

Ten Principles of State Fiscal Policy

By Joseph L. Bast, Steve Stanek, and Richard Vedder, Ph.D.

Sound fiscal principles promote economic growth, protect citizens from uncertainty and excessive taxation, and help lawmakers deal with tough economic times.

1. ABOVE ALL ELSE: KEEP TAXES LOW

The evidence is clear and has been for many years: High taxes hinder economic growth and prosperity.

2. DON'T PENALIZE EARNINGS AND INVESTMENT

Taxes on earnings and investment income are particularly harmful to economic growth.

3. AVOID SIN TAXES

Taxes on specific goods and services are often unfair, unreliable, and regressive.

4. CREATE A TRANSPARENT AND ACCOUNTABLE BUDGET

Focus attention and resources on providing those services that are the core functions of state government.

5. PRIVATIZE PUBLIC SERVICES

Privatization is a proven way to reduce government spending while preserving or improving the quality of core public services.

6. AVOID CORPORATE SUBSIDIES

Subsidies to corporations and selective tax

abatement are questionable politics and bad economics.

7. CAP TAXES AND EXPENDITURES

A tax and expenditure limitation (TEL) protects elected officials from public pressure to spend surplus tax revenues during good economic times.

8. FUND STUDENTS, NOT SCHOOLS

States and cities that have experimented with school choice have seen gains in academic achievement.

9. REFORM MEDICAID

Spending on Medicaid can be brought under control without lowering the quality of care received by Medicaid patients.

10. PROTECT STATE EMPLOYEES FROM POLITICS

State and local governments should be prohibited from deducting funds used for political purposes from the paychecks of public workers.

Joseph L. Bast is president of The Heartland Institute. Steve Stanek is managing editor of Budget & Tax News. Richard Vedder, Ph.D., is distinguished professor of economics at Ohio University. This article is excerpted from "Ten Principles of State Fiscal Policy" published by the Heartland Institute (www.heartland.org/Article.cfm?artId19354).

