A BUDGET STABILIZATION PLAN FOR KANSAS

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6
5
4
3
Billions of Dollars
Actual Spending
Rules-Based Spending
1994 1998 2002 2006 2010

Using rules-based budgeting to constrain spending and promote economic growth

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Cover Art Description

The chart on the cover was adapted from Table 5 and Graph 4 on page 9 of this paper. The dashed lines for FY 2011 and FY 2012 reflect the Conference Committee Recommendations as published by Kansas Legislative Research Department on May 12, 2011 at 5:18 p.m.

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Executive Summary

This study proposes a budget stabilization plan for Kansas, which is a rules-based approach to state budgeting. A tax-and-expenditure rule is linked to rules for the disposition of surplus revenue. Absent these rules, surplus revenue is annualized to expand funding for ongoing programs. Under a rules-based approach to budgeting, surplus revenue is used to meet emergencies, stabilize the budget over the business cycle and/or earmarked to fund one-time capital projects. Once those needs are met, remaining surplus revenue is returned to taxpayers in rebates or used to reduce tax rates.

While there are multiple ways to design such a plan, this plan suggests how the variables should be set based on the volatility of tax revenues due to Kansas' reliance on high marginal income tax rates and to maximize overall taxpayer benefit. One unique aspect of this particular design is the counter-cyclical nature of setting spending limits. General Fund spending is allowed to increase faster in times of actual revenue decline as economic downturns bring increased demand for welfare, health care and other human services. Once actual revenues increase, spending is forced down as the demand for recession-related services dissipates.

A budget stabilization plan is needed in Kansas because the state created a structural deficit in the budget over the past decade. Instead of planning for the inevitable downturns in the economic cycle, the state chose to ratchet up spending during good times and depleted reserves when revenue growth slowed. State general fund revenue has grown more slowly and has become very volatile over these business cycles and declined each of the last three years. Despite cuts in state spending, the state has incurred almost a billion dollars in deficit spending over the last three years.

Simulation of a budget stabilization plan for Kansas reveals it would stabilize the budget over the business cycle and constrain spending growth in the long run. Had this plan been in place since 1994, simulated Fiscal 2010 spending would have been within 3% of actual spending but instead of starting Fiscal 2011 with a $27.1 million deficit, there would have been:

- $245.1million in an Emergency Fund
- $782.5 in a Budget Stabilization Fund
- $6.8 billion set aside in a Capital Investment Fund or distributed as tax rebates or cuts

A Budget Stabilization Fund promotes more stable growth in state expenditures in the long run. To the extent that some surplus revenue is allocated to tax rebates/cuts it would constrain the growth of spending and provide tax relief. Those tax rebates/cuts would also promote long term economic growth.

Kansas state government can no longer conduct fiscal policy as usual, as doing so will only make today's budget challenge much worse. Legislators and the Governor must constrain the growth in spending and eliminate the structural deficit in the state budget or the state will continue to suffer stagnation in job creation and income growth. A budget stabilization plan will impose the fiscal discipline required to accomplish these objectives. By learning to live with the budget constraints imposed by these rules, the state will experience stronger economic growth and avoid future budget crises.

Rationale for a Budget Stabilization Plan

A budget stabilization plan stabilizes the budget over fluctuating business cycles, constrains the growth of government in the long run and introduces a rational, rules-based approach to state budgeting.[1] The budget stabilization plan proposed in this study is based on a tax-and-expenditure rule. Total general fund revenue growth is limited to the sum of inflation and population growth, keeping revenue at a constant real per-capita level.

The tax-and-expenditure rule is linked to rules governing the disposition of surplus revenue. The stability principle underlying these rules is that surplus revenue is one-time money that should not be annualized in the budget to expand funding of ongoing programs.

Surplus revenue is first allocated to an Emergency Fund to finance unforeseen emergency expenditures. When the cap on the Emergency Fund is reached, additional surplus revenue is allocated to a Budget Stabilization Fund, which is used to offset revenue shortfalls in periods of recession. When the cap is reached on those two funds, any remaining surplus revenue is earmarked for capital investment or allocated to temporary or permanent tax rebates/cuts. Setting surplus revenue set aside to finance one-time capital projects such as new highway construction avoids the need to borrow or raise taxes to fund those projects. Tax rebates and temporary rate cuts provide tax relief in the short run. Permanent tax cuts provide tax relief and promote long term economic growth, which is especially important if a state is experiencing stagnation in economic growth.

Kansas Needs a Budget Stabilization Plan

A structural deficit is the fatal flaw in the Kansas budget. A structural deficit exists when projected revenues are not sufficient to fund projected expenditures in the long run. This structural deficit should be distinguished from deficits that occur in the state budget over the business cycle. The origins of the structural deficit in Kansas can be traced back over several decades, reflecting trends in revenues and expenditures. To analyze this structural deficit we will explore trends in economic growth and fiscal policy over the past three decades.[2]

Table 1 shows Kansas has been experiencing stagnation in economic growth over the last three decades. The growth rate in personal income has precipitously declined each decade and has grown slower than other states in the region. Wage and salary income has also grown much slower. Disbursements to private sector and farm workers barely stayed ahead of inflation in the last decade, but government workers continued to experience real growth of 34% compared to 7% and 8% for private and farm workers, respectively.[3]

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1 For a discussion of rules based approaches to state budgeting see Barry W. Poulson, 'Tax and Expenditure Limits: Theory Analysis and Policy,' Independence Institute IP-2, 2004; Barry W. Poulson, 'The Next Generation of Tax and Expenditure Limits,' Americans for Prosperity Foundation, 2004; Donald Schunk and Douglas Woodward, 'Spending Stabilization Rules: A Solution to the Recurring State Budget Crises?' Public Budgeting and Finance, Winter 2005pp 105-124; John Merrifield and Derek Monson, 'Simulation of a Constitutional Spending Limit for a Conservative State: With Dynamic Adjustment and Sensitivity Analysis,' forthcoming, Public Budgeting and Finance.

2 For a discussion of the structural deficit in the Kansas budget see Barry W. Polson, 'A Comprehensive Reform of the Kansas Public Employees Retirement System,' Kansas Policy Institute; and Barry W. Poulson,' Eliminating the Structural Deficit in the Kansas Budget', mimeo, Center for Applied Economics, University of Kansas.

3 Growth rates for each decade reflect the change between the years ending each decade. For example, Kansas' total Personal Income grew 90% between 1980 and 1990, from $23.546 billion to $44.750 billion. Growth rates for 1980 – 2010 reflect the change between those years. 2010p means data for 2010 is preliminary. Inflation is the index for Midwest Urban Cities, not seasonally adjusted. Other regional states are Arkansas, Colorado, Iowa, Missouri, Nebraska, New Mexico, Oklahoma and Texas.

Table 1. 10-Year Changes in Income and Inflation					
	State of Kansas				
	Personal Income	Wage & Salary Disbursements			Inflation Rate
Year		Private	Farm	Gov't.	
1990	90%	75%	24%	90%	55%
2000	71%	85%	53%	53%	32%
2010p	48%	31%	32%	56%	24%
1980 - 2010	382%	322%	150%	352%	153%
	Other Regional States				
	Personal Income	Wage & Salary Disbursements			Inflation Rate
Year		Private	Farm	Gov't.	
1990	99%	80%	25%	98%	55%
2000	92%	100%	30%	62%	32%
2010p	58%	39%	60%	62%	24%
1980 - 2010	505%	400%	161%	418%	153%

Source: U.S. Bureau of Economic Analysis Regional Economic Information System; U.S. Bureau of Labor Statistics; both accessed March 26, 2011.

Table 2. Change in Nonfarm Employment				
	Kansas		Other Regional States	
Year	Private	Gov't.	Private	Gov't.
1995	10%	10%	13%	10%
2000	14%	3%	16%	8%
2005	-2%	2%	1%	6%
2010	-2%	4%	1%	8%
1990 - 2010	21%	22%	35%	37%

Source: U.S. Department of Labor, Bureau of Labor Statistics; average annual employment, not seasonally adjusted; accessed March 26, 2011; other regional states same as Table 1. Growth rates reflexcts the change between the years ending each 5-year period. Government includes state, local and federal.

Stagnation in economic growth is also evident in employment data. Table 2 shows that the rate of growth in private sector employment fell sharply in the last decade compared to previous periods. All states were hurt by the current recession but Kansas lost private sector employment over the last decade whereas other regional states managed small gains. Even in periods of job gains, Kansas had slower private sector employment growth than did other regional states.

Stagnation in economic growth has also impacted state revenues and expenditures. In the 1990s general fund spending increased to match the growth in state revenue and unprecedented increases in deficits have emerged over the past decade. The state cut general fund expenditures by .6 percent in 2009 and by 13.1 percent in 2010 but still has incurred almost a billion dollars in deficits over the last three years. While the state has incurred deficits in past recessions, the magnitude of recent deficits shown in Table 3 and Graph 1 is unprecedented.

The recent decline in state revenue is not just a cyclical phenomenon, but also reflects stagnation in economic growth as noted in Table 1 and Table 2. Revenue growth is very volatile over the business cycle because Kansas relies on a progressive income tax with high marginal rates. The contrast between changes in income tax and all other general fund tax sources over the last decade demonstrates Kansas' reliance on high marginal income tax rates. As shown in Graph 2, general fund tax receipts from sources other than income remained stable during the first recession of the last decade; they declined in the latest (more severe) recession but much less so than income taxes.

The precipitous decline in income taxes during recessionary times and the spike in times of economic growth underscore the importance of having a budget stabilization plan in place.

Having a rules-based plan to systematically reduce marginal tax rates would also minimize volatility.

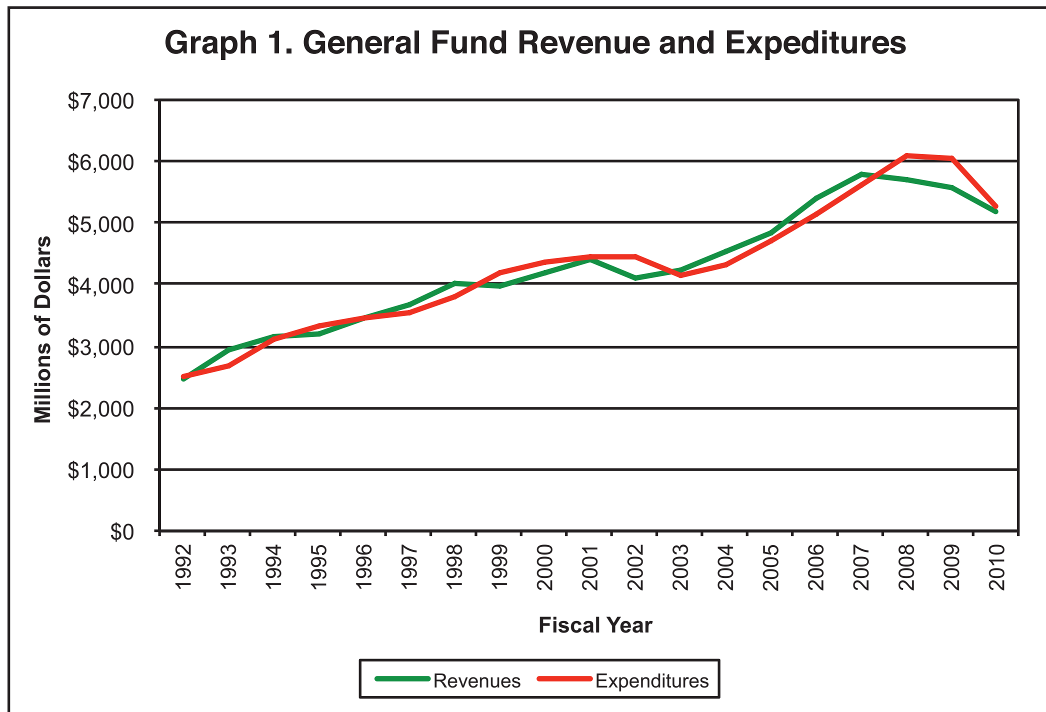
Revenues increase rapidly in periods of economic growth and expenditures usually increase to match the growth in revenues. In periods of recession, revenue shortfalls often resulted in deficits. But what emerged over the past decade are large deficits that reflect a structural deficit in the state budget. Stagnation in economic growth has resulted in slower growth and decreases in state revenue. Expenditure growth exceeds the growth in revenue resulting in ever larger deficits from one business cycle to the next.

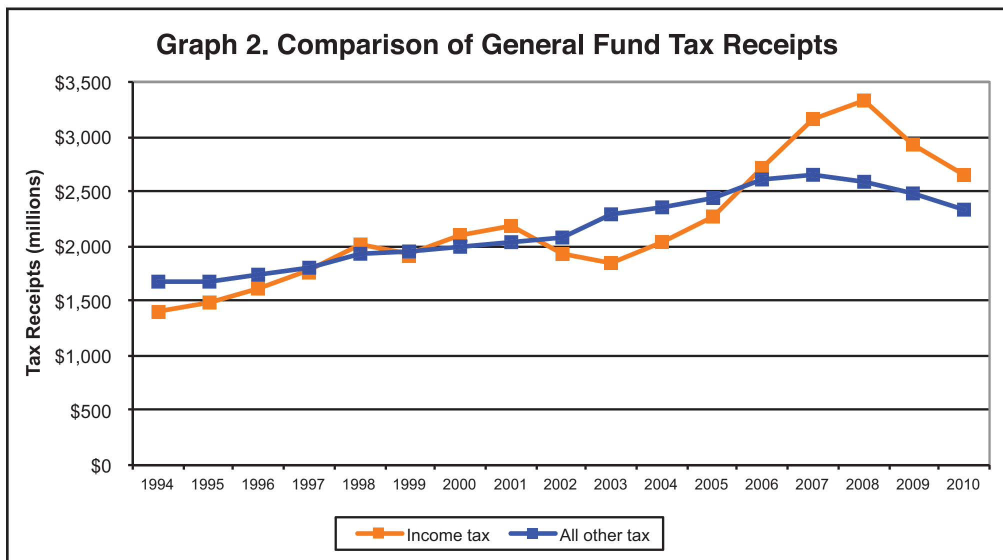
Table 3: General Fund Revenues & Expenditures (millions)

Year	Revenues	Expenditures	Surplus (Deficit)
1994	3,175.7	3,110.0	65.7
1995	3,218.8	3,309.8	(91.0)
1996	3,448.3	3,439.2	9.1
1997	3,683.8	3,538.1	145.7
1998	4,023.7	3,799.1	224.6
1999	3,978.4	4,196.2	(217.8)
2000	4,203.1	4,367.6	(164.5)
2001	4,415.0	4,429.6	(14.6)
2002	4,108.3	4,466.1	(357.8)
2003	4,245.6	4,137.5	108.1
2004	4,518.9	4,316.5	202.4
2005	4,841.3	4,690.1	151.2
2006	5,394.4	5,139.4	255.0
2007	5,809.0	5,607.7	201.3
2008	5,693.4	6,101.8	(408.4)
2009	5,587.4	6,064.0	(476.6)
2010	5,191.3	5,268.0	(76.7)

Source: Kansas Division of the Budget, Governor's budget reports

Kansas legislators now face two budget problems. The economy has become much more sensitive to the business cycle and as a result, the budget has become more volatile. Each of the past two recessions has been accompanied by higher levels of deficit spending. Kansas must find a way to stabilize the budget over the business cycle to avoid major budget cuts and deficit spending.





Even when the economy recovers from the current recession, state revenue growth will not match the projected levels of state spending.[4] The state will experience large and persistent deficits in the long term and may be challenged to meet its obligations if faced with another major recession. Such a funding crisis has already occurred in states such as California and the causes for the structural deficit in the Kansas budget are not unlike that found in the California budget. Addressing the structural deficit in the Kansas budget will require changes in state spending to bring expenditures into line with revenues in the long run.

Designing a Budget Stabilization Plan for Kansas

Kansas' fiscal policy has been driven by unconstrained, unmanaged spending growth. Solving the state's fiscal crisis in the long run requires the elimination of the structural deficit, and the most effective way to do that is to enact a budget stabilization plan.

A plan can be designed to both constrain the growth of spending and stabilize the budget over the business cycle. An effective plan has several essential features:

- It imposes a tax-and-expenditure rule limiting the growth of revenue to the sum of inflation and population growth during periods of actual revenue growth.
- It requires voter approval for any increase in taxes or debt.
- It provides for an emergency fund and budget stabilization fund
- When the caps on the emergency fund and budget stabilization fund are met, additional surplus revenue is earmarked for capital investment and/or tax rebates and cuts.

In a year when actual revenue increases, the incremental amount that can be spent each year is the sum of inflation and population growth for the prior year. A revenue limit is set each year equal to the allowable revenue from the previous year plus an increment equal to that revenue times the sum of inflation and population growth. For example, if the previous year's revenue limit was $4 billion, inflation increased by 3% and population increased by 0.5%, then the next year's revenue limit would be $4.140 billion ($4 billion plus 3.5% of $4 billion).

4 As this is written, legislators are debating budget proposals for FY 2012 with general fund spending increases of approximately 7%. Future spending to eliminate the state's $9.3 billion unfunded pension liabilities and anticipated Medicaid increases related to federal health care laws will also force dramatic spending increases (unless pension and Medicaid reform is enacted).

So as long as actual revenue is growing, the amount permitted to be spent is equal to the revenue limit. In any year when actual revenue falls, the Budget Stabilization Fund is used to offset the revenue shortfall. The amount taken from the Budget Stabilization Fund is equal to 50% of the decline in actual revenue (permitted spending is that year's revenue limit plus 50% of the decline in actual revenue).[5]

The rationale for allowing spending to increase faster in times of actual revenue decline is that economic downturns bring increased demand for welfare, health care and other human services. Demand for social services diminishes when the economy recovers, so setting spending equal to the revenue limit when actual revenues are increasing forces spending to decline. The baseline is not last year's actual spending (which included a supplement from the Budget Stabilization Fund), but last year's revenue limit. This counter-cyclical method of setting spending is a unique aspect of this plan.

Another important refinement is the inclusion of an Emergency Fund and a Budget Stabilization Fund. A cap is imposed on the Emergency Fund equal to 5 percent of the revenue limit. The cap on the Budget Stabilization Fund is set at 20 percent of the revenue limit. This large cap on the Budget Stabilization Fund is needed in Kansas because of the volatility in state revenue. A smaller Budget Stabilization Fund would be more appropriate in states that do not rely so heavily on state income taxes.[6]

When actual revenue is growing, any excess of actual revenue over the revenue limit is considered to be surplus revenue. The first allocation of surplus revenue goes to the Emergency Fund. When the Emergency Fund cap is reached, additional surplus revenue is allocated to the Budget Stabilization Fund. When that cap is reached, any additional surplus revenue is allocated to the Capital Fund or to tax rebates or cuts.

Simulating a Budget Stabilization Plan for Kansas

The budget stabilization plan is designed to both constrain the growth in spending in the long run and stabilize the budget over the business cycle. Table 4 and Graph 3 simulate the impact if this specific plan been in place since 1994.

It is clear from this simulation how a budget stabilization plan stabilizes the budget over the business cycle. In periods when the economy is growing, the revenue limit holds expenditures below actual revenue and surplus revenue is used to build up the Emergency Fund and Budget Stabilization Fund. In years when actual revenue is growing very rapidly, some of the surplus revenue is earmarked for the Capital Fund, tax rebates or tax cuts.

There are many ways to design a Budget Stabilization Fund. In this analysis it is used to supplement spending in periods of recession. The assumption is that in any year when there is an actual revenue decline, an amount equal to half of the decline is transferred from the Budget Stabilization Fund to meet increased demands for social services.

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5 The plan would naturally require rules to exclude the impact of legislative changes in tax rates or other factors that would cause revenue to decline so that the calculation of declining revenue is based on identical circumstances.

6 Legislators may of course want to assess the impact of alternative caps on these funds.

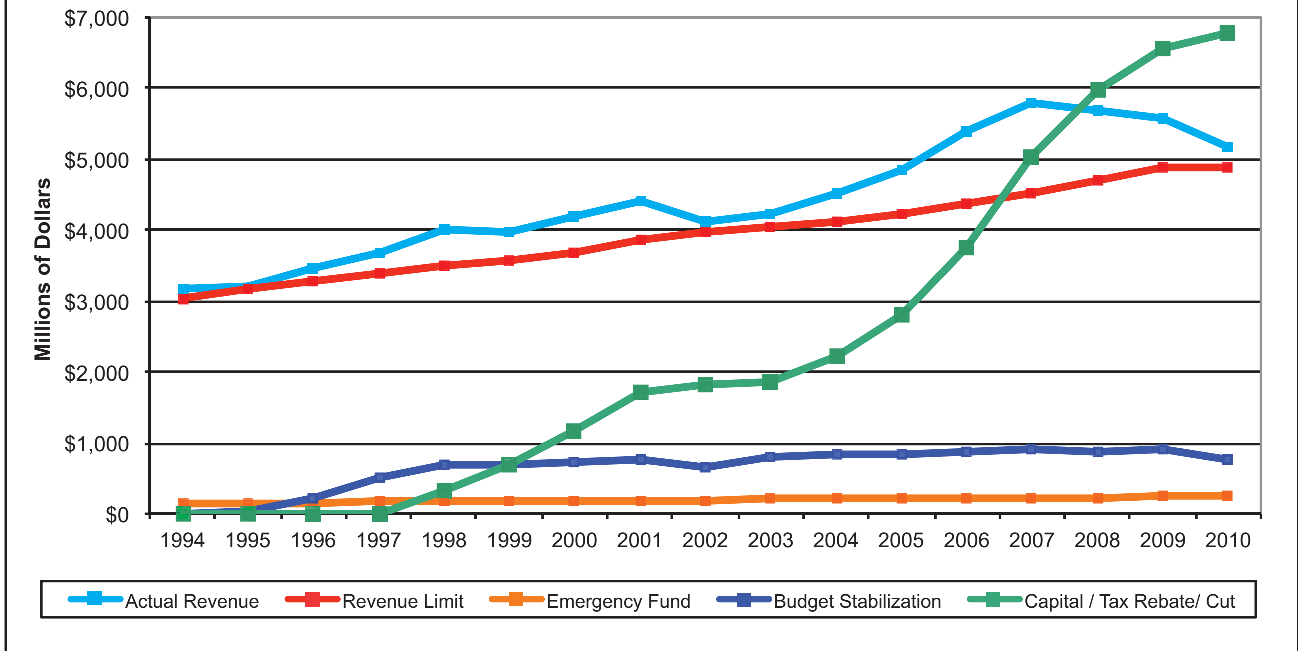


Table 4. Simulating a Budget Stabilization Plan for Kansas

Fiscal Year	Actual Revenue	Revenue Limit	Surplus Revenue	Fund Balance			Simulated Spending
				Emergency	Budget Stabilization	Capital/Tax Rebate/Cut	
1994	3,175.7	3,041.4	134.3	134.3	0.0	0.0	3,041.4
1995	3,218.8	3,153.9	64.9	157.7	41.5	0.0	3,153.9
1996	3,448.3	3,272.2	176.1	163.6	211.7	0.0	3,272.2
1997	3,683.8	3,388.0	295.8	169.4	501.7	0.0	3,388.0
1998	4,023.7	3,493.7	530.0	174.7	698.7	327.7	3,493.7
1999	3,978.4	3,581.8	396.6	179.1	693.7	702.3	3,604.5
2000	4,203.1	3,678.9	524.2	183.9	735.8	1,179.5	3,678.9
2001	4,415.0	3,853.6	561.4	192.7	770.7	1,697.3	3,853.6
2002	4,108.3	3,968.8	139.5	198.4	640.4	1,808.0	4,122.2
2003	4,245.6	4,033.5	212.1	201.7	806.7	1,850.5	4,033.5
2004	4,518.9	4,125.9	393.0	206.3	825.2	2,220.4	4,125.9
2005	4,841.3	4,238.5	602.8	211.9	847.7	2,795.1	4,238.5
2006	5,394.4	4,390.3	1,004.1	219.5	878.1	3,761.2	4,390.3
2007	5,809.0	4,519.8	1,289.2	226.0	904.0	5,018.1	4,519.8
2008	5,693.4	4,688.4	1,005.0	234.4	879.9	5,980.9	4,746.2
2009	5,587.4	4,897.0	690.4	244.9	926.4	6,561.4	4,950.0
2010	5,191.3	4,902.9	288.4	245.1	782.5	6,795.3	5,100.9

Source: Kansas Division of the Budget; Bureau of Labor Statistics, Midwest Urban Cities, seasonally unadjusted; U.S. Census Bureau.

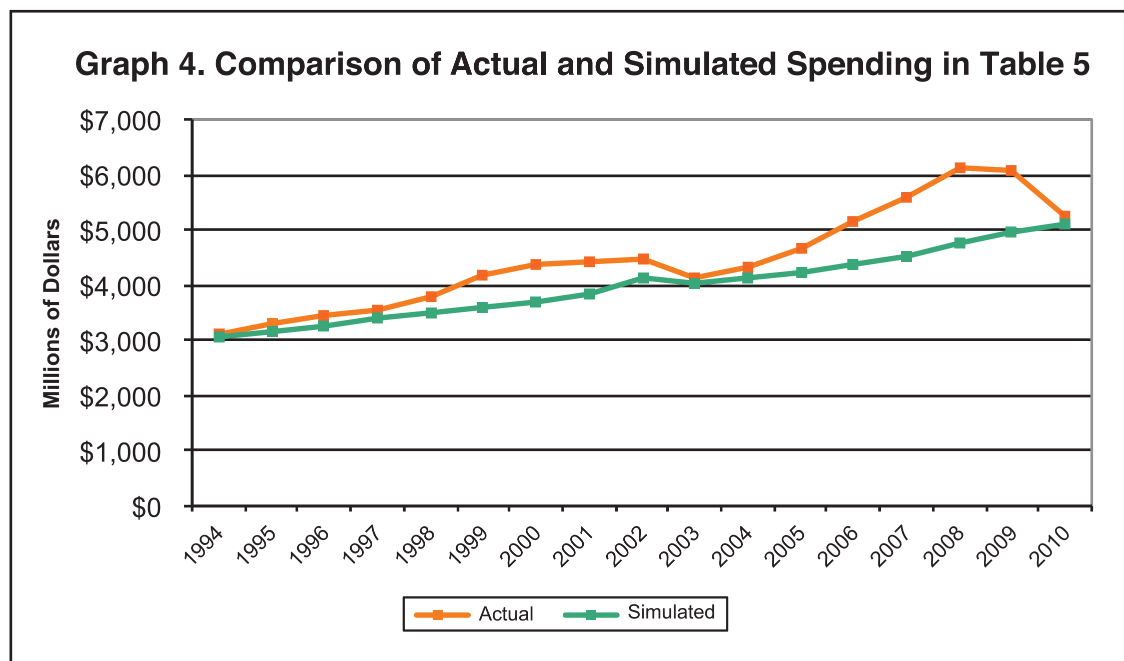
As Table 5 and Graph 4 illustrate, simulated expenditure growth with the Budget Stabilization Fund is much less volatile than actual expenditure growth. Simulated expenditure growth varies from about -2% to +7% in this period. In contrast, actual expenditure growth varied from about -13% to +16%. Stable expenditure results in more efficient government that is not subject to discontinuous increase, followed by cutbacks in funding for government programs during times of recession. Total expenditures at the end of the simulation is about the same as actual expenditures. The difference is that Kansas would have arrived at this current level of government spending with less volatility over the period and would have large surpluses.

With the Budget Stabilization Fund in place, total expenditures grow more rapidly in periods of recession than in periods of economic growth. For example, with the Budget Stabilization Fund in place over the past two years, total expenditures would have grown 7.5%, whereas actual expenditures decreased by 13.7%.

Table 5. Comparison of Actual and Simulated Spending

Fiscal Year	Actual Spending	Percent Change	Simulated Spending	Percent Change
1994	3,110.0	15.6%	3,041.4	4.0%
1995	3,309.8	6.4%	3,153.9	3.7%
1996	3,439.2	3.9%	3,272.2	3.8%
1997	3,538.1	2.9%	3,388.0	3.5%
1998	3,799.1	7.4%	3,493.7	3.1%
1999	4,196.2	10.5%	3,604.5	3.2%
2000	4,367.6	4.1%	3,678.9	2.1%
2001	4,429.6	1.4%	3,853.6	4.7%
2002	4,466.1	0.8%	4,122.2	7.0%
2003	4,137.5	-7.4%	4,033.5	-2.2%
2004	4,316.5	4.3%	4,125.9	2.3%
2005	4,690.1	8.7%	4,238.5	2.7%
2006	5,139.4	9.6%	4,390.3	3.6%
2007	5,607.7	9.1%	4,519.8	2.9%
2008	6,101.8	8.8%	4,746.2	5.0%
2009	6,064.0	-0.6%	4,950.0	4.3%
2010	5,268.0	-13.1%	5,100.9	3.0%

Source: Kansas Division of the Budget; author's calculation of simulated expenses from Table 4.



Rules-Based Versus Revenue-Driven Fiscal Policy

A budget stabilization plan in effect puts state fiscal policy on cruise control. This rules-based fiscal policy limits the discretion of legislatures in making fiscal policy decisions. It does not prevent legislators from creating or expanding programs, but effectively requires them to find savings elsewhere in the budget to fund new initiatives. With a budget stabilization plan of this nature in place, legislatures have no discretion to exceed rational growth in total revenue and spending without voter approval. Legislatures have discretion in allocating expenditures within the total budget but they must have voter approval to raise taxes, increase debt, or spend surplus revenue beyond that provided for by the plan rules.

Critics of this rules-based approach to fiscal policy argue that legislatures should have more discretion in setting total revenues and spending. Some states have enacted tax and spending limits that give legislatures more discretion in fiscal policy decisions.[7] In those states, legislators rather than citizens must approve increased taxes, debt or expenditure of surplus revenue. These rules often require a supermajority vote of the legislature to make those fiscal decisions.

More discretion may also be granted to legislatures for allocating surplus revenue. Legislators can be given discretion in deciding how surplus funds are allocated to and from emergency funds, budget stabilization funds, capital funds and tax rebates or cuts. Those fiscal decisions could also require a supermajority vote of the legislature.

On the other hand, some fiscal conservatives argue that the proposed budget stabilization plan is not stringent enough in constraining the growth in state spending. For example, it is less stringent than the Taxpayer Bill of Rights (TABOR) in Colorado. The TABOR Amendment requires that all surplus revenue be rebated to taxpayers unless voters approve expenditure of the surplus revenue.

There are several ways that the rules of this plan could be modified to make them more stringent. For example, a greater share of surplus revenue could be allocated to tax rebates/cuts. That would leave less surplus revenue for the Emergency Fund and Budget Stabilization Fund. Thus there is a tradeoff between constraining the growth in spending and stabilizing the budget during emergencies and recessions.

A Budget Stabilization Plan and Economic Growth

A budget stabilization plan promotes economic growth. While the allocations are not specified herein, this simulation assumes that some portion of surplus revenue is offset by tax rebates/cuts. There is a substantial literature showing that lower taxes result in higher rates of growth in state income. This is especially true if the reductions in tax rates are permanent rather than temporary.[8] A budget stabilization plan designed in this manner could set the stage for permanent reductions in tax rates in Kansas.

The most effective policy to promote economic growth is a permanent reduction in income taxes. This is especially true in Kansas, which has some of the highest tax rates in the country.

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7 For a survey of different state tax and expenditure limits see Bert Waisanen, 'State Tax and Expenditure Limits – 2008', National Conference of State Legislatures, 2008.

8 See for example Barry W. Poulson and Jules Gordon Kaplan, 'State Taxes and Economic Growth,' Cato Journal, vol. 28.no. I (winter 2008) pp1-18.

A permanent reduction in the income tax rate in Kansas to bring it into line with surrounding states would have a significant positive impact on the rate of growth in revenue and personal income. Oklahoma, for example, cut individual income tax rates four times in the last decade and revenues increased the following year three times out of four. The only time revenue didn't increase following a rate reduction was in 2009 at the height of the recession.[9]

Leaving more income in the private sector encourages risk-taking and job creation. In the economics literature there is substantial evidence that expenditures in the private sector have a higher return than expenditures in the public sector, so a plan that leaves more income in the private sector will promote economic growth.

This inference must be qualified by recognizing that some types of government expenditure are more effective in promoting economic growth than others. Government investments in highways and infrastructure projects can, under some circumstances, generate higher rates of economic growth.

Earmarking a portion of surplus revenue for capital projects eliminates the need to raise taxes for such projects and can also lead to a higher rate of return on infrastructure investments. During periods of higher unemployment and underutilization in the construction and capital goods industries, the cost of capital construction is likely to be lower and the return on that investment higher. Setting money aside for future projects also avoids debt and interest payments. This use of the Capital Fund will promote higher rates of economic growth.[10]

This simulation of a budget stabilization plan for Kansas is based on static analysis. The assumption is that implementing the plan has no impact on income or government revenues, which ignores the positive impact on economic growth.

An alternative approach in this type of analysis is to use dynamic scoring, which uses econometric modeling to capture the positive impact on personal income and government revenue. Dynamic scoring would, for example, measure the positive impact of a capital investment fund on economic growth.[11]

With dynamic scoring an even stronger case can be made for a budget stabilization plan. A higher growth rate can expand the pie for both the public and private sector. With higher incomes, the state is likely to generate higher revenues to finance expenditures. That would permit more resources to be allocated to the private sector without cutting government services.

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9 Oklahoma Council of Public Affairs, "A Tale of Two States: The Real Effect of Individual Income Tax Cuts" by Steven Anderson, MBA, CPA, October 22, 2010

10 See for example Donald Schunk and Douglas Woodward, 'Spending Stabilization Rules: A Solution to the Recurring State Budget Crises?' Public Budgeting and Finance, Winter 2005 pp 105-124; John Merrifield and Derek Monson, 'Simulation of a Constitutional Spending Limit for a Conservative State: With Dynamic Adjustment and Sensitivity Analysis,' forthcoming, Public Budgeting and Finance.

11 See for example John Merrifield and Derek Monson, 'Simulation of a Constitutional Spending Limit for a Conservative State: With Dynamic Adjustment and Sensitivity Analysis,' forthcoming, Public Budgeting and Finance.

Conclusion

A budget stabilization plan would stabilize the Kansas budget over the business cycle and would also provide for more stable growth in state expenditures in the long run. To the extent that some surplus revenue is allocated to provide tax relief, it would also promote long term economic growth.

A budget stabilization plan is especially important in Kansas because the state has experienced two major recessions over the past decade, and is experiencing stagnation in economic growth. The result has been great volatility in revenue and expenditures. Over the past few years a structural deficit has emerged in the state budget resulting in nearly a billion dollars in deficit spending.

Kansas legislators can no longer conduct fiscal policy as usual. The state has experienced stagnation in job and income growth for decades and is falling farther behind many states. They must constrain the growth in spending and eliminate the structural deficit in the state budget so the tax burden can be reduced. History shows that this will not happen organically, so a rules-based system must be implanted to impose the fiscal discipline required to accomplish these objectives.

The change will not be easy but the choice is simple: impose the necessary fiscal discipline or continue to suffer the consequences.

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