

Expenditure inflation

HISTORY AND ARGUMENTS FOR/AGAINST

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Timeline

1. November forecast, 1991 – The Department of Finance begins including inflation in forecast expenditure estimates
2. May 1994 – By law, the legislature requires the Department of Finance to continue including expenditure inflation in forecasts (Laws 1994, ch. 587; Minn. Stat. § 16A.103)
3. February 2002 – “Phase 1” budget balancing act prohibits inclusion of inflation in expenditure estimates (Laws 2002, ch. 220)
4. February 2023 – The legislature requires Minnesota Management and Budget to include expenditure inflation in forecasts (Laws 2023, ch. 10)

2002 Arguments

Proponents (in favor of excluding inflation)

- Puts government growth on autopilot
- State must examine every dollar for efficiency and effectiveness
- Increases warranted for some programs, but not others

Opponents (in favor of including inflation)

- Lowers the state's financial management standards
- Inflation is real and included on revenue side
- Creates risk and instability for state, cities, counties, and schools

Council of Economic Advisors

In favor of reinstating expenditure inflation (2003-2023)

- Excluding changes in price of goods and services for most spending is fundamentally misleading
- Inconsistent with sound business practices and congressional methods
- Legislators and the public may be overoptimistic about state's financial position
- Increasing inflation = increased distortion

Questions?



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