A Modest Proposal for the Citizen's Budget

In 1729, famous author Jonathan Swift used satire to make a point. His outrageous idea was presented in straightforward manner; all the more to make the underlying point of *A Modest Proposal*.[1] In a similar vein, we offer here the same idea: Keep traveling the same public policy path and avoid the reforms suggested in the Citizen's Budget. After all, most Colorado legislators are good at that. The Independence Institute put forth dozens of ideas in 2010. Some nine of them were offered by legislators in 2011; none made it all the way through the system. We strongly suggest legislators just keep on ignoring these simple reforms.[2]

1. Take a deep breath and repeat "Senate Bill 1[3] resolved the PERA problem. Everything will work out just fine, now." Ignore the $25 billion unfunded liability, including the $1 billion unfunded liability for public pension health care benefits. Once it becomes clear that annual employee and employer contributions need to go up, we can deal with it then. In the absence of reform, however, we could just start today paying down those debts, like paying a mortgage. (First, recognize only 6.5 percent internal rate of return.) Over the next 30 years, each taxpaying family can solve the problem by writing another $1,233 every year to PERA.[4] Please send your first check right away.

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2. Leadership during a past General Assembly led the charge to establish a health insurance exchange that is estimated to cost at least $30 million a year to operate. In states that declined to participate, the federal government will run the exchange at no cost to the state, and unless the law is changed, employers may be exempt from the $2,000 per employee ObamaCare tax. Uh-oh. We already took the bait.

   Let's subsidize 160,000[5] more Colorado residents on Medicaid for an annual increase in taxes to cover the increased costs of $68 million. At least the federal government is certain to pick up the other $610 million that the new health care program will cost. Rest assured. We forget to mention there will be few new health care providers when this all starts in two years. But really, who minds waiting hours more each time you need to see a physician? If Medicaid is so great for people with low incomes, why doesn't the state clone the program and forcibly enroll state employees in it?

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3. Do not resist the funding problems when the *Lobato vs. State of Colorado* lawsuit is ruled for the plaintiffs. The lawsuit already has worked its way to the Supreme Court once to determine the judicial branch could decide how much to fund K-12 education. Plaintiffs are asking for as much as another $4.5 billion per year, and the trial judge already found for the plaintiffs. Only the pesky appeals process stands in the way of really damaging the promised nirvana. Tell taxpayers they must either raise sales taxes from 2.9 percent to 9.1 percent, or raise the individual income state tax rate from 4.63 percent to 8.8 percent.

4. Colorado is the only state with its own Social Security program. Laid out in the constitution, its upper spending limit is 20 times what the program currently costs. See then, how much higher it could go! All any qualifying person 60

years old or older needs to do is to declare state residency so he never has to contribute one red cent. Colorado could attract more poor elderly people dependent on the government by raising the monthly free pension from $699 to $725 and adding a new dental benefit. Oh, wait. The legislature already did this in 2012.[6]

5. A long-held rule-of-thumb was that college students were to be subsidized two-thirds by taxpayers and the colleges, while tuition was only one-third the cost. Institutions of higher education look longingly at the free money that represented, when 21.1 percent of the State's general fund budget went towards those subsidies. They complain it is only 6.4 percent today.[7] Now, legislators are conforming to Amendment 23's mandate for K-12 education, and for increased costs for public health care, public health insurance and welfare programs. Something has to give. Think of government's needs first and forget about taxpayers. They're flush and don't need the money. Raise taxes by $540 per year for every family to return higher education to its historic level, including those people able to pay the full ride. Ignore calls for reform in productivity, governance, or for instituting means-based stipends. Prevent any improvements and gains from managed competition in service delivery.

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6. The people were asked to volunteer to pay more on their heating and electricity bills in order to fund solar and wind energy. That was going too slowly for residents worried that not enough families were cheerfully paying more for energy. Rather, families wasted their income on food, transportation, housing and even entertainment! Full conversion lagged. In 2004, the majority of voters approved a constitutional amendment forcing ratepayers served by Investor Owned Utilities (IOU) to purchase 10 percent of their electricity for homes and businesses from sources besides coal and natural gas. The ballot measure promised that the monthly cost would not exceed 50 cents. Seeing that coercion moved the needle faster than allowing people to make their own choices, the legislature has mandated the new goal to be 30 percent no later than 2020. In 2012 alone, this mandate cost Xcel Energy ratepayers more than $343 million, or $245 per ratepayer in just one year. It's not a tax, not in the strict dictionary sense of the word. No reform is needed to drive the annual cost up by 13 percent per family over what it would have been in the absence of a mandate.

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Altogether, in order to avoid reforms as suggested by the Citizen's Budget in 2010 and this current edition, *A Citizen's Budget for 2013*, taxes need to go up $3,787 per year per family. The big mistake we are making, however, is that this calculation is incomplete. Economists call it *static* analysis. This lazy way of thinking assumes that people just pay up. A better and more complete way to look at it would incorporate *dynamic* analysis to anticipate what might happen as people respond. It will slow the economy and "at the margin," lead entrepreneurs and workers to move away or to stay away. At higher tax rates, investments will become less profitable, and some will not be made as a consequence. How much higher would it really become?

This is only the start of all kinds of potential new spending and the pressure to raise taxes. We can think of much more, and will certainly be asked for new programs on lots more corporate welfare and other fantastic ideas to turn Colorado into another Illinois, or California, or New York. Denver can emulate Detroit, or St. Louis or Stockton, California. Imagine the changes looming ahead and how you can be led to visit your children and grandchildren in their new homes where they can escape the changes—in states that give people hope and opportunity, like Texas or Wyoming or Utah. Rah!

Endnotes

1 A Modest Proposal for Preventing the Children of Poor People From Being a Burden on Their Parents or Country, and for Making Them Beneficial to the Publick.

2 Oh yes, let's address those quibblers and humorless folk who protest that the tax and spending increases might be off hundreds of dollars per year. How is anyone going to come up with a dependable total? The estimate discloses more than it hides in this case, however. A Modest Proposal leads us to ask just how bad it might get. Take these totals as back-of-the-envelope calculations to see that truth can be discovered all the while tongue is planted firmly in cheek.

3 Senate Bill 2010-1, "Concerning Modifications to the Public Employees' Retirement Association Necessary to Reach a One Hundred Percent Funded Ratio Within the Next Thirty Years" by Brandon Schaffer (D-Longmont) and Josh Penry (R-Grand Junction).

4 Robert Novy-Marx and Joshua D. Rauh, "The Revenue Demands of Public Employee Pension Promises, September 2012. Novy-Marx is at the University of Rochester and National Bureau of Economic Research (NBER) and Rauh is at the Stanford Graduate School of Business, Hoover Institution, and NBER.

5 House Minority Leader Mark Waller during a legislative forum sponsored by the Centennial Institute, January 21, 2013.

6 House Bill 1326, "Concerning Assistance to the Elderly," sponsored by Cindy Acree (R - Aurora)

7 "State Funding: A Historical Perspective," Office of the President, University of Colorado, https://www.cu.edu/content/timeline0