

Poet and author, Henry David Thoreau said it best, “[T]his government never of itself furthered any enterprise, but by the alacrity with which it got out of its way. It does not keep the country free. It does not settle the West. It does not educate. The character inherent in the American people has done all that has been accomplished; and it would have done somewhat more, if the government had not sometimes got in its way. For government is an expedient by which men would fain succeed in letting one another alone; and, as has been said, when it is most expedient, the governed are most let alone by it.”⁹

Constrain the Growth of State Government

Large governments are wasteful, inefficient, and inhibit economic growth and prosperity.¹⁰ They levy burdensome taxes and regulations that obstruct innovation and human flourishing.

Smaller governments, on the other hand, require fewer taxes, have less red tape, and more individual freedom. This allows the creativity and risk-taking entrepreneurial spirits to be unleashed, which will lead to sustainable economic growth.

Historically, we can see that the amount of government spending has little influence on the prosperity of the United States. Until the early 1930's, the federal budget only averaged about three percent of the country's gross domestic product (GDP), while state and local government spent approximately twice that much.¹¹ During wars, federal spending increased, but during times of peace the debt was paid off. For 28 years after the Civil War, for example, the federal budget was in surplus and most of the debt from the Civil War was paid off by 1893. Those 28 years saw economic growth, real wages increasing, and low unemployment – by the early 1900s, America was the richest country in the world. There were small economic downturns in 1873 and 1893, but because the federal government did not manipulate the market, it was able to recover quickly.

⁹ Henry David Thoreau, *Civil Disobedience*, 1849.

¹⁰ Martin S. Feldstein, **Why is Growth Better in the United States than in Other Industrial Countries**, National Bureau of Economic Research, Working Paper 23221, March 2017.

¹¹ Dwight R. Lee, **Reducing Real Output by Increasing Federal Spending**, Library of Economics and Liberty, January 2, 2012.

What the federal government did spend money on during this time was mainly infrastructure and other necessary public works, rather than trying to influence consumer choices with stimulus packages. The federal budget in the 1800s was spent mainly on “national defense, infrastructure, law enforcement, and establishing standards on weights and measures...[which] created a setting in which the power of private enterprise and entrepreneurship could produce wealth.”¹²

Historical evidence shows that prosperity is created when people are allowed to keep the majority of their earnings to spend, invest, or save, thus showing the market what they value rather than the government taxing a greater share of people’s earnings and spending that money on special interest projects, no matter how well-meaning they are.

Eliminate Corporate and Special Interest Welfare

The government should not use taxpayer dollars to subsidize companies or special interests. Crony capitalism does not drive economic growth, nor is it a responsible use of taxpayer dollars. Another cost of government spending is rent-seeking, which occurs when a corporation or special interest requests extra benefits from the government, more accurately called corporate welfare.

Corporate welfare manifests itself in a number of ways, such as agricultural subsidies, tariffs on a particular item, tax breaks, or regulations to hinder competition such as an occupational license. Gordon Tullock, the originator of the idea, explained that the time and effort it takes to lobby the government for special privileges is costly and results in overall losses to the economy as a whole.¹³

Unfortunately, corporate welfare also wastes taxpayer money because it is used by governments to fund or help a specific business or industry rather than the public good. Taxpayer money would be better spent on core government functions that would benefit taxpayers as a whole rather than a small circle of favored special interests – whether they be corporate, philanthropic, environmental, or professional sports.

As Thomas Jefferson said in his first inaugural address, “[W]ith all these blessings, what more is necessary to make us a happy and a prosperous people? Still one thing more, fellow citizens – a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned.”¹⁴

¹² Dwight R. Lee, **Reducing Real Output by Increasing Federal Spending**, Library of Economics and Liberty, January 2, 2012.

¹³ David R. Henderson, **Rent Seeking**, The Concise Encyclopedia of Economics, Library of Economics and Liberty.

¹⁴ Thomas Jefferson, **First Inaugural Address**, March 4, 1801.

Focus Spending on the Core Functions of State Government

Too much government spending limits the ability of policymakers to embrace free-market reforms that will benefit the growth and prosperity of this state. Governments are, however, responsible for providing essential services such as public safety and they need to wisely focus spending on those services and let Ohioans keep more of their hard-earned dollars.

We know from many classical writers, such as Thomas Paine, James Madison, Frederic Bastiat, Thomas Jefferson, Adam Smith, and John Locke that the purpose of government is to protect the natural rights of life, liberty, and property.

Ezra Benson, the U.S. Secretary of Agriculture under President Dwight D. Eisenhower wrote, “By deriving its just powers from the governed, government becomes primarily a mechanism for defense against bodily harm, theft, and involuntary servitude. It cannot claim the power to redistribute the wealth or force reluctant citizens to perform acts of charity against their will.”¹⁵

As explained by Bastiat, the government has two hands, one to give and one to take. It must do both, as giving without taking leads to empty promises and taking without giving would make a nation very upset, to say the least.¹⁶ Bastiat says “But it [the government] is always confronted with the same contradiction: if it wishes to be philanthropic, it must continue to levy taxes; and if it renounces taxation, it must also renounce philanthropy.”¹⁷

For the government to provide services, taxes must be levied, but taxes should be kept to a minimum and government should focus on its core functions. In this way, economic growth, freedom, and prosperity will be encouraged.

Many politicians, economists, and the like claim that more government spending results in greater prosperity and economic growth, which is true at a minimal level of spending. Projects such as repairing roads, building sewers, and providing up-to-date voting equipment help a state grow and prosper.

Beyond minimal functions, however, government spending hurts rather than helps an economy, as shown in numerous studies.¹⁸ Policymakers and special interest groups that lobby for extra government projects fail to remember that someone has to pay for these projects. That someone happens to be the average taxpayer. And unfortunately, higher taxes to fund extraneous government projects are rarely worth the cost. In the words of the politician Davy Crockett, “The

¹⁵ Ezra Taft Benson, **The Proper Role of Government**, Speech to National Association of Counties Officials, June 26, 1976.

¹⁶ Frederic Bastiat, *Selected Essays on Political Economy*, Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc., 1995.

¹⁷ *Ibid.*

¹⁸ See: Thomas Stratmann and Gabriel Lucjan Okolski, *Does Government Spending Affect Economic Growth?* Mercatus Center, June 10, 2010. Daniel Mitchell, *The Impact of Government Spending on Economic Growth*, The Heritage Foundation, March 15, 2005. Brian Reidl, *Why Government Spending Does Not Stimulate Economic Growth*, The Heritage Foundation, November 12, 2008. Jean-Marc Fournier and Asa Johansson, **The Effect of the Size and the Mix of Public Spending on Growth and Inequality**, OECD Publishing, No. 1344, December 15, 2016.

power of collecting and disbursing money at pleasure is the most dangerous power that can be entrusted to man.”¹⁹

¹⁹ Edward S. Ellis, **Not Yours to Give**, Foundation for Economic Education, November 19, 2012.

Putting the Spending Principles into Practice: What Should be in the 2018 Capital Budget

There are two main infrastructure needs in Ohio: physical infrastructure and democratic infrastructure. The physical infrastructure includes roads, bridges, sewer lines, water pipes, water treatment facilities, schools, and other state government facilities. Democratic infrastructure deals with the means through which we conduct our elections: voting machines, systems to maintain voter rolls, and systems we use to count and protect votes.

While the role the private sector and the specific mechanisms of how these infrastructures are built and maintained is debatable (such as through public-private partnerships), when taxpayer dollars are used, they should be focused on the state's physical and democratic infrastructure rather than feel good projects that could, and should, be funded entirely through private means.

Strengthening Ohio's Physical Infrastructure

Critical physical infrastructure includes roads, bridges, sewer lines, water pipes, water treatment facilities, schools, and other state government facilities. These represent public goods that benefit residents by assuring things like safe drinking water and safe driving conditions. These public goods also benefit businesses by reducing congestion and improving the efficiency with which goods can be brought to the marketplace.²⁰

As Robert Poole of the Reason Foundation has pointed out, congestion leads to hours of wasted worker productivity and slows down the ability to deliver goods to market as efficiently as possible.²¹ Poor roads and bridges adversely impact Ohio's ability to move goods to market efficiently, which of course has an impact on Ohio's GDP. According to the Development Services Agency, Ohio added more than \$15.5 billion to its GDP from logistics industries.²² Trucking is the largest single portion of this, contributing more than \$7 billion to GDP and more than 60,000 jobs.²³ Consequently, the maintenance of roads is critically important for Ohio jobs.

Furthermore, according to the American Society of Civil Engineers (ASCE),²⁴ Ohio has nearly 123,000 miles of public roads of which around 17 percent are considered deficient.²⁵ This could result in less-safe driving conditions and should be kept in mind by policymakers.

To address Ohio roads and bridges, policymakers should look to the capital budget and make the requisite investments to enhance the safety of roads while also alleviating as much congestion and the consequent slowdown of goods movement as possible.

²⁰ Robert W. Poole, Jr., *Funding Important Infrastructure in a Fiscally Constrained Environment*, Reason Foundation, January 2013.

²¹ *Ibid.*

²² **Logistics: Contributions to the Economy**, Ohio Development Services Agency, August 2017.

²³ *Ibid.*

²⁴ It is important to note that the ASCE membership stands to gain from additional government spending to build and maintain physical infrastructure and thus not an uninterested party, however, their study is one of the few that attempts a quantification of such needs.

²⁵ **2017 Infrastructure Report Card and Infrastructure Super Map**, American Association of Civil Engineers, 2017.

Ohio's water and sewer systems are also in desperate need of repair and upgrading. Given the tragic story of lead contaminated water in Flint, Michigan, the need to better address water safety issues is politically salient.²⁶ The ASCE study also found that Ohio will need to spend more than \$14.5 billion over the next 20 years on wastewater management.²⁷

A single example of a mid-sized city, Middletown, Ohio, illustrates how large some these infrastructure project expenses can become. In reaching a settlement with the U.S. Environmental Protection Agency, Middletown agreed to three projects dealing with combined sewer flows and wastewater treatment that will cost the city more than \$265 million over the next 25 years.²⁸

Redirecting dollars that might get spent on things like university curling facilities to the Public Works Commission will assure that dollars are at least better targeted to fixing these kinds of sewer and improved drinking water projects.

Strengthening Ohio's Democratic Infrastructure

Democratic elections represent the key mechanism through which citizens chose their leaders and hold them accountable. Maintaining the infrastructure to ensure the integrity of the election process consequently becomes a core government function. As President Ronald Reagan once said, "Every American must know he or she can count on an equal chance and an equal vote."²⁹

Fulfilling that vision means being able to depend on how votes are cast and tabulated. Thus, the machines that perform this vital function represent a key physical piece of infrastructure upon which modern elections are built.

The current machines that are used by Ohio county boards of elections were purchased more than a decade ago using one-time funds through the federal Help America Vote Act.³⁰ With advancements in technology and security, Ohio's voting machines need to be updated. The cost of which is projected at around \$200 million according to Ohio election officials.³¹

Whether that figure is exactly what is needed or not, it makes more sense for Ohio to use its limited resources on election machines than on puppet theaters as has taken place in previous capital budgets.

²⁶ Yanan Wang, **In Flint, Mich., There's So Much Lead in Children's Blood That a State of Emergency is Declared**, *The Washington Post*, December 15, 2017.

²⁷ **2017 Infrastructure Report Card and Infrastructure Super Map**, American Association of Civil Engineers, 2017.

²⁸ Rick McCrabb, **Middletown to Spend \$265 Million to Settle EPA Enforcement Claims**, *The Journal News*, December 21, 2017.

²⁹ Ronald Reagan, **Statement About the Extension of the Voting Rights Act**, November 6, 1981.

³⁰ **Husted Calls for Replacement of Ohio's Aging Voting Equipment**, Office of the Ohio Secretary of State, Ohio Secretary of State Office press release, December 14, 2017.

³¹ Darrel Rowland, **Could the 2000 Election Debacle in Florida Happen in Ohio?**, *The Columbus Dispatch*, June 25, 2017.

Conclusion

Ohio's government continues to grow and increased government spending, especially on new projects, is always a temptation, but it is one that must be resisted if Ohio is going to grow and prosper economically. To ensure government spending remains focused on its core mission, policymakers should adopt and follow the principles of responsible spending:

- Constrain the growth of state government;
- Eliminate corporate and special interest welfare; and
- Focus spending on the core functions of state government.

By following these principles, Ohio policymakers will ensure they are wisely spending Ohioans tax dollars and are putting the state on the road to growth and prosperity.

About the Authors



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In this role, Lawson works with all members of the Buckeye research team with a particular focus on occupational licensing, local government, and education issues. He is also Buckeye's primary liaison to the Statehouse where he educates policymakers in both the legislative and executive branches on free-market solutions to Ohio's challenges.

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