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Part VI

# What Have We Learned?

The economic recession of the past two years carries lessons. Let's hope they stick.

We have felt the pain. Have we learned any lessons?

Let's start at the top — with Congress. With its leaders pushing a social agenda through Fannie Mae and Freddie Mac to lend, lend, lend and lend some more so every American family can purchase a home regardless of its financial wherewithal, they pushed the banking system's pendulum too far. Congress enabled bankers to make bad decisions and take risks that prudent bankers knew were wrong.

You would have thought the financial industry learned this after the S&L crisis in the late 1980s. Obviously, Wall Street greed prevailed again.

So Lesson #1: When home and taxable values begin outpacing the 30-year historical trend — of growing 1% above the rate of inflation — lending practices should tighten up.

To do otherwise will repeat the consequences we have all endured for the past two years, particularly at the local level.

Another lesson: Unless there are restraints on government spending, it will rise as fast as the economic bubble inflates. The chart at right and the table below clearly show this. As the housing bubble over the past five years pushed Sarasota County's assessed values and property tax collections up 83% and 60%, respectively, the county's spending typically outpaced the combined growth in population and inflation. It's an old saw: Government will spend what it takes in.

Consider the county's budgets for operating expenses from 2003 to 2007. Had they been held in check at the growth rates of inflation and population, taxpayers would have had saved \$73 million during this period — money in their own pockets.

What's more, we are now experiencing one of the consequences of high growth rates in government spending. Taxable values for fiscal 2008 are expected to fall 17% below year-ago levels. While this precipitous fall will bring property-tax relief to some taxpayers, deflating the housing bubble — and the government revenue bubble — is causing difficult disruptions throughout local governments.

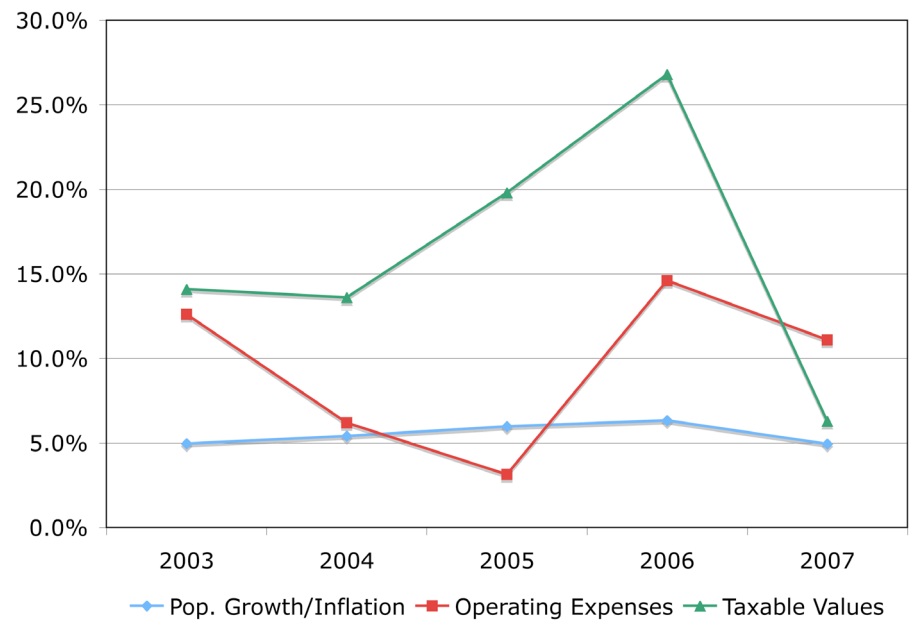
Here again, had spending been capped, the cutbacks necessary today in local and state governments would not be as draconian.

A final lesson — one that is more difficult to discern than the others: Growth management and restrictive development laws not only drive up the cost of housing, they make prices more susceptible to booms and busts.

So says the research of Randal O'Toole, a senior fellow at the Cato Institute. In his book, "The Best Laid Plans, How Government Planning Harms Your Quality of Life, Your Pocketbook and Your Future," O'Toole notes that when there are planning-induced housing shortages — as we had in Sarasota and other Southwest Florida counties before the boom — this leads to housing bubbles. O'Toole says "housing prices in regions with growth-management planning rise faster than normal" and in turn attract investors and speculators.

O'Toole further notes that research has shown that if a market "has a \$10,000 increase in housing prices during one period, relative to national and regional trends, that area will lose \$3,300 in housing value over the next five-year period" — 30% to 33% loss

## Annual Growth Rates of Sarasota County Operating Expenses and Taxable Values vs. Combined Population and Inflation Growth



The green line shows the annual growth rates in the taxable value of Sarasota County properties from 2003 to 2007 — reaching a peak of a 26.8% increase from 2005 to 2006, the height of the housing bubble. The year-to-year growth in the county's operating expenses (red line) don't look out of whack compared to the growth in taxable values. But if expenses were tied to the annual growth in the combined rates of population growth and inflation, expense growth would have hovered at about 5% a year instead of the annual average growth of 9.5% per year over the five-year period.

in value.

What's more, "Places with rapid price increases over one five-year period are more likely to have income and employment declines over the next five-year period."

We are living through these effects. And by O'Toole's measures, we are

little more than halfway through the price and job decline.

Through trial and error we gain experience. Through experience we gain wisdom. So far, the first decade of the new millennium has brought many lessons. Let's hope we now have the wisdom to heed them.

## How County Spending Outpaced Inflation and Population Growth During the Boom

	2003	% Chg.	2004	% Chg.	2005	% Chg.	2006	% Chg.	2007	% Chg.	Total % Chg.
Population	348,761	2.7%	358,307	2.73%	367,867	2.6%	379,386	3.1%	387,461	2.1%	11.09%
Inflation rate		2.27%		2.68%		3.39%		3.24%		2.85%	14.43%
Taxable values (billions)	\$34,114,003	14.1%	\$38,776,492	13.6%	\$46,452,670	19.8%	\$58,915,964	26.8%	\$62,663,813	6.3%	83.68%
Property tax revenues	\$113,836,485	13.4%	\$128,898,756	13.2%	\$141,559,585	9.8%	\$159,727,851	12.8%	\$182,896,711	14.5%	60.66%
Operating expenses	\$313,457,635	12.6%	\$332,937,217	6.2%	\$343,415,423	3.14%	\$393,861,760	14.6%	\$437,730,446	11.1%	39.64%
<b>Capped expenses</b>	\$292,126,886	<b>4.97%</b>	\$307,930,950	<b>5.4%</b>	\$326,376,014	<b>5.99%</b>	\$347,068,253	<b>6.34%</b>	\$364,248,132	<b>4.95%</b>	<b>27.67%</b>
Total budget	\$887,000,000	9.70%	\$864,000,000	-2.6%	\$871,000,000	0.80%	\$1,016,000,000	16.6%	\$1,142,000,000	12.4%	28.70%
<b>Capped budget</b>	\$848,371,234	<b>4.97%</b>	\$894,268,117	<b>5.4%</b>	\$947,834,778	<b>5.99%</b>	\$1,007,927,502	<b>6.34%</b>	\$1,057,819,914	<b>4.95%</b>	<b>24.67%</b>

Source: Sarasota County, state of Florida, U.S. Department of Commerce

**How to interpret the table: 1)** Advocates of caps on government spending often say spending should not grow faster than the combined rates of inflation and population growth. In the two categories above, called "capped expenses" and "capped budget," the table shows the combined rates of inflation and population growth for each year (shown in bold italics).

**2)** Compare the growth rates in the capped expenses and capped budget with the lines immediately above them — with "operating expenses" and "total budget." You'll see that Sarasota County's growth rates in operating expenses outpaced population and inflation every year but 2005. In contrast,

the county's growth in the total budget was actually less than inflation and population growth in 2004 and 2005. But with a 16.6% increase in 2006 and a 12.4% increase in 2007, the five-year growth in county spending outpaced what the county would have spent had it held expenses to the combined growth in population and inflation.

**3)** Likewise, if you compare the growth "operating expenses" over the five-year period of the housing boom with the "capped expenses," the table shows the county would have saved taxpayers \$73,482,314 — roughly the amount that is being discussed for the cost of a new baseball complex.

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