

# Path to Prosperity

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## Setting the Record Straight on Colorado's Taxpayer Bill of Rights

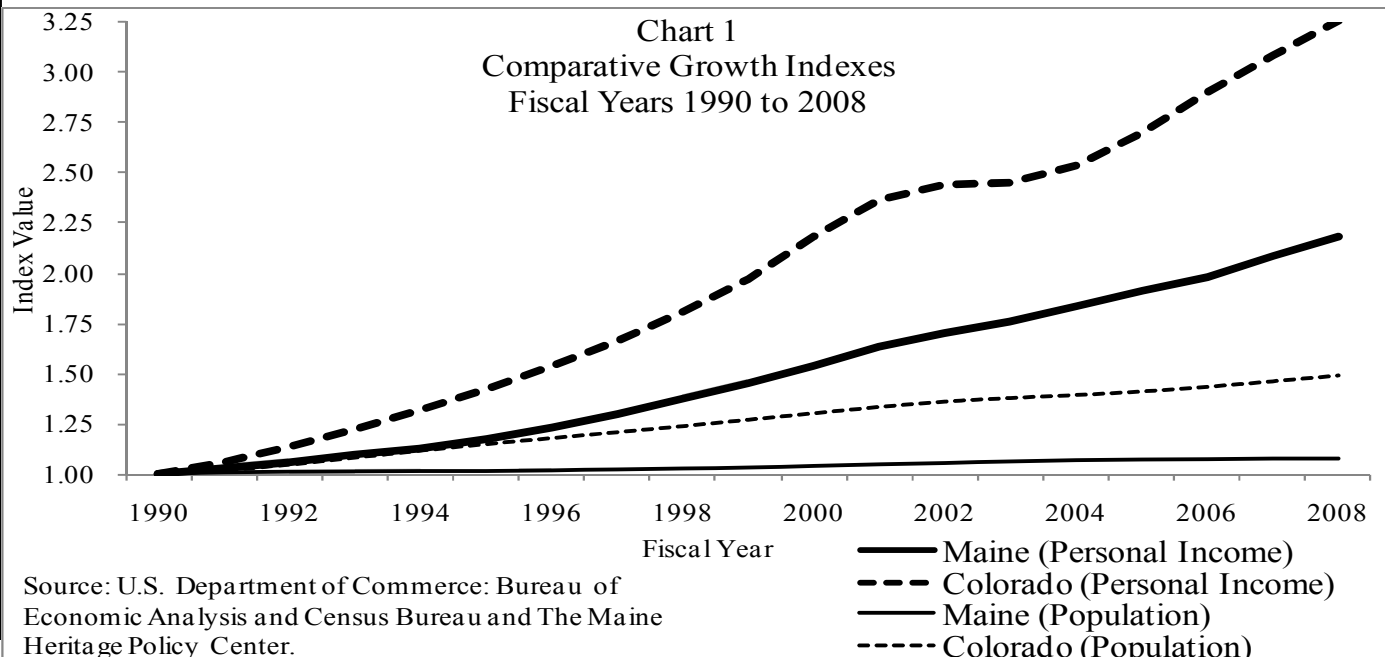
October 12, 2009

By J. Scott Moody and Barry W. Poulson, Ph.D.

As time draws closer for Mainers to pass the Taxpayer Bill of Rights (Question 4) on November 3, the rhetoric from the opponents grows more detached from reality.<sup>[1]</sup> When discussing Colorado's Taxpayers Bill of Rights, opponents use terms such as "devastating" to describe its impact on Colorado's economy and government. However, an objective look at the data tells a much different story. Consider these facts:

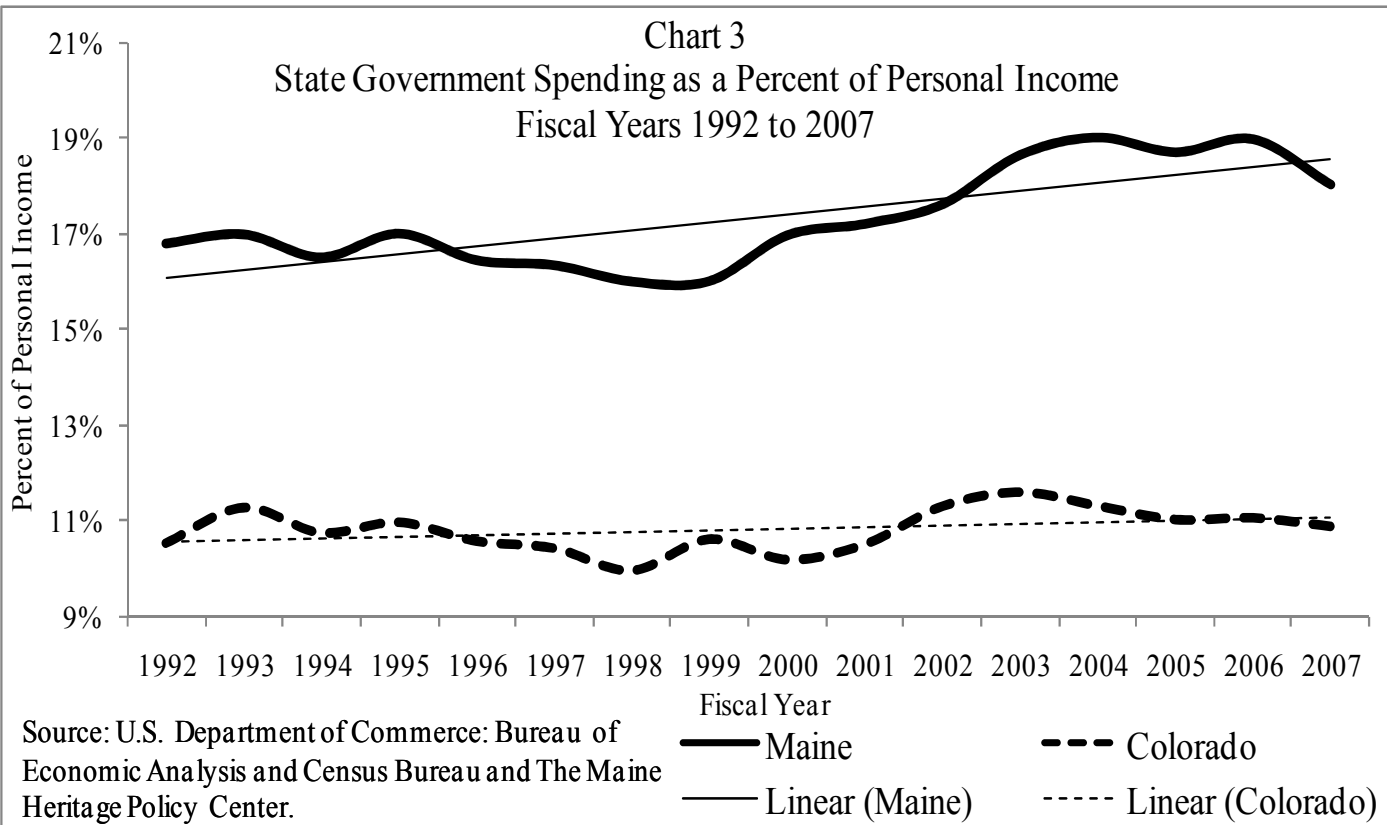
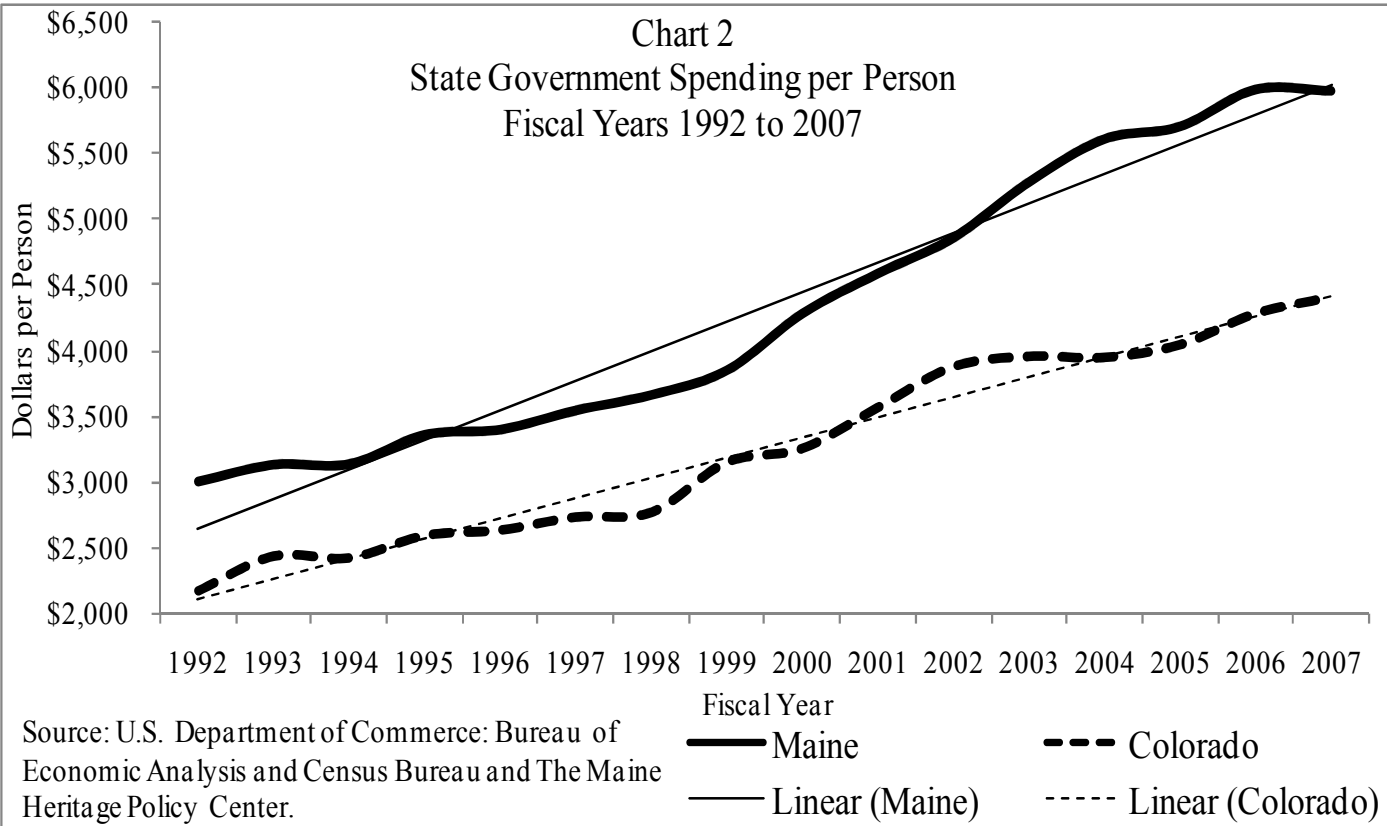
- **Between FY 1990 and FY 2008, Colorado's personal income has tripled while population growth has grown by 49 percent. As a result, in 2008, Colorado had the 13th highest income per person in the country - \$42,377 for every man, woman and child.**
- **Between FY 1992 and FY 2007, actual state government spending in Colorado nearly tripled. Whether measured on a per person or a percent of personal income basis, Colorado's state government has most certainly not been "devastated." A healthy, private sector economy is obviously good for government too.**
- **Colorado's superior economic performance owes much to the Taxpayer Bill of Rights, which was the reason for the return of an estimated \$6.7 billion returned to taxpayers between FY 1997 and FY 2007 via tax rebates and tax cuts.**
- **Helped by the tax rebates/cuts, Colorado has the 5th largest private sector share of personal income in the country (76.9 percent) in 2008. This is vitally important because there is a strong correlation between the size of a state's private sector and the state's overall economic well-being.**

Unfortunately, Maine's economic performance relative to Colorado has been anemic. The overall level and growth in Maine state government simply exceeds Mainer's ability to pay. Enacting Maine's own Taxpayer Bill of Rights (Question 4) is a necessary requirement if Maine is ever to enjoy the economic success and vitality that Colorado does today.



*We the people of Maine...*

THE MAINE HERITAGE POLICY CENTER



**Colorado’s Population and Income Growth Greatly Exceeds Maine’s**

As shown in Chart 1, Colorado’s economy since the passage of Taxpayer Bill of Rights in 1992 has been booming, especially when compared to Maine’s anemic economy. Between FY 1990 and FY 2008, Colorado’s personal income has more than tripled while population has grown 49 percent. The fact that Colorado’s personal income growth vastly exceeds population growth is evidence of a highly productive economy. As a result, in 2008, Colorado had the 13th highest per capita income in the country - \$42,377 for every man, woman and child in the state.

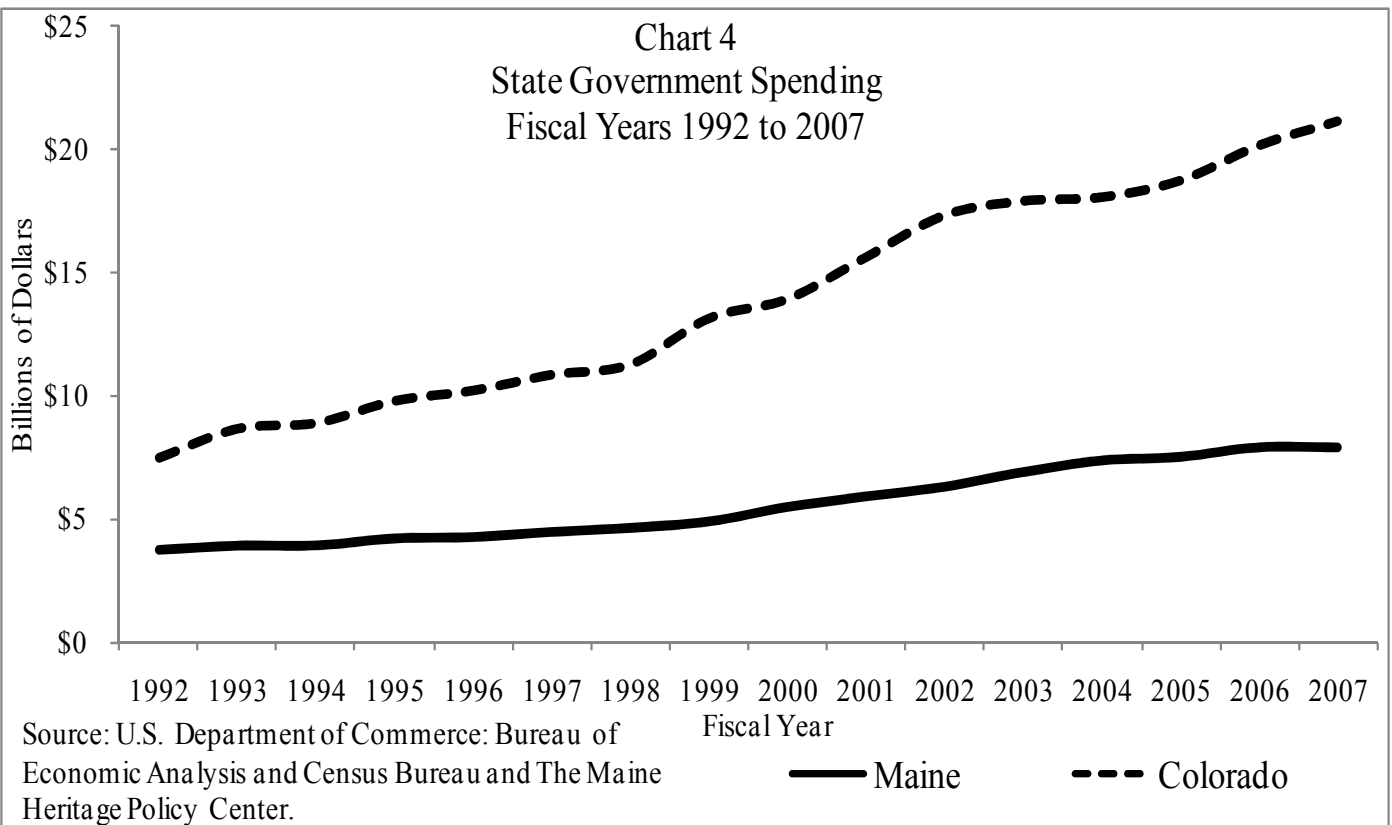
Unfortunately, Maine’s economic performance has been significantly less stellar. Between FY 1990 and FY 2008, Maine’s personal income has only doubled while population has grown a mere 7 percent. Despite such a low rate of population growth, Maine’s economy has not been able to generate a higher standard of living, as tracked by per-capita income. In 2008, Maine was ranked as the 33rd highest per capita income in the country - \$35,381 for every man, woman and child in the state.

**Colorado’s Government Spending Growing at a Reasonable Pace**

Contrary to the claims of the opponents of Maine’s Taxpayer Bill of Rights (Question 4), Colorado’s government has benefitted from a dynamic private sector economy. Chart 2 shows the growth in per person state government spending for both Maine and Colorado between FY 1992 and FY 2007 with both states showing increases in per person state government spending.

However, Chart 1 also shows that Colorado not only spends \$1,570 less per person than Maine’s state government, but Colorado’s growth rate (as shown by the trend line) has been slower than Maine’s. Given the disparity in economic performance between the two states it begs the question: What do Mainers get for all that higher state government spending?

Chart 3 shows the growth in state government spending as a percent of personal income for both Maine and Colorado. Opponents claim that Colorado’s state government has been shrinking - called the “ratchet down” effect - in relation to the economy. In reality, the data shows that Colorado’s state government has grown in lock-step with the enormous growth in personal income. Furthermore, Chart 4 shows that actual state government spending in Colorado has nearly tripled between FY 1992 to FY 2007 and even growing substantially faster than Maine’s state government spending. A healthy private sector economy, it seems, is good for government too.



**Colorado’s Taxpayer Bill of Rights has put Billions Back into Pockets of Coloradans**

Colorado’s superior economic performance owes much to their Taxpayer Bill of Rights, which set the stage for the return of an estimated \$6.7 billion in taxpayer’s hard-earned money between FY 1997 and FY 2007. Beginning in FY 1997, Colorado’s economy began filling state government coffers at a rate exceeding the growth in inflation plus population. As a result, the budget surpluses were returned to the taxpayers via tax rebates. Over the next five fiscal years, the budget surpluses and tax rebates continued to grow such a pace that by FY 2000 and FY 2001 the tax rebates were worth nearly \$1 billion each year.

With such large and growing budget surpluses and tax rebates, Colorado’s state policymakers decided that the this meant that tax rates were too high. Therefore, in FY 2001, the state cut the income tax rate to 4.63 percent from 5 percent, cut the sales tax rate to 2.9 percent from 3 percent and cut a sundry list of other taxes. Since 2001, these tax cuts have put an estimated average of \$500 million per year back into the pockets of Colorado’s taxpayers, as shown on Chart 5.

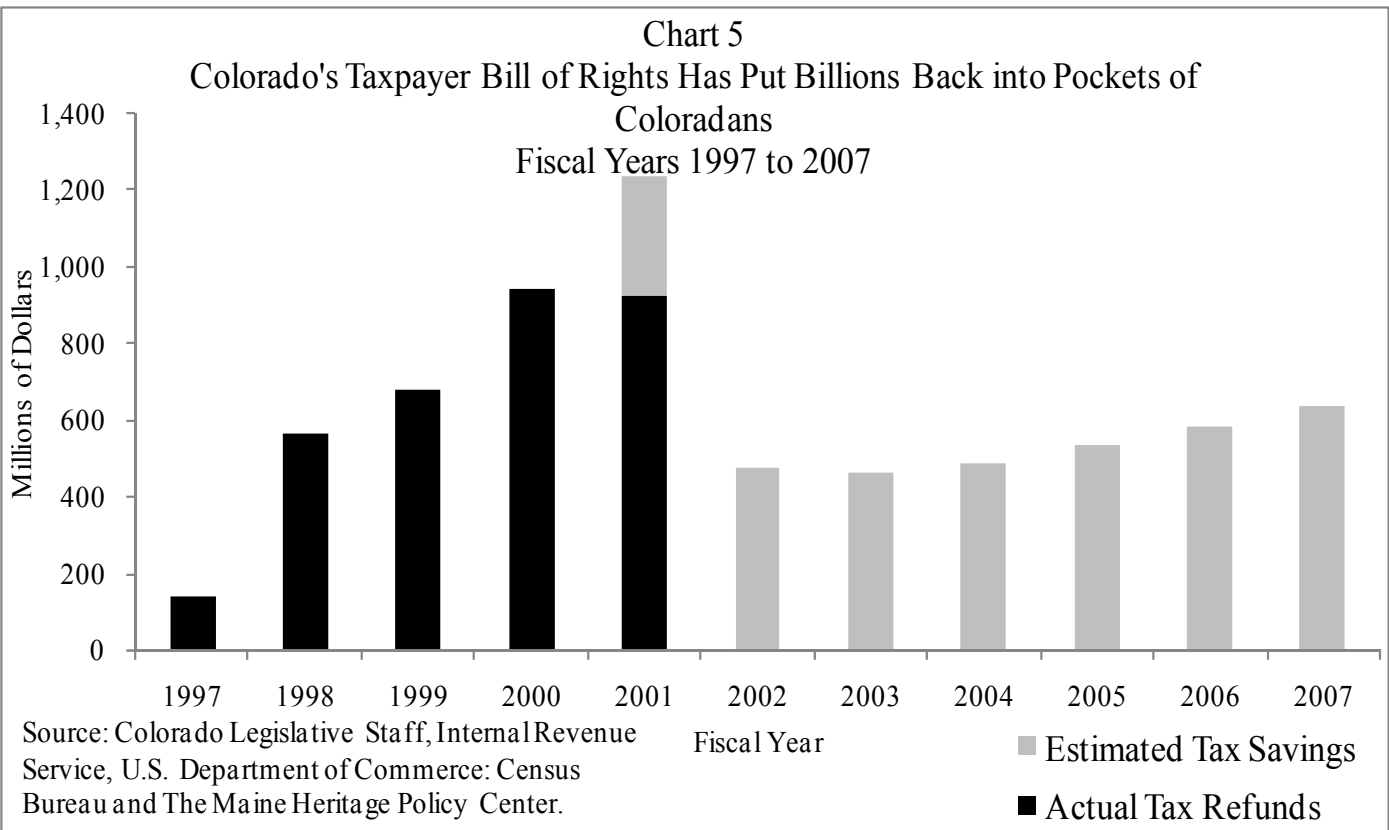
**Colorado’s Private Sector One of the Largest in the Country**

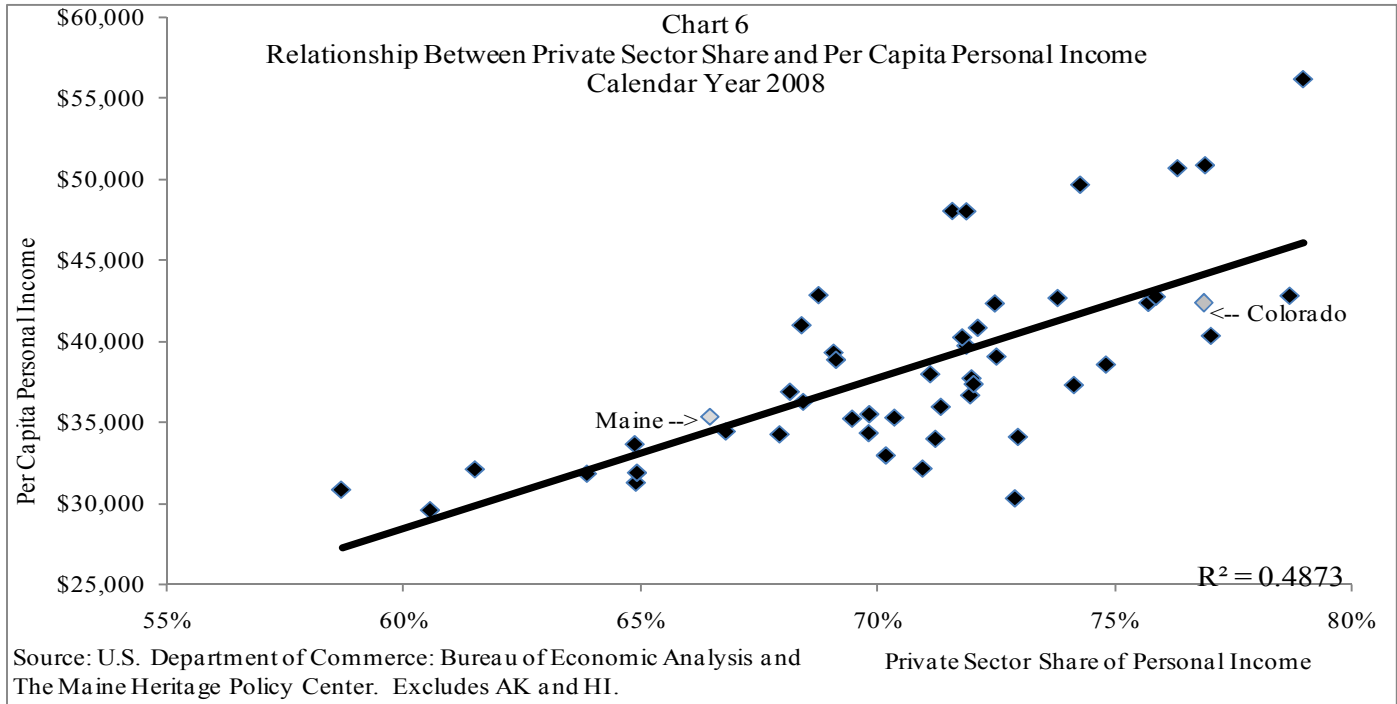
With the tax rebates and tax cuts returning dollars back into the private sector economy, it is no surprise to discover that Colorado has, in 2008, the 5th largest private sector share of personal income in the country (76.9 percent). On the flip side, Maine has only the 41st largest private sector share of personal income the country (66.4 percent). Chart 6 reveals that there is a strong correlation between the size of a state’s private sector and the states overall economic well-being (as measured by per capita personal income) - a larger private sector leads to higher per capita personal income.<sup>[2]</sup> Forbes Magazine “The Best States for Business” ranking reinforces this point by giving Colorado the second best prospects for growth in the country.<sup>[3]</sup>

**Conclusion**

One unique aspect of Colorado’s experience with their Taxpayer Bill of Rights is how it has changed the nature of the annual budget process. More often than not, budget discussions are about dealing with budget surpluses - whether they should return them to taxpayers via tax rebates, tax cuts or even allowing government to spend it.

Unfortunately, Maine has the opposite experience. Budget cycles are dominated by the next looming budget deficit created by politician’s desire to spend more than Mainer’s ability to pay.<sup>[4]</sup> Enacting the Maine Taxpayer Bill of Rights (Question 4) will put an end to this destructive budget cycle by putting into place reasonable and predictable controls on government spending.





#### Notes and Sources:

- [1] For more information of the Taxpayer Bill of Rights (Question 4), see: [http://www.mainepolicy.org/tabor\\_excise.php?category=1](http://www.mainepolicy.org/tabor_excise.php?category=1)
- [2] For more information, see: Moody, J. Scott, "Maine Personal Income: An Analysis of Private and Public Sector Components," The Maine View, Vol. 4, Issue No. 11. December 19, 2006. <http://www.mainepolicy.org/library/resources/97.pdf>
- [3] Badenhausen, Kurt, "The Best States for Business," Forbes Magazine, October, 23, 2009. <http://www.forbes.com/2009/09/23/best-states-for-business-beltway-best-states.html>
- [4] To see a recent example of this dysfunctional budget dynamic, see: Moody, J. Scott, "Putting the State Budget Deficit in Perspective," Fiscal Sanity, Issue 4, January 14, 2009, The Maine Heritage Policy Center. <http://www.mainepolicy.org/library/resources/128.pdf>

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