



LOUISIANA NEEDS A RESPONSIBLE BUDGET

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The recipe for economic freedom has fewer key ingredients than you might think. It takes sensible regulations, low taxes, but most importantly, the bread and butter: responsible state budgeting. And that's a recipe that Louisiana's leaders should follow this fiscal year and beyond to set the state on a course toward greater prosperity.

When it comes to economic freedom—the degree to which citizens have the ability to make decisions to work, produce, consume, and invest—Louisiana ranks 20th in the U.S., based on measures of government spending, taxes, and labor market regulation, according to the Fraser Institute's report [*Economic Freedom of North America 2022*](#).¹ The most economically free states have some of the most limited government spending through responsible budgeting, including the top five states: Florida, New Hampshire, South Dakota, Texas, and Tennessee.

To stay competitive and to help its people flourish through increased economic freedom, Louisiana must look in the mirror and change its excessive spending ways.



Economic Freedom Supports Prosperity

Places to look for responsible budget practices are the leaders in economic freedom, like [Florida](#)² and [Texas](#)³, which generally practice fiscal conservatism supporting more robust economies. However, states with less economic freedom and larger burdens of government, like California and New York, have poor economic outcomes. **Table 1** shows how Louisiana compares with the largest four states in the country based on measures of economic freedom, government largesse, and economic outcomes.

Table 1 | Comparison of States for Measures of Economic Freedom and Outcomes

Measure	U.S.	Florida	Texas	Louisiana	California	New York
Economic Freedom of North America (2020) ⁴	7 th (World) ⁵	1 st	4 th	20 th	49 th	50 th
State Migration Trends, Most Inbound (2022) ⁶	--	1 st	4 th	48 th	41 st	50 th
State Business Tax Climate (2022) ⁷	--	4 th	13 th	39 th	48 th	49 th
State Economic Outlook (2023) ⁸	--	9 th	13 th	26 th	45 th	50 th
State & Local Spending Per Capita (2022) ⁹	--	5 th	14 th	25 th	47 th	49 th
S&L Spending on Public Welfare Per Capita (2020) ¹⁰	--	47 th	44 th	12 th	5 th	1 st
S&L Tax Burden Per Capita (2019) ¹¹	--	8 th	4 th	15 th	43 rd	50 th
S&L Property Tax Collections Per Capita (2019) ¹²	--	21 st	40 th	7 th	37 th	47 th
Composite Cost of Living Index (2022) ¹³	--	32 nd	15 th	18 th	49 th	48 th
Avg. U-3 Unemployment Rate (2002-21) ¹⁴	6.1%	5.8%	5.8%	6.0%	7.4%	6.3%
Avg. Labor Force Participation Rate (2002-21) ¹⁵	64.2%	60.7%	65.4%	60.2%	63.8%	61.7%
Avg. Emp-Pop 25-54-year-old Ratio (2002-21) ¹⁶	77.8%	77.5%	77.3%	74.8%	75.3%	76.1%
Avg. Top 10% Income Shares (2000-18) ¹⁷	45.6%	41.8%	42.6%	30.7%	42.3%	35.5%
Official Poverty Measure (2019-21) ¹⁸	11.2%	12.5%	12.9%	17.2%	11.0%	12.3%
Supplemental Poverty Measure (2019-21) ¹⁹	9.6%	11.9%	10.4%	11.7%	13.2%	12.1%

Notes. Dates in parentheses are for that year or the average of that period. Data shaded in red indicate “best,” and in blue indicate “worst” per category by state. Comparisons are similar to a report by the [Texas Public Policy Foundation](#).²⁰

Lessons from a Responsible State Budget Revolution

In the American Federalist system, the laboratory of competition among the states is important. The data in **Table 1** provide a strong path for Louisiana to let people prosper. Texas and Florida have been budgeting more responsibly over much of the last decade.

In Texas, while there are a number of possible reasons for this, this coincided with the release of Texas Public Policy Foundation’s release of the [Conservative Texas Budget](#)²¹ (CTB) in 2014 which is a maximum threshold for total initial appropriations in their two-year budget based on the rate of population growth plus inflation. This measure is a good representation of the average taxpayer’s ability to pay for government spending without excessively burdening

Texans with higher taxes. It worked well with Colorado’s taxpayer bill of rights (TABOR) for many years until it was weakened by legislators, which has provided lessons for other states. And while Texas had a more effective tax and expenditure limit than Louisiana over the last decade, it was not as strong as the CTB approach that worked by redefining the narrative of responsible budgeting and setting a number for each budget period that the actual budget should not exceed.

Comparing the last two decades, Texas cut its two-year budget growth rate by more than half (12 percent to 5.2 percent), which for the first decade was well above this key measure of population growth plus inflation (7.4 percent) while the latter decade was below it (9.4 percent). In other words, the burden of government has been falling in inflation-adjusted per person dollars, providing more opportunities for growth in the productive private sector.

This is indicated in **Table 1**. And while the legislature did not change the spending limit over this period, it did change it in statute in 2021 by making it closely aligned with the CTB. There are efforts now to change it in the constitution for the strongest tax and expenditure limit with resulting surplus dollars used for tax relief. Texas now has a \$33 billion surplus and is looking for ways to provide substantial property tax relief since this is the largest tax burden in a state that does not have a personal income tax.

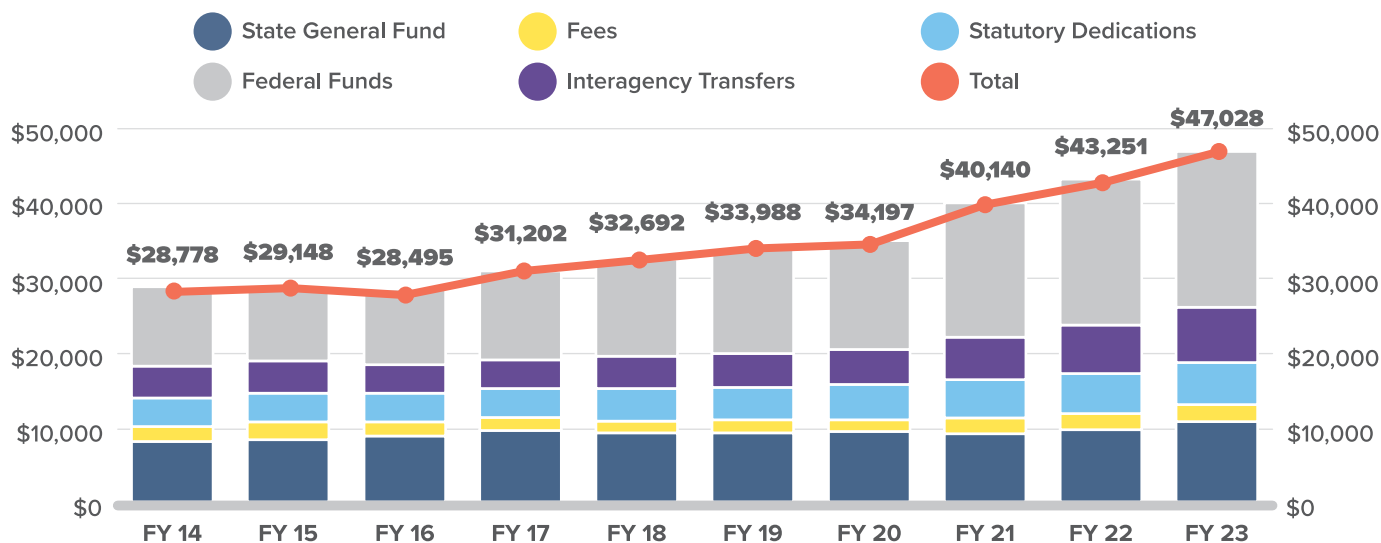
And while Florida hasn't been quite as fiscally conservative as Texas over the last decade, the James Madison Institute recently released the first iteration of the [Conservative Florida Budget](#)²² to help rein in excessive budgets. Specifically, over the last decade, Florida's total budget has increased by an average annual rate of 4.7 percent compared with the key measure's growth of 3.1 percent. By setting a maximum dollar amount for the budget there is an opportunity for Florida to not only appropriate more responsibly but also support even more economic prosperity.

These actions have been part of a [responsible state budget revolution](#)²³ that I have been working on over the last decade with think tanks in more than 10 states to help state legislators budget better. Other states like [Iowa](#)²⁴ and [Tennessee](#)²⁵ have been successful in having their legislatures budget below their maximum amounts. This has then helped set forth tax reforms that will be sustainable. The point of budgeting responsibly is not just for spending less but improving tax systems and maintaining it over time. This was the lesson from the actions by Kansas about a decade ago where the legislature cut taxes but did not limit spending, which resulted in the legislature facing a budget deficit, so it raised taxes instead of spending less. **Louisiana should learn from these lessons and establish a Responsible Louisiana Budget** to hold initial state funds appropriations from growing no more than the average rate of population growth plus inflation over the last three years to help smooth out volatile growth in these two measures. But before we set that maximum amount, let's look at the state's budget.

Louisiana's State Budget

Figure 1 shows Louisiana's total budget from fiscal year (FY) 2014 to FY 2023. The total budget has increased by [63 percent over the past decade](#),²⁶ or by \$29 billion to \$47 billion. This translates to a spending burden of over \$10,000 per person, considering its population of 4.6 million, ranking Louisiana 22nd among all states. Although nearly half of the state budget comes from federal funds, Louisiana's taxpayers are the ultimate funders of the budget.

Figure 1 | Louisiana's Total Budget By Source of Funds



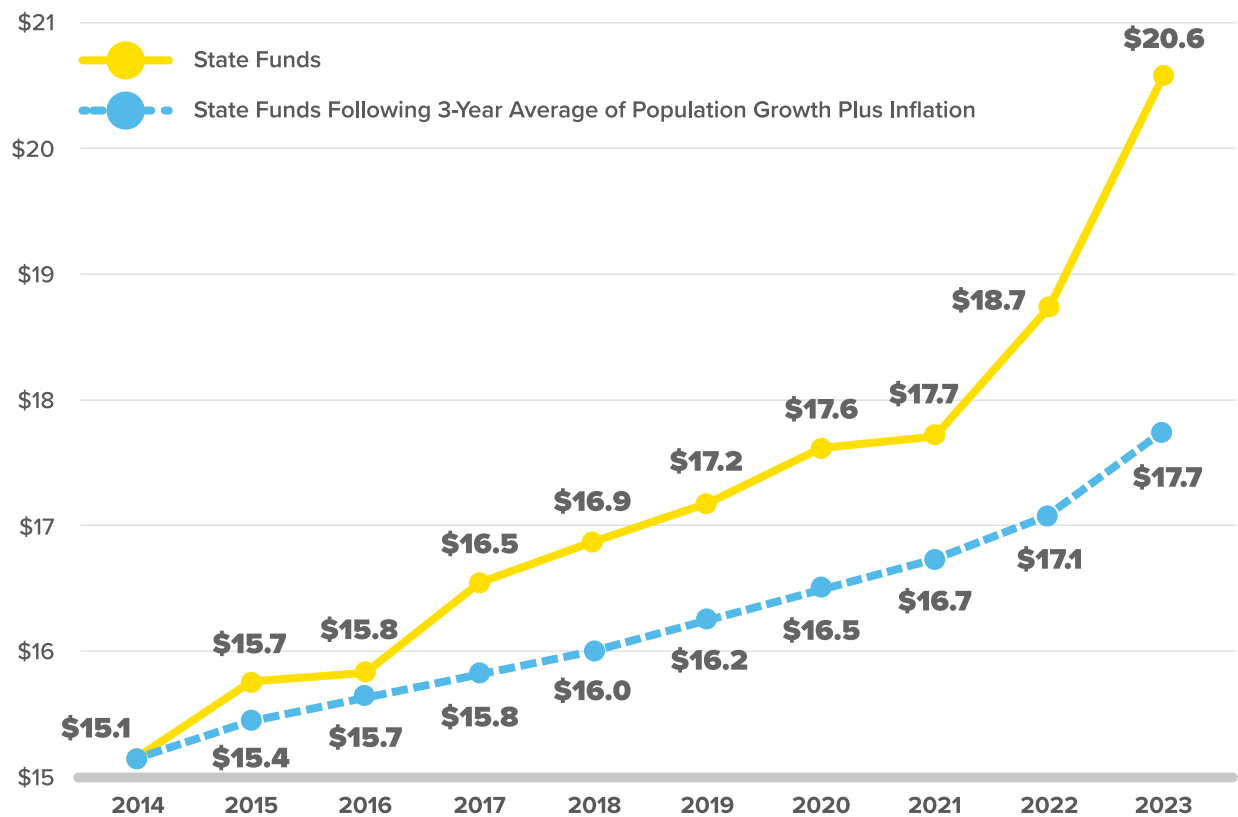
Source: Pelican Institute's "[Louisiana's Comeback Agenda](#)."²⁷

The Pelican State has seen increases in every area of its budget, ranging from a 21 percent increase in public safety to 130 percent growth in debt service. This is even with Louisiana's current tax and expenditure limit that is based on the average annual rate of personal income growth over the prior three years. But the limit has been highly ineffective as it set the base year then continued to have compounded

growth since then. Personal income is also not a reasonable measure for a spending limit as it is highly volatile, and it does not make for a sound fiscal decision for government to grow when people's incomes are rising. Instead, government should grow, if it grows at all, by less than the economy, which is why the rate of population growth plus inflation is the gold standard for a sound spending limit.

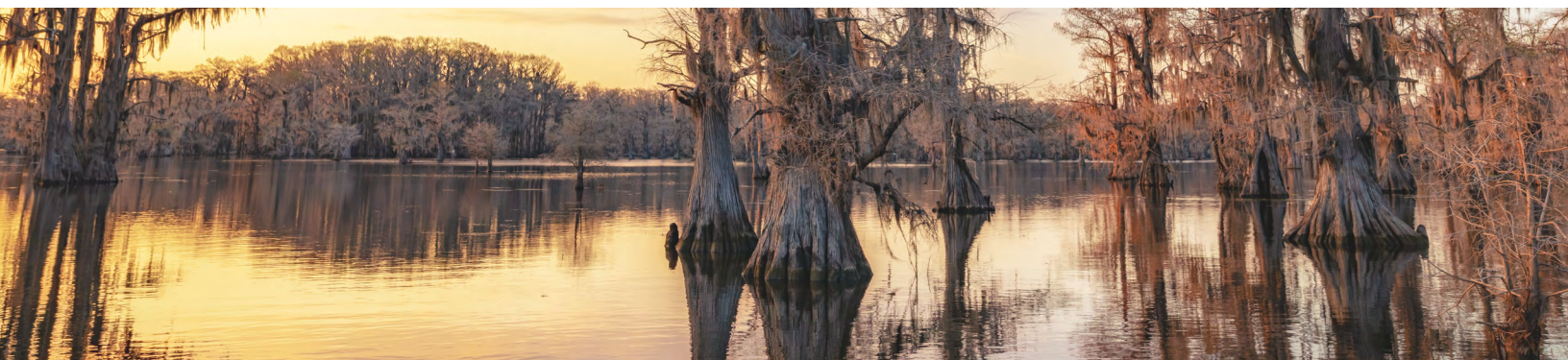
Figure 2 shows what appropriations of state funds without federal funds in statutory dedications looks like compared with if it has followed the rate of population growth plus inflation over the last decade.

Figure 2 | Louisiana's State Funds Appropriations Compared with Population Growth Plus Inflation



Source: Louisiana budgets and author's calculations.

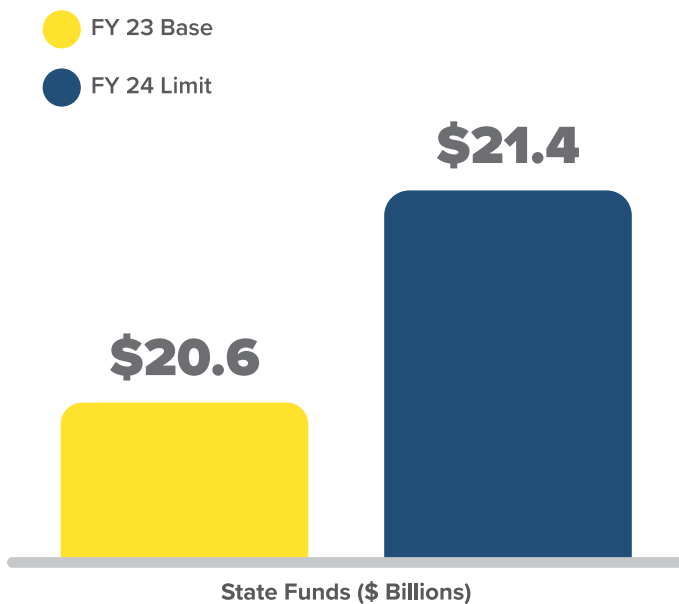
The widening gap between state funds and what the key measure would be over time is indicated by the 4.3 percent growth rate in state funds appropriations compared with just 1.9 percent growth rate of the 3-year average of population growth plus inflation from 2014 to 2023. This results in the state appropriating \$2.8 billion more in 2023 than under this limitation. And when the differences in appropriations are added up over the last decade, state funds were \$9.6 billion higher. This translates to Louisianans paying about \$2,000 more person or \$8,000 more for an average family of four than if the legislature had followed the RLB. While the \$2.8 billion in excess appropriations this fiscal year does not necessarily mean that the budget should be cut by that amount, it does mean that there is less opportunity for pro-growth tax reforms to make Louisiana more competitive and that appropriations should grow by much less than this key measure if it grows at all to get back on a responsible track.



Responsible Louisiana Budget

Given these factors, the Pelican Institute has calculated a maximum threshold for initial appropriations of state funds at \$21.4 billion for a Responsible Louisiana Budget.

Figure 3 | Responsible Louisiana Budget for Maximum Appropriations of State Funds for FY 2024



Source: Louisiana budget and author's calculations.

This is based on the past 3-year average for 2020 to 2022 of a negative 0.35 percent in population growth and positive 4.25 percent in U.S. chained consumer price index (CPI) inflation for a summed rate of 3.90 percent. By adhering to this maximum amount of state funds appropriations, Louisiana can better prioritize taxpayer dollars and have more opportunities for tax reform and relief so that the state will be in a better position to increase economic freedom, stop net out-migration of people and jobs, and set a path forward for the comeback of Louisiana.

Conclusion

The ultimate burden of government is how much it spends because it leads to higher taxes, inhibiting people from investing and innovating as they keep less of what they earn. Therefore, Louisiana needs responsible budgeting to ensure taxpayers' money is spent effectively and more money stays in their pocket for them to have more ways to flourish. By implementing these recommendations, along with others outlined in the Pelican Institute's [Comeback Agenda](#), the state can better preserve liberty, expand economic freedom, and find more ways that let people prosper.

Recommendations for Louisiana

In addition to appropriating state funds less than the Responsible Louisiana Budget, the state should assist in constraining the budget through reforming budgeting practices by following these guidelines:

1. Enact zero-based budgets so that the budget begins from zero each year in order to better set state priorities.
2. In conjunction with zero-based budgeting, the state should conduct regular performance audits of all programs, agencies, and departments to find efficiencies, waste, fraud, and abuse, and programs that are not meeting stated goals.
3. Eliminate budgetary silos that constrain the decision-making ability of lawmakers.
4. Restructure the state and local relationship, returning the decision-making to local lawmakers.
5. Refocus capital outlay to focus on essential state and local government projects and limit borrowing to a more sustainable level.
6. Finally, the state should strengthen the state's spending limit which will further limit the growth of the budget.

ENDNOTES

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- 2 James Madison Institute, The Conservative Florida Budget: Fiscal Year 2024
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- 4 Fraser Institute, Economic Freedom of North American, 2022
- 5 Fraser Institute, Economic Freedom of the World 2022
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- 7 Tax Foundation, 2023 State Business Tax Climate
- 8 Rich States Poor States, 16th Edition
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