Florida's Fiscal Conservatism

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-Abstract-

After a century of government growth, at all levels of government and in all places around the world, many governments have found themselves fiscally stressed as growing expenditures have pressed against available revenues. As governments throughout the world grow, there is a tendency to view government growth as faster or slower, but the state of Florida offers an example of a government that has actually reduced real per capita government expenditures consistently for two decades, from the mid-1990s to the mid-2010s. Florida's real per capita state government expenditures are among the lowest in the nation, as is per capita state government employment. Meanwhile, there is little evidence that Floridians are receiving inferior government services when compared to other states that spend much more. After presenting some basic facts, this paper examines the fiscally conservative climate in Florida that has led to a complete halt in state government expenditure growth.

Introduction

The twentieth century was characterized by government growth at all levels of government. While government spending growth in the United States has slowed since the 1990s, governments continue to spend more than they collect in tax revenues, resulting in financial stress which is felt especially acutely at the state and local levels where governments cannot print their own money to finance their debts.[1] In an era where governments at all levels are strained by increased expenditures financed by debt, the State of Florida stands out as an example of fiscal conservatism and fiscal responsibility. Inflation-adjusted state government expenditures per person in 2020 are at the same level they were in the mid-1990s, so because of income growth are a shrinking share of income, and state government debt has declined substantially in the 2010s, albeit after a big increase during the Great Recession in the previous decade. At a time when governments at all levels are fiscally strained, Florida provides an example of fiscal restraint and responsibility.

Facts About Florida's Fiscal Conservatism

Figure 1 summarizes the main fact behind Florida's fiscal conservatism: Inflation-adjusted state government appropriations per person were at about the same level at the end of the 2010s as they were in the mid-1990s.[2] Appropriations per person in the 2019-20 budget were $4,583.72 (in 2020 dollars). Inflation-adjusted appropriations per person in 1994-95 were $4,727.95. State government expenditures were slightly lower in 2020 than they were 25 years earlier, after adjusting for inflation and population growth. In an era when government expenditures seem to continually rise everywhere, Florida offers a rare example of not just slow growth, but expenditure reduction.[3]

[Figure 1 about here.]

Because of income growth over the period, state government spending as a share of income has fallen from more than 11 percent in 1995-96 to 8.4 percent in 2017. Figure 1 shows that this has not always been the case. Appropriations were rising steadily until the mid-1990s before they leveled off for a quarter of a century. Inflation-adjusted appropriations per person were $2,828 in 1983-84 and rose to $4,728 in 1994-95, an increase of 67 percent in just over a decade. In light of that history, it is all the more remarkable that Florida has been able to hold the line on expenditures for a quarter of a century. For the United States as a whole, state government expenditures per person, adjusted for inflation, increased by 40.6 percent from 1994-95 to 2017-18.

Florida's local governments have not been as fiscally conservative as its state government. They have grown at about the same rate as the national average. When comparing total expenditures across states, it may be more appropriate to compare state and local expenditures because the ratio of state to state and local expenditures varies considerably across states. Spending in some states is much more centralized than in others. In 2015 Florida's state and local expenditures per person ranked fourth from the lowest among states, with Arizona, Tennessee, and Georgia the only states that spent less.[4] In 1997, Florida's state and local expenditure was 92.8 percent of the national average. By 2015 Florida's state and local expenditure was 80 percent of the national average. The national average of inflation-adjusted state and local government spending per person rose by 29.6 percent from 1997 to 2015 while it rose by 11.8 percent in Florida. Inflation-adjusted per person state government expenditure in Florida fell from $4,400 to $4,231 during that period, so all of the increase in Florida's state and local expenditures was due to an increase in local expenditures. The approximately flat level of state government expenditures was not due to a shift of expenditures from the state to the local level. Combined, state and local expenditures grew less than half as much as the national average.

Florida also has been fiscally conservative in its issuance of debt. Figure 2 shows inflation-adjusted gross state debt through 2017. The figure shows a sharp increase in debt as the housing bubble peaks and then bursts, but then a sharp decline after 2008. Figure 1 shows a peak in appropriations around the same time as the state (and nation) slid into recession. Florida's state government, which receives substantial revenue from documentary stamp fees that are assessed when real estate is sold, suffered because of the decline in real estate prices and sales. But Figure 2 shows that the state did not allow the resulting increase in debt to linger. Debt in 2017 was at about the same level it was in 2005.

[Figure 2 about here.]

Florida's $28.82 billion in state government debt in 2017 comes out to $1392 per person. Five states have lower levels of debt per person than Florida, placing it among the lowest states in debt, Florida's state government pension plan was 79 percent funded in 2016, ranking it 13th among states. More than half of the states had pension plans that were less than 50 percent funded. Unfunded pension liabilities are a major source of fiscal stress for state governments. Florida also ranks fourth from the bottom in state government employees per capita.[5]

The basic facts about Florida's fiscal conservatism are documented in these two graphs. Florida's state government has not increased inflation-adjusted expenditures per person for a quarter of a century, and has held the line on state government debt. Figure 1 was composed from the data that appears in Table 1. The far-right column shows the annual percentage change in inflation-adjusted expenditures per person, which documents the substantial increases in the budget prior to 1996: 8 percent in 1996-97 7 percent in 1998-99; more than 10 percent in 1990-91, and 7 percent in 1993-94. The trend changes abruptly in 1995-96 with two consecutive decreases and a leveling off of expenditures afterward. The 2006-07 budget year stands out because of the 12 percent increase, but it is followed by two consecutive years of 8 percent decreases. One other thing that stands out is the final year in the table, which saw an increase of almost 8 percent. At this point, it is unclear whether that indicates the beginning of a new trend or a one-time increase.

[Table 1 about here.]

The 2019-20 fiscal year is noteworthy because it is the first year of Governor Ron DeSantis's term. The budget is a product of political decision-making, so it remains to be seen whether a change in political leadership will result in a change in Florida's fiscally conservative state budgeting.

Major Budget Priorities

The three areas of education, Medicaid, and transportation constitute more than 70 percent of the state's budget, and represent areas that are high priorities in state spending. Table 2 shows a history of these three areas as a percentage of Florida's total state government budget. One thing that stands out in looking at these figures is that Medicaid has taken an increasing share of the state's budget over the decades. Another thing that stands out is that as Medicaid expenditures have increased as a share of the state's budget, these other two categories have not decreased.

[Table 2 about here.]

Medicaid expenditures were slightly more than 10 percent of Florida's state government expenditures in the 1990/91 fiscal year, and nearly tripled to 30 percent in the next two decades. Medicaid expenditures increased by 47 percent from the 1990/91 fiscal year to the 1995/96 fiscal year—a period of only five years. It would be easy to conclude that the increase in Medicaid expenditures during that period was the major cause of total expenditure increases over that period that are shown in Figure 1. Yet total expenditures leveled off after the 1995/96 budget year, even as Medicaid expenditures increased by 96 percent to 30 percent of the state budget by 2010/11. Despite an increasing share of the state budget going to Medicaid, inflation adjusted total state expenditures per person did not rise.

The fact that the state government was able to hold the line on total state spending even as the budget was being squeezed by rising Medicaid expenditures reinforces the evidence on Florida's fiscal conservatism. Meanwhile, despite rising Medicaid expenditures, spending on education and transportation were not reduced as a share of the budget. Education expenditures fluctuated around 27 percent of state expenditures through most of the history shown in Table 2, and transportation expenditures have remained around 12 percent.

Note that when Medicaid expenditures showed substantial increases from 1990/91 to 1995/96, not only did total expenditures rise, education expenditures were crowded out and fell from 25.4 percent of total spending to 23.8 percent. As Medicaid spending continued to rise through 2010/11, not only did total spending level out, education bounced back to 28.2 percent of the budget—higher than it was in 1990/91. It has remained at about that level since, although with a slight decrease in the most recent fiscal year shown in the Table. These figures show that Florida's state government has been able to hold the line on expenditure increases, even when pressured by rising Medicaid expenditures. The major spending categories of education and transportation have not seen spending cuts, despite the increases in Medicaid spending.

These figures also show the threat that Medicaid expenditures represent to state government budgets, in Florida and in all states. Medicaid expenditures rose from slightly more than 10 percent of state government spending in Florida in 1990.91 to about a third of state government expenditures in 2017/18. Despite that increase, Florida remains in good fiscal condition, but many states face serious fiscal problems. Controlling Medicaid expenditures must be one of the things states need to do to get their finances under control.

State Government Pension Liability

One of the fiscal challenges facing many states is unfunded state government pension liabilities. According to the Pew Charitable Trusts (2018), Florida is in relatively good shape with regard to its pensions, although the state's pensions are not fully funded. Florida's state government pension plans were 79 percent funded in 2016, according to Pew, compared to a national average of 66 percent. South Dakota and Wisconsin stand out in this category because their state government pension plans are approximately fully funded. Five states have pension plans that are less than 50 percent funded, with Kentucky, at 31 percent and Illinois at 36 percent at the bottom. Another eight states have pension plans less than 60 percent funded, so 13 states in total are funded at less than 60 percent.

Those states face additional budgetary challenges because in addition to having to meet current expenditures, they will have to also pay for these unfunded liabilities in the future, unless they default on their pension promises. While Florida could improve in this area, the state is above the national average and far from facing a pension crisis.

One thing Florida has done to try to limit its pension liabilities is establish an optional "investment" plan as an alternative to the state's defined benefit pension plan. The investment plan is a defined contribution pension plan that leaves the state with no unfunded liabilities for pensions in that plan. The state's defined benefit plan, as is the case with most states, pays retirees a pension based on their salaries when they were working and the length of time they were employed and enrolled in the plan. States have run into pension funding problems because they have not set aside enough money to pay the promised pensions, leaving unfunded liabilities. Florida's recently-introduced defined contribution plan puts money into an investment account for those who participate, and their pension amounts are determined by how much is in their accounts when they retire. There is no unfunded liability.

There has been some effort on the part of legislators to require that all new hires enroll in the defined contribution plan, but they have not been successful and new hires have the option of enrolling in either plan. Most choose the defined benefit plan, so at this point, the introduction of the defined contribution plan has had a minimal effect on Florida's unfunded pension liabilities. Because the legislature has a long history of fiscal conservatism, one would expect continuing attempts on the part of the legislature to push more state employees—and maybe all of them—into the defined contribution plan.

While Florida is not facing a crisis in unfunded pension liabilities, a move toward defined contribution plans rather than defined benefit plans is something all states should consider to gain control of their pension liabilities. The private sector has made major moves in this direction and governments have been slow to follow. The problem with defined benefit plans is that current legislatures have a substantial incentive to offer increasingly generous pension benefits without raising contributions or taxes. Doing so promises spending in the future, when current workers retire, so costs nothing now and passes on the liability to future legislatures, whereas pay increases take money out of the current budget. Politically, it is tempting to offer higher pensions, which costs nothing now, rather than pay increases, leading to the crisis of unfunded pension liabilities that many states face. Defined contribution pension plans overcome this problem, because pension funding occurs in the current budget year, rather than being a promise to pay in future years.

Florida's Sales Tax

Because Florida is one of a few states that does not have a personal income tax, Florida's state government relies heavily on its sales tax as the state's major source of state tax revenues. The state sales tax rate is 6 percent, and local governments have the option of adding a local option sales tax which raises the rate in most parts of the state (but does not generate additional state revenues). While intended as a retail sales tax, many retail sales are not taxed (groceries, medical supplies, and rent payments are examples), but many no-retail sales are (office equipment and building supplies are examples). Florida is not unique in this regard. All states exempt some retail purchases and tax some non-retail purchases, as Ring (1989) has noted.

One on-going issue in Florida politics is whether the sales tax should be extended to services. When it was originally implemented, the sales tax was described as a tax on the retail sale of tangible goods. While the tax base has been extended to some services by specifically legislating that those services be taxed (parking services and skybox rentals are two), broadening the tax base to include all services has been a controversial issue for decades. In 1987 then Governor Bob Martinez pushed a bill through the legislature that taxed all services, including non-retail professional services like legal services, accounting services, advertising, and consulting services, as Hellerstein (1988) describes. The tax was met with considerable opposition, resulting in its repeal that same year. As a compromise, the state sales tax rate was increased from 5 percent to 6 percent, where it has remained for more than three decades.

Despite not having a personal income tax, Florida's sales tax rate is moderate compared with most states. Fifteen states have higher state sales tax rates, and when including allowable local option sales taxes, 27 states have higher combined state and local sales tax rates. This is further evidence of Florida's fiscal conservatism.

One issue many states are grappling with is whether to, or how to, apply sales tax to the on-line purchases made by the state's residents. One possible way to deal with this is addressed in the Streamlined Sales Tax Project (SSTP), which is a proposed multi-state agreement in which states that participate in the SSTP require sellers in their states to remit sales taxes on purchasers from other participating states, as discussed by Einav, Knoepfle, Levin, and Sundaresan (2014) and Bruce, Fox, and Luna (2015). As of 2019, 23 states had joined the SSTP, but Florida was not among them—yet more evidence of Florida's fiscal conservatism.

States that join the SSTP obviously stand to gain revenues, and strong support for the SSTP comes from business lobbies who want their out-of-state competitors to have to collect sales taxes, as in-state businesses do. But for in-person sales, sales taxes are collected in the seller's jurisdiction, not the buyer's. A California resident who goes to New York and makes a retail purchase pays New York sales tax, not California sales tax. Why should it be different for on-line sales? Why should the Californian who buys from a New York seller be required to pay California sales tax if the purchase is made on-line but New York sales tax if the purchase is made in person? The answer is that business lobbies do not want to have in-state businesses taxed; they want taxes placed on their out-of-state competitors.

Arguments like the one in the previous paragraph have little relevance to actual tax law, which is designed based on political pressures rather than economic reasoning (even though economic reasoning can play a role in shaping political pressures). Business interests lobby to have taxes placed on their competitors—in-state sellers lobby to place taxes on out-of-state sales, even though for most sales the tax is paid in the seller's jurisdiction, not the buyer's. Florida's resistance to the SSTP lowers taxes, and thereby lowers government expenditures, for Florida residents and is another example of Florida's fiscal conservatism. More generally, Florida's relatively moderate sales tax rate—especially considering the absence of a personal income tax—its reluctance to broaden the sales tax base, its absence of a rate increase in more than three decades, and its reluctance to join the SSTP all contribute to the state's fiscal conservatism.

Florida's Intangible Property Tax

Also worth noting is Florida's intangible property tax, established in 1972 as a tax on the holdings of stocks, bonds, and other intangible assets. Bank accounts were excluded from the tax base. The rate varied over the years from 50 cents per $1000 of intangible property to $2 per $1000. The tax was understandably unpopular with Florida's fiscal conservatives, and when Jeb

Bush was elected governor in 1998, he referred to the tax as the “seniors and savers tax,” and advocated its repeal. The tax was repealed in 2007, just prior to the end of Bush’s second term as governor. The repeal of this tax, even as inflation-adjusted state government expenditures per person had been approximately constant for more than a decade, is yet more evidence of the state’s fiscal conservatism. While Governor Bush advocated the repeal of the tax, he did not have the power to do so himself, but did so with the cooperation of Florida’s fiscally conservative legislature.

Party Politics and the State Budget

Florida has a reputation for being a swing state, not solidly leaning toward either the Republican or Democratic party. There are slightly more registered Democrats than Republicans, but 28.7 percent of voters are registered as independents or affiliated with minor parties. Florida was a solidly Democratic state in 1983 where the data in Table 1 begins, both in terms of those who held office and in terms of registered voters, but a decade later began its shift toward the Republican party. Despite being a swing state in national elections, Florida has had a Republican governor and both houses of the state legislature have had a Republican majority since 1998..

The shift away from the Democratic party mirrors what was happening in other Southern states. The South was solidly Democratic prior to the 1980s, but Southern Democrats were always more fiscally conservative than Northern Democrats. Democratic Governor Bob Graham was in office during the first years in the Table 1 data with a solidly-Democratic legislature behind him. After being term-limited out of office, he was replaced by Bob Martinez, elected in 1986, who was Florida’s first Republican governor since reconstruction. The legislature remained Democratic, and some missteps on tax policy resulted in his being a one-term governor,[6] replaced by Democratic Governor Lawton Chiles who was elected in 1990 and served through 1998.

During Chiles’s terms in office the legislature flipped from Democratic to Republican, with the House becoming majority Republican after the 1994 election and the Senate following two years later. Republican Jeb Bush was elected governor in 1998 and both the governorship and both houses of the legislature have remained solidly Republican since.

One could make a (weak) case that Florida's switch from a solidly Democratic state to a solidly Republican one was a factor in its fiscal conservatism, but several counterarguments weigh against the case. First, this party switch is common to Southern states in general, not just Florida, but other Southern states have not seen the same fiscal conservatism. Second, the Florida electorate remains divided. Florida voters have supported the winning presidential candidate in nine of the last 10 presidential elections.[7] But Republicans tend to be more fiscally conservative than Democrats, so it is likely the case that if the state government was not controlled by Republicans, the state would not have gone a quarter of a century without a long-term increase in expenditures.

Factors Supporting Fiscal Conservatism

Several factors point toward reasons why Florida has been so fiscally conservative for the quarter of a century preceding 2020. The previous section considered the effect of having a Republican governor along with a solidly Republican legislature, and while Republicans tend to be more fiscally conservative than Democrats, Florida is not the only solidly Republican state, and there are more registered Democrats than Republicans in Florida. The general perception of Florida as a swing state suggests that while a Republican state government is likely a factor, it cannot be considered a complete explanation.

Another factor may be that Florida has many retirees. Older people may tend to be more fiscally conservative, and also may have lower demands for state and local government services, even though they are high consumers of federal government services, such as Social Security and Medicare. Arizona and Nevada, two other states that attract a substantial number of retirees, along with Florida are three of the five states that have the lowest state and local government spending.[8]

Florida has no state or local personal income tax, which is another factor that might contribute to its fiscal conservatism. Personal income taxation is prohibited in the state's constitution, which requires 60 percent voter approval to amend, so it is very unlikely that Florida will ever tax personal income. The very remote possibility that an income tax amendment could reach the 60 percent voter threshold means that there is very little interest, even from those who would like a state income tax, to put an amendment on the ballot. Deprived of that revenue source, the state government might find it more difficult to raise revenue, which helps keep government expenditure low.[9]

While the lack of a state income tax seems like a plausible factor leading to fiscal conservatism, seven states have no personal income tax, and while four of those states (Florida, Nevada, South Dakota, and Texas) are in the lowest half of states in state and local government expenditures per person, three (Alaska, Washington, and Wyoming) are in the highest half. The lack of a state income tax does not necessarily lead to fiscal conservatism, but surely it plays a role, in that when people migrate from one state to another, fiscally conservative individuals are more likely to favor states without income taxes.

Another factor that Holcombe (2015) suggests may play a role is legislative term limits. Florida places a limit of eight years on Senators, Representatives, and the governor. The limit says that if a legislator has been in that office for eight years, that person's name cannot appear on the ballot for that office in the next election. It does not prevent term-limited legislators from running for other offices, and does not prevent them from running again in a future election. But it does prevent them from running again from the office they currently hold if they have been in office for eight years.

Legislative term limits were enacted by a citizen initiative constitutional amendment that passed in 1992, when the term limit clock began running. That meant that legislators already in office could continue to run and serve in the office until 2000. Note, referring to Figure 1, that prior to term limits, there was an upward trend in inflation adjusted state government expenditures per person, and that the leveling off in expenditures seems correlated with the passage of term limits. While this is suggestive, California also has term limits and is among the least fiscally conservative states. Term limits alone do not bring with them a fiscally conservative state government.

As just noted, Florida also allows its state constitution to be amended by citizen initiative, one of eight states to do so.[10] Two others are California and Massachusetts, states that cannot be viewed as fiscally conservative, so again, the availability of citizen initiatives to amend the state constitution cannot be the determining factor that pushes a state to fiscal conservatism. Florida is the only state that has (1) no state income tax, (2) term limits on its legislature, and (3) the availability of citizen initiatives to amend its constitution. These are all factors that might push a state government toward fiscal conservatism, but these factors may just coincidentally line up that way. These institutional factors, combined with a solidly Republican state government, might tilt Florida in that direction.

Term Limits and Political Organization

The Speaker of the House and President of the Senate have a substantial amount of power in Florida: more than is the case at the federal level, for example. All staff positions in the legislature technically report to and are employees of those leaders in their respective chambers, and those leaders have control of the legislative agenda, so bills from legislators will only be considered if the Speaker or President decide to hear them.[11] It is barely an exaggeration to say that when legislation is being considered, negotiations are among three individuals: the governor, Speaker of the House, and President of the Senate.

Legislators, including the Speaker and President, face term limits, and the custom in both Houses has been to appoint the Speaker and President in the last two years of their terms. Representatives are elected for two-year terms and Senators for four-year terms, so term limits mean that Representatives serve at most for four terms and Senators at most for two. Future Speakers and Presidents serve for six years as members and for their final two years as the heads of their respective chambers.

The members who will eventually lead their chambers are typically chosen well before their terms as Speaker or President, which illustrates one reason term limits make a difference. Reelection is viewed as enough of a sure thing that legislators confidently choose their next leaders of their chambers even when those leaders must be reelected to the legislature to serve their final terms as leaders.

Once in command of their respective chambers, they know they will be term limited out of office once their current terms end, so there is no pressure on them to be reelected, and if they were driven even in part by their ideologies to run in the first place, there is nothing standing in the way of their acting to further their ideological views in their final terms. And with term limits, legislators know when they are elected that they will only be in office for eight years, so they are not looking at their current positions as possible lifetime occupations. Once their leadership positions are over, they can run for a different office or move into the private sector.

The solid Republican majorities in both Houses tend to choose members with conservative ideologies to lead their chambers, so a combination of conservative values and the absence of electoral pressures can push leaders who already have fiscally conservative inclinations to resist compromising on budgetary issues. They will not lose their leadership positions and have no concerns about reelection, so members who want to pad the budget with pork barrel projects are in a weak bargaining position relative to the leaders in their chambers.

Land Use Policy in Florida

A conservative ideology tends to favor smaller government, and recent land use policy in Florida has reflected this conservatism as well. Florida was one of the leading states in state-wide growth management and land use policies when the state passed its Growth Management Act in 1985, which required every local government in Florida to draw up a comprehensive plan consistent with the state government's comprehensive plan.[12] Plans were to be reviewed by the state's Department of Community Affairs to determine if they conformed with the requirements of the Act. The Act gave local governments a five year lead time, so the first local plans were submitted to the state in 1990, and many of them were rejected. The view held by some was that the Department of Community Affairs was using criteria that went well beyond what the Act specified to reject those plans, while others applauded the Department's strict enforcement to manage the state's rapid growth.

The 1985 Act was passed when the state government was solidly Democratic, with a Democratic governor and Democratic majorities in both houses of the legislature. Its implementation was occurring as the state government was shifting from Democratic to Republican, which may have led to some dissatisfaction with the state government's heavy-handed role In addition, some aspects of the Act were leading to counterproductive results according to the Act's proponents, who sought amendments to it.[13] The Act was amended several times, always bringing with it some controversy.

When Rick Scott was elected governor in 2010, one of the first things he did when assuming office in 2011 was to abolish the Department of Community Affairs, and along with it, state-wide land use planning. Florida had gone from being one of the leaders in state-wide land use planning to having none at all. The demise of state-wide land use planning is consistent with a conservative attitude toward government that has occurred along with Florida's fiscal conservatism.

Florida still has a substantial amount of land use planning, because in the quarter century during which state-wide land use planning was in effect, local land use planning bureaucracies were created to comply with the state's regulations. Local governments now have their own growth management departments that were created as a result of the 1985 Act, and that have remained after state-wide land use planning was abolished. In addition, local governments coordinate their efforts through regional development councils. These local bureaucracies are the legacies of the state's efforts and land use planning, so government land use planning bureaucracies remain active in Florida, but not at the state level.

Florida's push toward limiting the reach of state government with regard to land use policy suggests a conservative government consistent with its fiscal conservatism. This points toward a state government that has, for a quarter of a century, favored limited government in many dimensions. Seen in this way, Florida's fiscal conservatism is one component of a more generally conservative state government.

Conclusion

This paper discusses the fact, shown in Figure 1, that for a quarter of a century, dating back to 1995, Florida's inflation-adjusted state government expenditures per person have been approximately constant. In an era when government spending growth is the norm, a government that has had no spending growth in a quarter of a century is noteworthy. As Figure 1 also shows, the decade prior to 1995 showed the steady growth in government expenditures that has been the norm for most governments, most of the time, since the beginning of the twentieth century. If readers take one thing away from this paper, it should be simply that this has happened. Government growth is not inevitable.

The paper further supported that simple fact by providing evidence of the state's fiscal conservatism in several other dimensions. Florida has no personal income tax, has not increased its sales tax rate in three decades, and has kept the sales tax base approximately unchanged, although there is some tinkering with the base in every legislative session. Florida has repealed its intangible property tax, has not added other taxes to its tax portfolio, has an adequately funded (though not fully funded) state pension system that is better funded than the average state, and has been conservative, in the sense of supporting limited government, in other areas beyond just its fiscal conservatism. A second take-away from the paper is that the absence of state government expenditure growth has not been an accident, and is not due to failed attempts to boost the state's expenditures. It has been the product of a fiscally conservative government.

The paper speculates on reasons why Florida's state government has been so fiscally conservative for a quarter of a century, and why it has been successful at holding the line on state government expenditures. Speculation is the operative word here. There are many factors that point toward reasons the state government has been fiscally conservative, but it is unclear how much any of these factors have contributed, individually or together, to produce a fiscally conservative government.

Legislative institutions may play a role. With legislative term limits, people who compete for those offices know they can only hold those positions temporarily, which might affect both who chooses to run for seats in the state legislature, and their attitudes toward government after they are elected. Since the establishment of term limits, both Houses of the legislature have been led by individuals in their final two years of their eight-year maximum terms, so they have no concerns about opposition from other legislators or about reelection (although they may choose to run for other offices). Further, the Speaker of the House and President of the Senate are very powerful in Florida, so it is not much of an exaggeration to say that state government policy is dominated by negotiations among three individuals: the Speaker, the President, and the governor (who is also term-limited).

In addition to these institutional factors, while Florida is considered a swing state nationally, during the quarter of a century in which the state government has been so fiscally conservative, the legislature and the governor's office have been solidly Republican. Add to this the substantial population of retirees in the state and the fact that fiscally conservative state is likely to attract fiscally conservative in-migrants and there are good demographic reasons why Florida might lean toward fiscal conservatism.

A number of factors might be behind Florida's fiscal conservatism, and while some were considered here, the causal factors remain an open question. But it is clear that Florida's fiscal conservatism over a quarter of a century has been a choice made by Florida's legislature and governors, and it is remarkable that in an era of government growth, Florida stands out for its history of a quarter of a century in which inflation-adjusted state government expenditures per person have not grown.

Figure 1

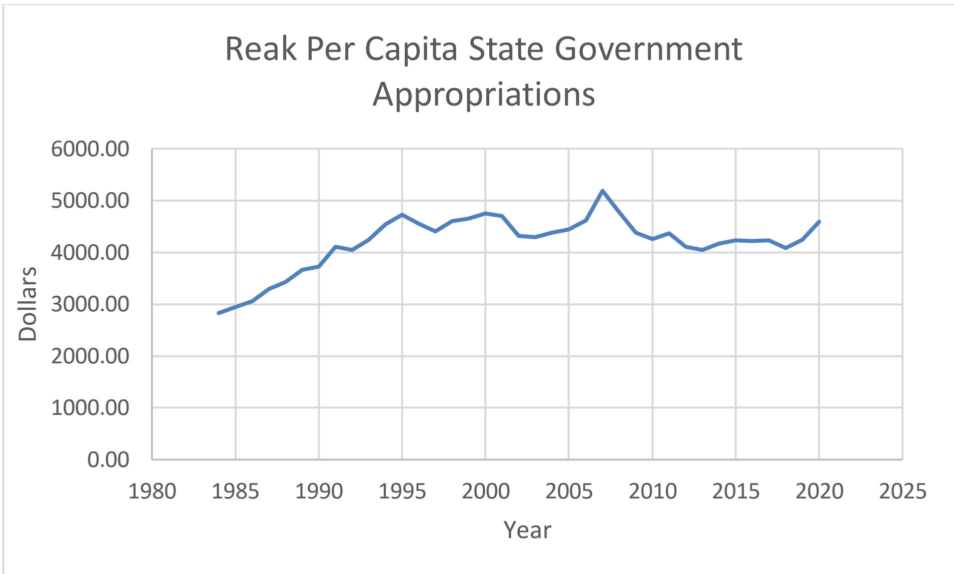

Figure 2

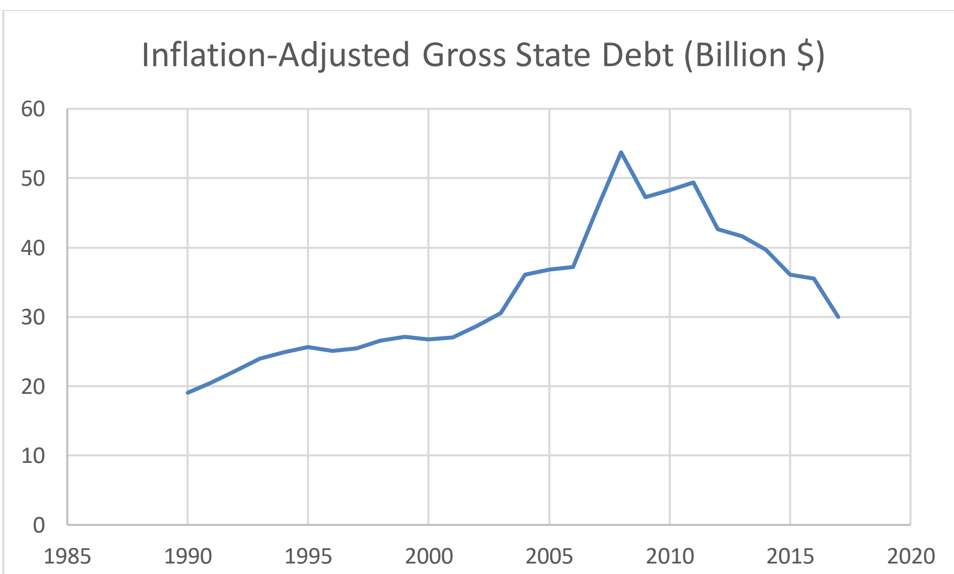

Table 1

Florida's State Government Appropriations

Year	Appropriations (Billion $)	Real Per Capita Appropriations	Annual Percent Change
1983-84	11.9	2828	
1984-85	13.3	2951	4.35
1985-86	14.7	3054	3.48
1986-87	16.6	3297	7.98
1987-88	18.5	3427	3.95
1988-89	21.3	3667	6.99
1989-90	23.2	3729	1.68
1990-91	27.7	4107	10.15
1991-92	28.9	4045	-1.50
1992-93	31.7	4244	4.92
1993-94	36.5	4542	7.01
1994-95	38.8	4728	4.10
1995-96	39.1	4556	-3.64
1996-97	39.8	4400	-3.42
1997-98	43.3	4605	4.66
1998-99	45.4	4656	1.11
1999-00	48.7	4755	2.13
2000-01	51.0	4703	-1.10
2001-02	48.5	4314	-8.27
2002-03	50.3	4287	-0.62
2003-04	53.5	4381	2.18
2004-05	57.3	4441	1.37
2005-06	63.1	4619	4.02
2006-07	73.9	5188	12.30
2007-08	71.5	4772	-8.01
2008-09	66.2	4381	-8.20
2009-10	66.5	4256	-2.84
2010-11	70.5	4373	2.73
2011-12	69.1	4110	-6.00
2012-13	70.0	4042	-1.67
2013-14	74.1	4166	3.06
2014-15	77.0	4231	1.58
2015-16	78.7	4217	-0.34
2016-17	82.3	4234	4.13
2017-18	82.4	4083	-3.58
2018-19	88.7	4248	4.04
2019-20	99.1	4584	7.91

Source: Appropriations compiled from annual budget reports in the *Tallahassee Democrat*. Real Per Capita Appropriations and the Percentage Change were calculated by the author using population data from the Census Bureau and CPI statistics from the Bureau of Labor Statistics.

Table 2

Florida's Education, Medicaid, and Transportation Expenditures as a Percentage of Total State Government Expenditures

Year	Education	Medicaid	Transportation
2017/18	26.7	32.1	12.8
2016/17	28.1	33.1	11.9
2015/16	28.4	32.2	12.1
2010/11	28.2	30.0	9.4
2005/06	27.6	23.8	12.9
2000/01	28.2	15.7	13.0
1995/96	23.8	15.3	11.9
1990/91	25.4	10.4	7.3

Source: National Association of State Budget Officers

Endnotes

[1] Technically, the federal government does not print its own money either. The Federal Reserve Bank creates new money by buying US government bonds, which amounts to the same thing.

[2] Florida's state budget is stated as a level of appropriations rather than expenditures, but appropriations are a close approximation for expenditures. They are not identical because money is sometimes appropriated from one fund to another, and the budget document is opaque enough that it is not clear to anybody how much this is. The consensus is that it is small enough that appropriations is a good measure of expenditures.

[3] Taking a more global perspective, many nations have had declines in government spending as a share of GDP since the 1990s, including the "big-government" Scandinavian countries and (not surprisingly) Russia. Even in the United States, federal government spending as a share of GDP is in the neighborhood of where it was in the early 1990s. Holcombe (2019) discusses some details.

[4] Data in this paragraph is from U.S. Census Bureau Survey of State and Local Government Finances, 2017.

[5] Data from U.S. Census Bureau 2014 Annual Survey of Public Employment & Payroll Data.

[6] The legislature wanted to increase spending, and because Florida has consistently maintained a balanced budget, needed more revenues to do so. Governor Martinez proposed extending the sales tax to services as a method of increasing revenue, which passed the legislature and was signed into law. The services tax had strong opponents, pushing Governor Martinez to almost immediately recommend repealing it and instead raising the state sales tax rate from 5 percent to 6 percent, which also passed. Thus, Martinez managed to antagonize everyone in the state. The opponents of the services tax were angry that he pushed to have it adopted and only backed off under substantial pressure, and the proponents of the services tax were angry at its repeal. See Hellerstein (1988) for some details.

[7] The one exception was in 1992 when Florida's electoral votes went to George H.W. Bush but Bill Clinton won the election.

[8] Idaho spends the least per person, followed by Georgia. Data is from the U.S. Census Bureau's State and Local Government Snapshot.

[9] Brennan and Buchanan (1980) argue that limiting the number of tax bases a government can tax can act as an effective constraint on government spending.

[10] The others are Arizona, Arkansas, California, Colorado, Illinois, Massachusetts, and Michigan.

[11] One example of the exercise of this power came when the President of the Senate, early in the 2000s, wanted a specific piece of legislation on tax reform passed early in the legislative session. One Senator voted against the legislation, and the President of the Senate promptly fired all of that Senator's staff. In another case in the House, a Representative voted against a bill the Speaker wanted passed and was removed from all of his committee assignments.

[12] The process is described in Holcombe (2001).

[13] For example, to encourage urban infill, the Act specified low densities for development outside of urban areas. This prompted low-density development in less-developed areas, encouraging urban sprawl—one of the things the proponents of the original Act hoped to prevent.

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