

RESEARCH SUMMARY

Breaking North Dakota's Cycle of Boom and Bust: A Pathway to Prosperity for the Prairie State

The recent price collapse in commodity markets combined with public expenditure growth has resulted in North Dakota facing a historic budget crisis. Jeremy Jackson, James Caton, Raheem Williams, and Kali Christianson identify practical tax and expenditure reforms that can put the state back on the pathway to prosperity in “[Prairie Prosperity: An Economic Guide for the State of North Dakota](#).”

While North Dakota enjoys many economic advantages, its reliance on oil, gas, and agricultural industries makes it susceptible to volatile boom-and-bust cycles. The state needs greater economic diversification to reduce this volatility. Unless state lawmakers resist overspending during times of prosperity, the cycle of painful budget cuts during economic downturns will persist. The authors recommend fiscal reform in three broad areas.

REVENUE REFORM

- *Income taxes.* Maintain a commitment to low income taxes and resist the temptation to raise them to make up for revenue shortfalls. This will help attract new businesses and workers.
- *Property taxes.* Ensure the property tax burden is visible, easily calculated, and understandable by the average citizen. Avoid state-funded tax relief programs that increase local spending and lead voters to perceive the costs of government services to be lower than they are.

EXPENDITURE REFORM

- *Education spending.* Evaluate the way dollars are spent by their effect on student outcomes. Implement school choice proposals, such as a school voucher system and a constitutional provision for charter schools. Shift property taxes back to local governments.
- *Infrastructure spending.* Balance the needs of the oil and agriculture industries with the danger of overspending in areas with limited growth. This is best accomplished through the use of strategic, targeted funding.
- *Pension funds.* End the historical underfunding of the public pension system. Meet 100 percent of the required annual contributions to raise the funded ratio and ensure long-term viability.

STATE FUNDS REFORM

- *Budget Stabilization Fund.* Pass a constitutional provision to set the fund's cap at 15 percent of appropriations. Establish a tax and expenditure limit that caps government revenues and spending, using a formula such as population growth rate plus inflation.
- *Legacy Fund.* Clearly state the purpose of this fund and use it to target specific goals. This sovereign wealth fund (created using oil and natural gas tax revenues) has the potential to expand North Dakota's budgetary flexibility. It should not be used as a second stabilization fund.