



CASCADE POLICY INSTITUTE

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## Summary

Cascade Policy Institute will publish a new report in September, 2004, by Randall J. Pozdena, Ph.D. and Eric Fruits, Ph.D. that ranks Oregon government's spending levels with other states' spending. *How Does Oregon Government Spending Rank? Ideas for Budget Stability* identifies an overspending tendency and includes ideas to improve efficiency and effectiveness of public service AND lower their cost.

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***“Oregon’s overspending tendency stands out fairly consistently as one of the highest in the nation.”***

*Randall Pozdena, Ph.D.  
and Eric Fruits, Ph.D.*

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## Does Oregon Overspend?

*by Steve Buckstein*

Oregonians are as divided as ever over whether our state and local governments should solve their revenue shortfalls by taxing more or by spending less. In the face of this perennial debate, Cascade is releasing a new report analyzing state and local government spending. Authored by Oregon economists Randall Pozdena, Ph.D. and Eric Fruits, Ph.D., *How Does Oregon Government Spending Rank? Ideas for Budget Stability* expands on Dr. Pozdena's earlier report, *Can Oregon Tighten Its Fiscal Belt?*

*How Does Oregon Government Spending Rank?* examines Oregon governments' spending patterns through the economic boom of the 1990s and into the decline of the early 2000s. What it reveals will disappoint anyone hoping to find economic discipline among Oregon's policy makers.

Pozdena and Fruits had two goals in producing *How Does Oregon Government Spending Rank?* First, to compare Oregon state and local government spending in Oregon with that of demographically similar states; second, to propose solutions to Oregon's pattern of excess public spending.

Pozdena's and Fruits' methodology for benchmarking state spending is important. Simply comparing Oregon per-capita spending to that of other states would be misleading because different states have widely different demographics. For example, Oregon's per capita personal income is six percent below the national average, its proportion of school age children is three percent lower and its population density is 55 percent lower. These and other differences must be taken into account when comparing expenditures among states.

The authors found that Oregon's overspending was even greater at the height of the economic boom in 2000 than it was in 1998. They conclude that during the 1990s, Oregon had "a spending policy that was disciplined by nothing but available revenue." As tax revenue grew rapidly during the economic boom, our governments spent every dollar as fast as it came. This set the state up for significant budget problems when the state and nation went into economic decline. The data shows, "Oregon's overspending tendency stands out fairly consistently as one of the highest in the nation."

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The report also found that in the last years of the boom, expenditures in relationship to personal income grew at a much faster rate than in the rest of that period. Such increases are obviously unsustainable, thus the current “budget crisis.”

There is little comprehensive data from which to compare all states relative spending from 2001 to the present. But the authors found indications that even in the depths of the recession, Oregon was still spending more than demographically comparable states. For example, they found that while K-12 education is the program most prone to revenue declines, education spending in 2003 was on benchmark with demographically comparable states. If Oregon’s education spending was roughly where it should be compared to other states in 2003, other programs not as dependent on income tax revenue, were likely above benchmark that year.

Pozdena and Fruits also suggest remedies for Oregon’s overspending. They recommend an automatic spending cap similar to Colorado’s expenditure limitation that ties state spending to inflation and population growth. Such a cap could insure that during the next economic boom, Oregon won’t spend at an unsustainable level. They also suggest the introduction of competition and consumer sovereignty into many public services.

The authors argue, “The only way to reliably improve the efficiency and effectiveness of public services is to create or improve competitive forces in the delivery of [such] services.” This includes introducing some form of school choice, which was done so successfully in much of Europe.

Pozdena and Fruits believe that consumer sovereignty can be achieved in healthcare by introducing Health Savings Accounts to both the private health insurance market and the Oregon Health Plan (OHP). Noting the failure of the OHP to ration care effectively, they explain how high-deductible major medical policies coupled with tax-deductible health savings accounts would give low-income Oregonians better control of their health-care costs.

*How Does Oregon Government Spending Rank?* reinforces the suspicion of those who voted down the 2003 and 2004 statewide tax increases: Oregon has been overspending for a long time. We must not allow the coming economic recovery to obscure the flaws in our state and local government budgeting systems with the false security of increasing income tax revenue.

Only by educating ourselves about how we got here, and how we can sustain economic growth and public services in the future will Oregonians be able to break the boom and bust cycle of public budgeting that has caused so much pain these last few years. Cascade Policy Institute is proud to offer *How Does Oregon Government Spending Rank? Ideas for Budget Stability* as a key component in this educational effort.

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*Steve Buckstein is president of Cascade Policy Institute, a Portland, Oregon think tank.*

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