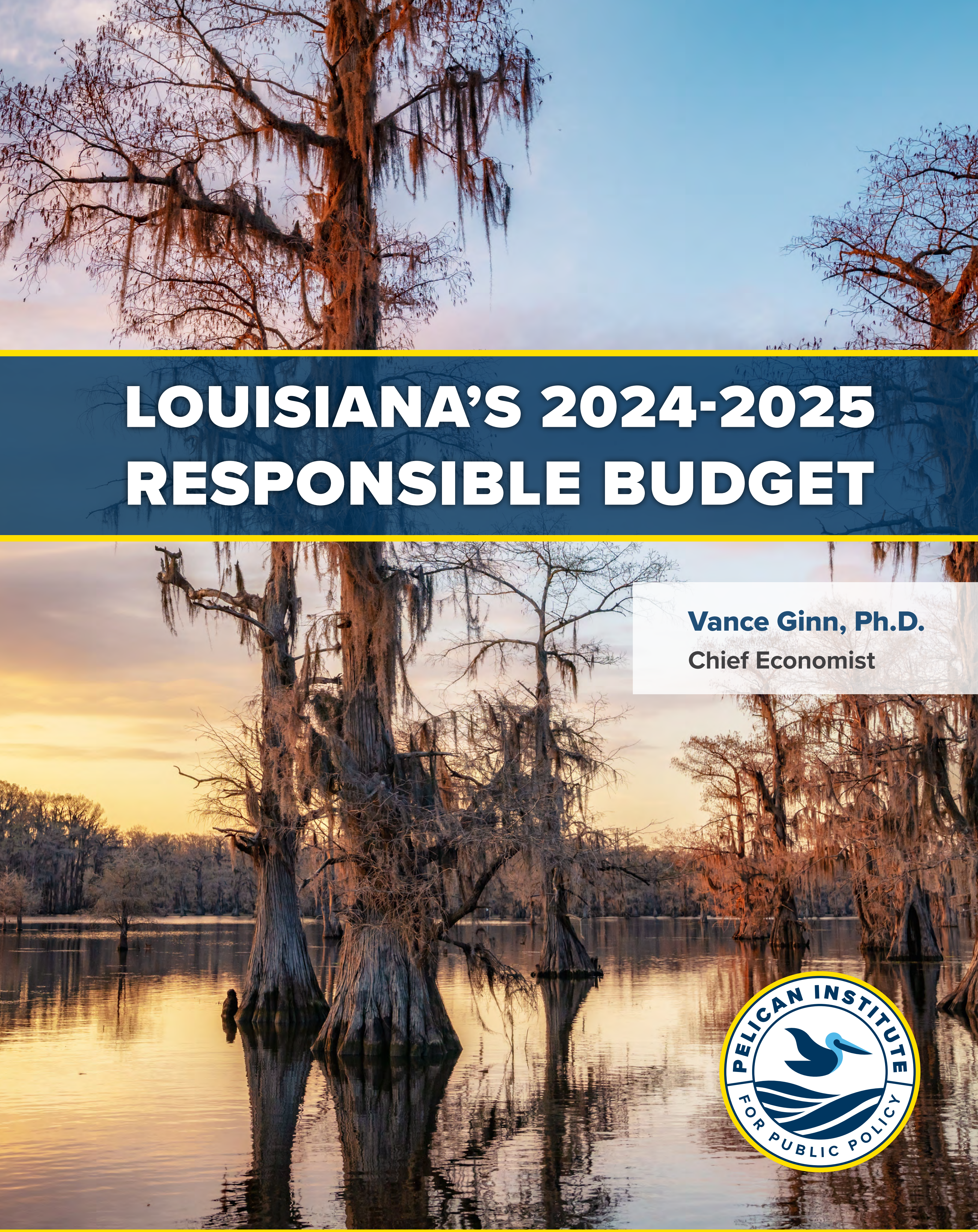

LOUISIANA'S 2024-2025 RESPONSIBLE BUDGET

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Introduction

The recipe for economic freedom has fewer key ingredients than you might think. It takes sensible regulations, low taxes, but most importantly, 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. This is based on measures of government spending, taxes, and labor market regulation.[1] The most economically free states have some of the most limited government spending, including the top five states: New Hampshire, Florida, Tennessee, Texas, and South Dakota. None of these states have a personal income tax, which should be Louisiana's goal, as outlined in Pelican Institute's recent tax reform report[2] that uses the responsible budgeting formula outlined here.

To stay competitive and 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[3] are the leaders in economic freedom, like Florida[4] and Texas,[5] which generally practices fiscal conservatism and supports 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.	FL	TX	LA	AR	MS	CA	NY
Economic Freedom of North America Index (2021)[6]	5th (World)	2nd 7.80	4th 7.64	20th 6.61	29th 6.01	35th 5.70	48th 4.27	50th 4.09
State Migration Trends, Net Migration (2022)[7]	--	1st +1.9%	4th +1.6%	48th -0.8%	17th 0.6%	44th -0.3%	41st -0.3%	50th -0.9%
State Business Tax Climate Index (2024)[8]	--	4th 6.84	13th 5.48	40th 4.59	38th 4.62	20th 5.30	48th 3.64	49th 3.57
State Economic Outlook (2023)[9]	--	9th	13th	26th	15th	22nd	45th	50th
State & Local Spending Per Capita (2022)[10]	$12,923	46th $10,228	37th $11,507	26th $12,451	50th $9,626	34th $12,032	4th $18,760	2nd $20,761
S&L Spending on K-12 Education Share of Income & Per Pupil (2023)[11]	3.6% $16,080	2.3% $11,773	3.9% $13,684	3.5% $12,993	3.2% $12,386	3.8% $11,929	3.2% $16,285	5.0% $30,282
S&L Spending on Public Welfare Per Capita (2021)[12]	$2,597	48th $1,524	42nd $1,741	10th $3,161	21st $2,617	29th $2,247	4th $3,870	1st $4,429
S&L Tax Burden Share of Income (2022)[13]	11.2%	11th 9.1%	6th 8.6%	12th 9.1%	26th 10.2%	21st 9.8%	46th 13.5%	50th 15.9%
S&L Property Tax Collections Per Capita (2020)[14]	$1,810	29th $1,541	11th $2,216	44th $914	48th $798	36th $1,167	15th $1,955	4th $3,118
Composite Cost of Living Index (2023:Q3)[15]	100	30th 101.0	18th 93.0	10th 90.7	7th 88.5	2nd 86.7	48th 136.4	47th 126.5
State Economic Performance (2011-21)[16]	--	1st	7th	50th	15th	37th	18th	31st
Avg. U-3 Unemployment Rate (2003-22)[17]	6.0%	5.6%	5.6%	5.9%	5.5%	6.9%	7.3%	6.2%
Avg. Labor Force Participation Rate (2003-22)[18]	64.0%	60.6%	65.2%	60.1%	59.8%	57.6%	63.5%	61.5%
Avg. Annual Nonfarm Payroll Growth (2003-22)[19]	0.6%	1.4%	1.8%	0.1%	0.8%	0.2%	1.0%	0.6%
Official Poverty Rate (2020-22)[20]	11.5%	13.1%	13.7%	16.9%	15.9%	17.8%	11.4%	12.4%
Supplemental Poverty Rate (2020-22)[21]	9.8%	12.7%	11.3%	10.9%	10.5%	12.5%	13.2%	11.9%

Notes. *Dates in parentheses are for that year or the average of that period. Data shaded in blue indicate "best," and in red indicate "worst" per category by state.*

Lessons from a Responsible State Budget Revolution

In the Federalist system, the states act as individual laboratories of experimentation and competition. The data in **Table 1** show which states Louisiana should emulate to grow and provide opportunity. Texas and Florida have been budgeting more responsibly over much of the last decade. In Texas, this coincided with Texas Public Policy Foundation's release of the Conservative Texas Budget[22] (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 all funds budget growth rate substantially (12 percent to 8.9 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 (9.5 percent). The latter decade had even less spending growth until the dramatic increase in the latest 2024-25 budget.[23] But even with this recent excessive growth in the budget, the burden of government spending has been falling in inflation-adjusted per person dollars, providing more opportunities for growth in the productive private sector.

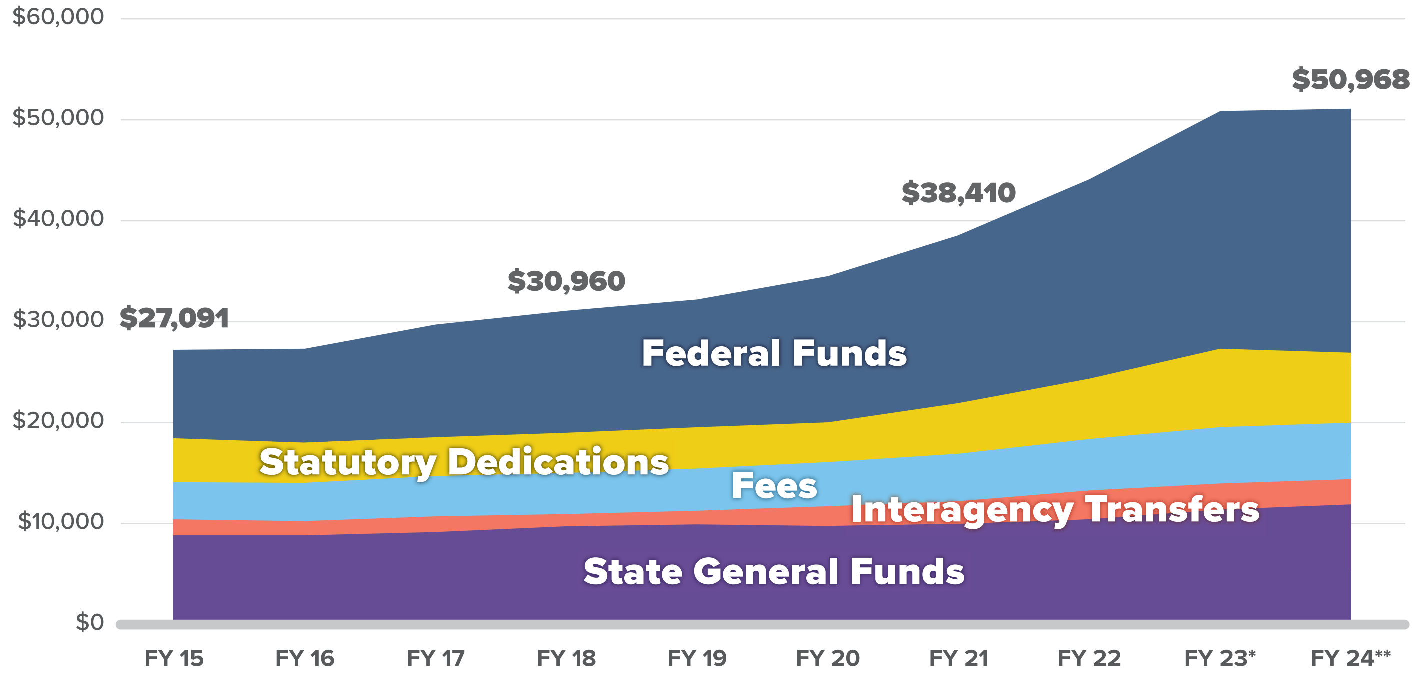
And while the legislature did not change the constitutional spending limit over this period, it did change it in statute in 2021 by making it closely aligned with the CTB. There are efforts now to change the expenditure limit in the constitution which will allow the resulting surplus dollars to be used for tax relief. Texas had a $33 billion surplus in 2023 and used part of it to provide school property tax relief since this is the largest tax burden in a state without a personal income tax.

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[24] 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. Other states like Iowa[25] and Tennessee[26] 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 Kansas where the legislature cut taxes but did not limit spending, which resulted in a budget deficit. Inevitably, Kansas had to raise taxes again to fix the deficit, instead of controlling spending. 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.

Louisiana's State Budget

Figure 1 shows Louisiana's total spending from fiscal year (FY) 2015 to FY 2024. The total budget has increased by 88.1 percent over the past decade,[27] or by $24 billion to $51 billion. This translates to a spending burden of about $11,000 per person, considering its population of 4.5 million. Comparatively, Louisiana has the 16th most state spending per capita among all states.[28] Although nearly half of the state budget comes from federal funds, Louisiana's taxpayers ultimately pay for the entire budget.

Figure 1 | Louisiana's Spending Growth by Source of Funds, FY 2015-24



$ Millions **FY 2023 Existing Operating Budget as of 12/01/2022. **FY 2024 Budget as Appropriated in HB 1 of the 2023 Regular Legislative Session.*

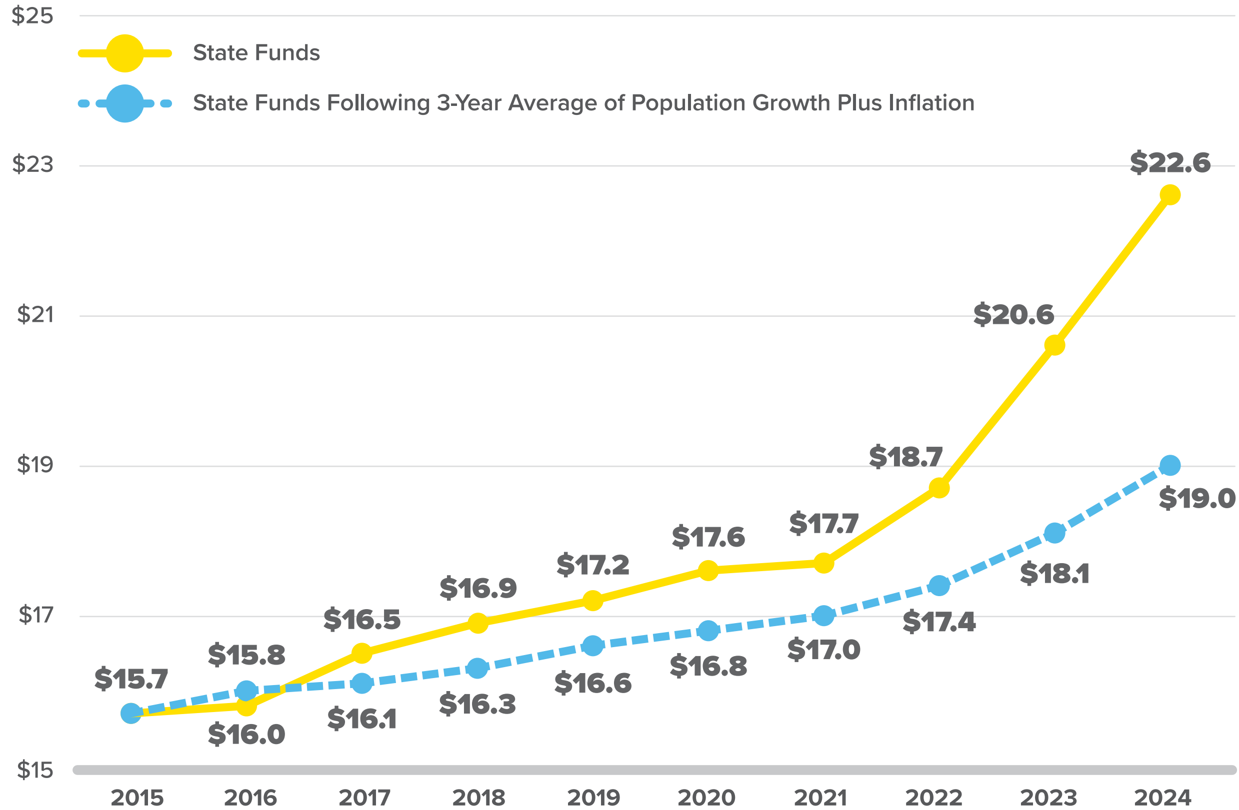
Source: *Pelican Institute's "Citizens' Guide to the FY24 Louisiana Budget."*

The Pelican State has seen increases in every area of its budget. 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 and then continued to have compounded growth thereafter. 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 the 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.[29]

While spending helps tell the picture of the budget after lawmakers have passed all appropriations and all final expenditures have been made, it is not available when lawmakers go into session every year. Spending is still a key budget metric to determine how much of a burden it is putting on taxpayers over time. Given spending is unavailable to lawmakers when they go into the appropriations process, initial appropriations from the prior session are available. They are useful for making initial appropriations in the current session. This is why the Pelican Institute created the Responsible Louisiana Budget to help give lawmakers guidance about the budget last session and this session.[30]

Figure 2 includes appropriations of state funds, which includes state general fund, fees and self-generated revenue, and statutory dedications. It also compares these state funds with what it would look like had lawmakers followed the rate of the state's population growth plus the U.S. chained-consumer price index measure of inflation over the last decade.

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



$ Billions

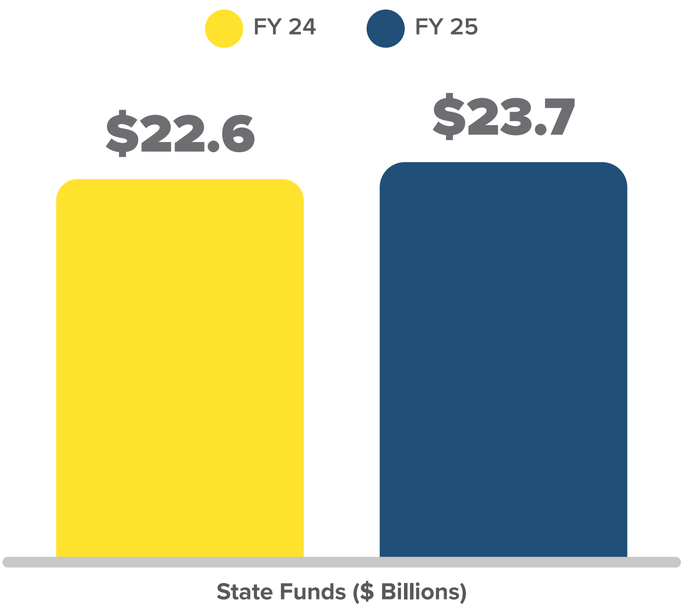
Source: Louisiana budgets and author's calculations.
Note: Federal funds that are in statutory dedications are not included.

The widening gap between current state funds spending and what the key measure would be over time is indicated by the 5.9 percent growth rate in state funds appropriations compared with just 2.1 percent growth rate of the 3-year average of population growth plus inflation from 2015 to 2024. This results in the state appropriating $3.6 billion more in 2024 than under this limitation. This means the government is much larger than the average taxpayer is able to afford and need of budget restraint is necessary for pro-growth tax reforms. And when the differences in appropriations are added up each year over the last decade, state funds were $10.3 billion higher. This translates to Louisianans paying about $2,300 more per person or $9,000 more for an average family of four than if the legislature had followed this limitation. Clearly, Louisiana can be more competitive by getting state appropriations on a responsible track.

Responsible Louisiana Budget

Given these factors, the Pelican Institute has calculated a maximum threshold for initial appropriations of state funds for FY 25 at $23.7 billion for a Responsible Louisiana Budget. This amount is based on the average annual rate of population growth plus inflation of 4.85 percent over the last three years.

Figure 3 | Responsible Louisiana Budget for Maximum State Funds Appropriations for FY 2025



Source: Louisiana budget and author's calculations.

Specifically, the past 3-year average rate from 2021 to 2023 was a negative 0.66 percent in population growth and positive 5.51 percent in U.S. chained consumer price index (CPI) inflation for a summed rate of 4.85 percent. By adhering to this maximum amount of state funds, Louisiana can better prioritize taxpayer dollars and have more opportunities for pro-growth tax reform 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.

Recommendations for Louisiana

In addition to appropriating state funds less than the Responsible Louisiana Budget, the state should assist in constraining the budget through practical reforms following these guidelines:

1. **Enact zero-based budgets so that the budget begins from zero each year to better set state priorities.**
2. **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 dedicated funds that constrain the decision-making ability of lawmakers.**
4. **Restructure the state and local relationship, returning the decision-making to local lawmakers where necessary.**
5. **Refocus capital outlay to focus on essential state and local government projects and limit borrowing to a more sustainable level.**
6. **Strengthen the state's spending limit which will further restrain the growth of the budget.**

Conclusion

The government's ultimate burden on taxpayers 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 pockets for them to have more ways to flourish. By implementing these recommendations, along with others outlined in the Pelican Institute's Comeback Agenda,[31] the state can better preserve liberty, expand economic freedom, and find more ways to let people prosper.

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