CPI-SPENDING LINK ENCOURAGES EFFICIENCY

"CPI-Expenditures Link. A short-term budgetary link should be established between the Consumer Price Index (CPI) and total operational expenditures by agencies." Arkansas Policy Foundation, Efficiency Project report (October 2016)

"As Governor, I would like to recognize the Arkansas Policy Foundation for its contribution to transforming government in the State of Arkansas. This independent research organization is a cornerstone in the effort to streamline government operations in our state." Gov. Asa Hutchinson (January 16, 2019)

(November 2020) The practical effect of a CPI-Expenditures link is that it incentivizes officials to search for efficiencies in a low-inflation environment.1 The goal is not unrealistic: total operational expenditures declined at 13 Arkansas state agencies FY2014-to-FY2015, according to an Efficiency Project report compiled by the Policy Foundation for Gov. Asa Hutchinson's administration.

CPI-Spending Link Since 2015

Gov. Hutchinson's efforts to streamline state government started when he took office in 2015. A reorganization plan was later enacted in 2019 and is in its early stages. Five of 21 state agencies surveyed by the Efficiency Project reported lower operational expenditures (FY2015-to-FY2019): Emergency Management, Health, Insurance, Labor, and Workforce Services.2 Another seven spent less than CPI (8.7%)3 in the four-year period: Career Education (5.5%), Military (4.7%), Agriculture (4.3%), Correction (4.2%), Education (2.2%), Finance and Administration (2.1%), and Assessment Coordination (1.5%).4

Conclusion

A CPI-spending link can limit state spending. Since 2015, twelve of 21 agencies surveyed reduced spending or limited increases to rates less than inflation (CPI).

--Greg Kaza

---

1 An equity argument can also be made: government should not spend at a rate greater than household or personal income growth.
3 Consumer Price Index, 1913- | Federal Reserve Bank of Minneapolis (minneapolisfed.org)
4 DFA, Agency Actual Expenditures. Career Education (FY2015) $136,641,334 (FY2019) $144,216,735; Military $60,832,606, $63,682,811; Agriculture $44,167,159, $46,049,519; Correction $375,658,284, $391,575,571; Education $3,457,588,879, $3,534,829,391; DFA $985,935,822, $1,006,680,838; and Assessment Coordination $17,430,818, $17,700,396