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DID STATES OVERSPEND DURING THE 1990s?

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Introduction

The 1990s was a time of tremendous economic growth in the United States. As a result, state governments enjoyed the best fiscal conditions they have encountered in decades. State revenues grew above expectations at the same time that spending pressures declined for many of the safety net programs that are the responsibility of state governments.

Some have argued that states responded to these good economic times by overspending. Critics of state government actions sometimes cite the unadjusted total growth in state spending of 90 percent between 1989 and 1999 as evidence that state spending exploded during this period. A few suggest that the current state fiscal crisis is the result of this overspending. The evidence does not support these claims.

- State spending growth during the 1990s was consistent with — and slightly below — historical trends. State own-source spending (that is, spending from taxes, fees and other state revenue sources) as a share of personal income increased less in the 1990s than it did in any of the last five decades since 1949.
- Most of the increase in nominal expenditures was due to the natural growth in state government spending that must occur in response to population increases, inflationary increases in costs, and changes in the need for expenditures that result from a growing economy. When adjusted for inflation, changes in population, and the size of the economy, state spending grew only modestly during this period.
- Part of the change in state spending during the 1990s reflected a shift in responsibilities to the state level. Total federal, state and local spending as a percent of GDP declined during the 1990s, but state and local spending increased slightly as devolution moved responsibilities from the federal to the state and local levels.
- The two areas of state budgets that contributed most to increased spending were primary and secondary education and health care.

This report focuses on state spending trends during the 1990s. Examining current data available from sources such as the Census Bureau and the National Association of State Budget Officers the report finds that states did *not* overspend during the 1990s.

- Most of the increase in state spending during the 1990s was ordinary growth that can be expected when the economy grows. In times when states are not either expanding their role by embarking on major new initiatives or scaling back their responsibilities, state spending can be expected to grow at about the same rate as the economy. If state spending grew at the same rate as the economy, the ratio of total state spending to total personal income — a common measure of the size of state economies in total — would remain constant. Using this measure, the growth in state spending was not out of the ordinary for recent decades. State own-source spending (that is, spending from taxes, fees and other state revenue sources) as a share of personal income grew from 8.0 percent to 8.4 percent between 1989 and 1999 — an increase of only 0.4 percentage points over the decade. This is the lowest level of growth in any of the last five decades since 1949.
- The conclusion that the growth in state spending of the 1990s was not out of the ordinary does not depend on the measure of growth that is used. For example, state own-source spending per person adjusted for inflation increased by an average of 2.0 percent per year between 1989 and 1999. This is below the long-term growth trend of 2.9 percent per year for the entire period from 1949 and 1999. It is also lower than the average annual growth of 2.3 percent in the more recent period between 1969 and 1999.
- Part of the growth in state spending reflects the shift of certain governmental responsibilities from the federal to the state and local levels. While state and local spending grew as a percentage of the Gross Domestic Product between 1989 and 1999, federal spending as a percentage of GDP declined. Overall, the size of government at all levels relative to the economy shrank during the last decade, dropping from 30.2 percent of GDP in 1989 to 28.0 percent of GDP in 1999.
- In addition, certain other governmental responsibilities (in areas such as education) shifted to some extent from the local to the state level as states sought to equalize education spending among localities, contributing further to the increase in state spending.
- State spending increased not only as states assumed a more prominent role in providing government services, but also in response to growing costs and public demands for new investments in certain areas. For example, spending on education grew faster than the economy during the 1990s. Two reasons were that the school-age population grew faster than the general population and that school costs grew faster than general inflation. In addition, states increased their investment in education in response to public pressure for smaller class sizes,

more training for teachers, a more equitable system of financing schools, and other costly measures.

- State spending on health care — especially Medicaid — also grew faster than the economy over this period. The two main reasons were forces outside the control of state policymakers. During the early 1990s, health care costs grew much more rapidly than general inflation. In addition, Medicaid enrollment rose among disabled individuals and the elderly, two groups with expensive health care needs. Some of the increase in costs also resulted from initiatives to expand health care coverage among low-income children and pregnant women and from increases in state spending on hospitals that serve low-income populations.
- State spending on corrections increased as the number of prisoners grew dramatically. This growth was the result of public demands for stiffer penalties for criminals as well as technological advances that improved the ability of law enforcement officials to apprehend criminals.
- Not all parts of state budgets grew relative to the economy. State spending on public assistance declined during the 1990s. Spending on higher education and transportation remained at about the same share of personal income.

In summary, states did not overspend during the 1990s. State spending growth was low by historical standards. States generally increased spending prudently in response to various cost pressures while making limited new investments.

Economic Growth Contributed to the Growth in State Spending

In times when states are not either expanding their role by embarking on major new initiatives or scaling back their responsibilities, state spending grows naturally at about the same rate as the economy. There are a number of reasons why growth in state and other government spending tends to mirror the rate of growth of the economy.

When we measure “economic growth,” part of what we are measuring is inflation in the price of goods and services. Inflation increases government costs for purchases of goods and services from the private sector (for example, construction materials and vehicles) just as it increases private sector prices and costs. Wages and salaries also increase in response to inflation and economic growth. In addition to making purchases from the private sector, state and local governments are major employers and as such must respond to increasing wages in the private sector by increasing public employees’ wages in order to retain workers.

In addition, economic growth often results from and tracks population growth. Just as the private sector increases the output of goods and services to fulfill the needs and wants of additional U.S. residents, population growth also results in higher caseloads for government programs including more students, more people in need of medical and other assistance, as well as more people using libraries, roads and other publicly-financed services and infrastructure.

Data Sources

This report draws on three main data sources: the Census Bureau's Government Finance series and the Bureau of Economic Analysis's National Income and Products Account series, and the annual survey of state spending conducted by the National Association of State Budget Officers. Each of these sources has advantages and drawbacks.

Census Bureau's Government Finance series: It is very difficult to compare government finances among states because of differing programs, accounting procedures and budget time lines. In response to these problems, the Census Bureau some years ago developed a uniform classification system that it uses to collect data on state and local government revenues and expenditures. This information — which historically has been published by the Census Bureau in its Government Finance series — is the primary data source that allows comparisons among states and comparisons over time on state and local revenues and spending. The main drawback of these reports is that they generally are released up to two years after the end of the state fiscal year. As a result, the most recent data available are for FY1999. In addition, Census divides state and local spending into functional areas which often do not correspond to the program areas that most states use when preparing budgets.

BEA's National Income and Products Account data: The Bureau of Economic Analysis of the Commerce Department also prepares annual estimates of aggregate state and local spending as part of the national income and products account. While based on the Census Bureau's Government Finances data, they differs from that data because aggregate totals are redefined to reflect national income accounting definitions. NIPA data do not separate state and local spending. NIPA data are useful for comparing aggregate state and local spending to federal spending and to the size of the economy as measured by Gross Domestic Product but they do not have sufficient detail to allow examination of state-only spending or spending by program area.

National Association of State Budget Officers' annual State Expenditure survey: The National Association of State Budget Officers conducts an annual survey of state-only spending. This information is released on a more timely basis than the Census Bureau information. It does not include information on local government spending. However, it does collect data on state spending by programmatic area that generally conform to state budgeting practices. The areas surveyed are those used most commonly in state budgets so it is a good source of information on trends in spending by program especially when the focus is — as it is in this paper — on state spending.

Moreover, a growing economy creates additional costs and additional demands for services beyond the effects of inflation and increased population. In addition to growing in size, the nature of the U.S. economy has been changing, affecting the need for public services. For example, public schools responded to the continuing integration of information technology into the home and workplace by investing in computer equipment. The economy is also putting increasing requirements on workers, requiring larger numbers to attend college. In addition, increasing economic activity strains the nation's transportation infrastructure, as increased vehicle and truck traffic creates additional costs, both for maintaining existing roads, bridges and highways and for new construction. A more sophisticated communications infrastructure is required as a result of technological advances and increased expectations.

Also, the public's demand for additional and improved public services grows as people's per capita income grows. Just as people expect consumer goods such as cars, microwaves and housing to improve over time, they expect and demand improved public services (such as better schools and roads) as well as quicker service.

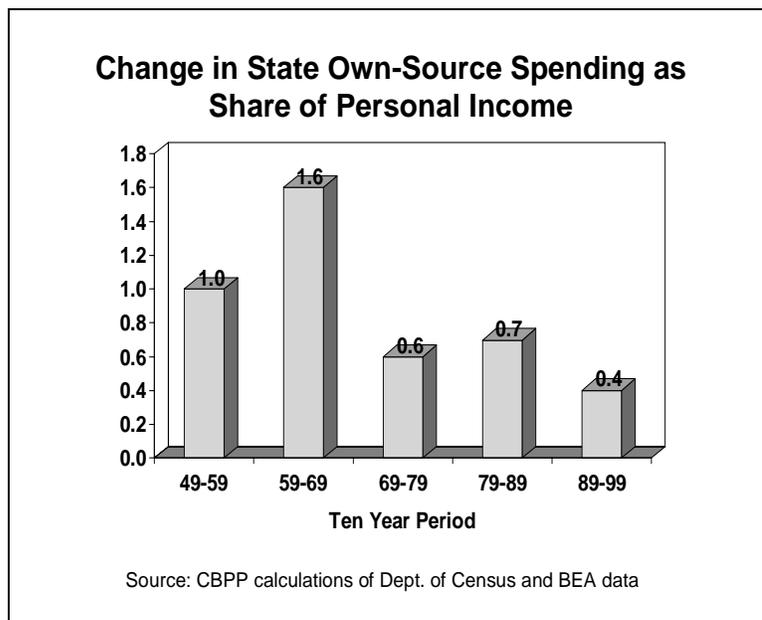
The public's demand for public goods and willingness to pay for them with taxes grows along with their demand for consumer goods and services and their willingness to pay for those. In fact, if the rate of growth of government and the taxes that finance government spending approximately matches the rate of growth of the economy, tax burdens will not increase as government grows to meet these demands.

In order to compare changes in government spending to changes in the size of the economy, in this section and the following sections, spending is generally measured as a share of personal income. (This is similar to the practice of comparing changes in real per capita spending over time in order to factor out inflation and population increases, but takes the comparison one step further in order to account for overall economic growth.) This measure accounts for the impact of economic growth on the need for government services and their cost. If state spending grew at the same rate as the economy, the ratio of total state spending to total personal income — a common measure of the size of state economies in total — would remain constant¹.

State Spending Growth During the 1990s Was in Line with Historical Trends

There are a number of ways to define state spending. One of the broader measures is *state general spending from all revenue sources*, which covers current spending for basic government purposes but generally excludes spending from pension and other trust funds and the finances of state-operated enterprises such as utilities. State general spending can be financed by state-imposed taxes and fees as well as by grants that the federal government makes to the states. Another commonly used measure of state spending is *spending of funds the state raises from its own sources* or *state own-source spending*; the latter excludes spending from intergovernmental (primarily federal) grants.

Figure 1



¹ Total personal income is the measure of the total size of the economy used in most analyses of state spending. This is similar to the use of spending as a share of Gross National Product in many analyses of changes in federal spending. Personal income has traditionally been used in analyses of state spending because it provides a better measure of the economic activity within a state that approximates the tax base of a state. While total personal income makes up only about 85 percent of Gross Domestic Product, its changes over time are very similar to changes in GDP so its use will not have an effect on the measurement of trends.

Analyses of whether states are overspending usually focus on state spending of tax revenue and other revenues that states raise from their residents. Increased state spending that is financed entirely by the federal government will not result in increased taxes for a specific state and so is of less concern to critics of state tax and spending practices. Therefore, this paper will generally focus on state “own-source” spending.

It is clear from an examination of changes in own-source spending that far from exploding during the 1990s, state spending grew at a rate that is in line with post-World War II trends. During the 1990s, the growth in state own-source spending as a share of personal income was somewhat below historical trends. Between 1989 and 1999, state own-source spending as a share of personal income increased 0.4 percentage points, from 8.0 percent to 8.4 percent. This was the lowest growth of the last five decades. (See Figure 1.)

The conclusion that the spending growth of the 1990s was not out of the ordinary does not depend on the measure of change in spending that is used. For example, inflation-adjusted state own-source spending per person increased by 2.0 percent per year between 1989 and 1999. (See Figure 2.) This is below the 2.9 percent long-term average annual growth between 1949 and 1999, and lower than the 2.3 percent average annual growth between 1969 and 1999.

Changes in state *employment* relative to changes in total employment also show that the state government sector has grown little over the years. State government employment as a percent of total employment actually declined between 1989 and 1999 and was about the same in 1999 (3.7 percent) as it was three decades earlier, in 1969 (3.6 percent). (See Figure 3.)

Figure 2

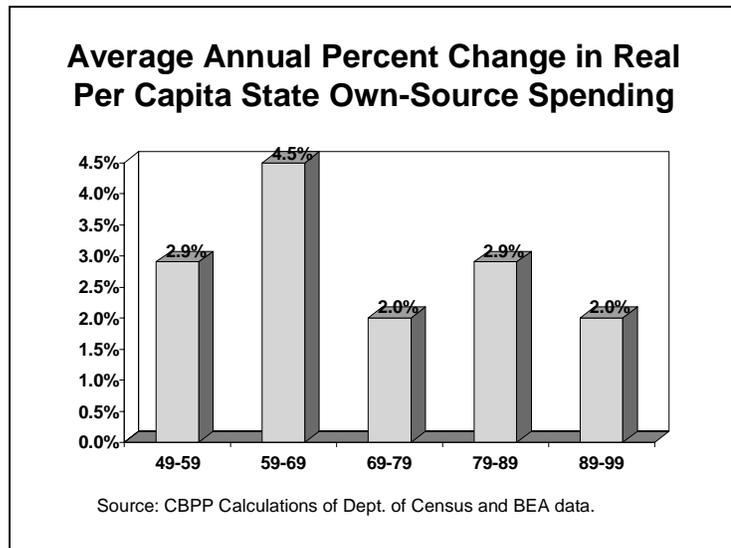
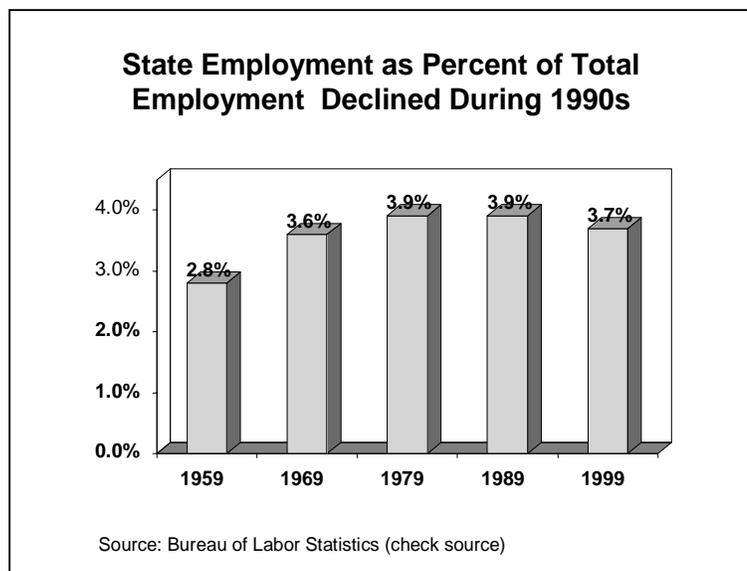


Figure 3



These figures demonstrate that states did not embark on a spending spree during the 1990s. On the contrary, state spending continued to grow only modestly faster than the economy as a whole.

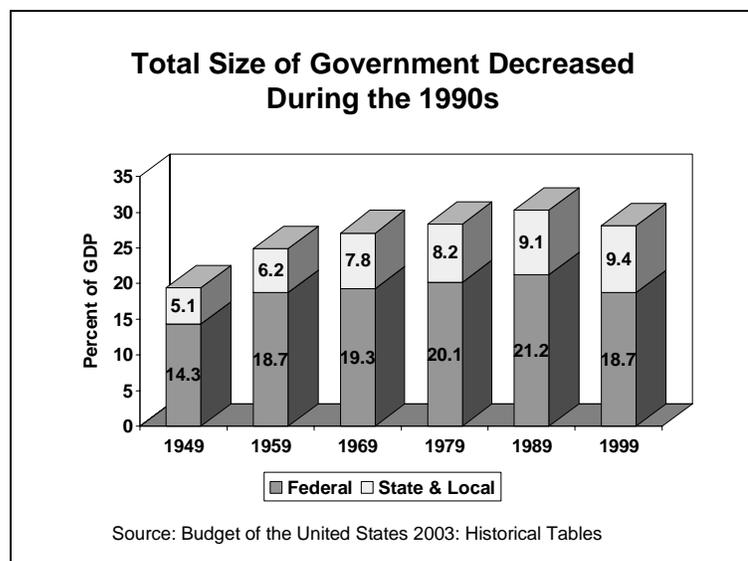
Some Increased Spending Resulted from a Shift in Responsibilities from the Federal to the State Level

Over time, the particular mix of government services demanded by the public changes to reflect broad national and international developments. The end of the Cold War caused a change in public demands (and thus in government spending) away from defense and toward improvements in education, health coverage, and crime prevention. Two of these new areas of emphasis — education and crime prevention — are mainly the responsibility of state and local governments, while health care is shared among all levels of government. Defense, on the other hand, is primarily a federal responsibility. As a result, the change in public demands caused government spending to shift from the federal level to the state and local level.

In addition, devolution of governmental responsibilities from the federal to the state and local levels continued during the 1990s. Reliance on block grants — fixed amounts of funding for a specific purpose — as the means of providing federal funds to states increased. When federal funding for a program is provided to states as a block grant and the amount of the grant is not increased enough to cover the increasing costs of the program, states must pick up a larger share of the total costs over time. For example, during the 1990s, the federal government failed to increase existing block grant programs for social services and some health programs sufficiently to cover states' rising costs in those areas, effectively shifting responsibility in these areas to the states. At times, the federal government also imposed new standards for government services funded in whole or in part by states without providing states additional funds to meet these new standards.

Given the shifting responsibilities over various government programs, it is necessary to look at combined federal, state, and local spending to get an accurate sense of changes in the size of government relative to the economy. As Figure 4 shows, combined federal, state, and local government spending declined as a share of the economy during the 1990s. Government spending as a percent of Gross Domestic Product dropped from 30.2 percent to 28.0 percent between 1989 and 1999 and remained at approximately the same

Figure 4



level (28.1 percent) in 2001.² This reduction in the overall size of government reflected a decline in federal spending that was partly offset by a small increase in state and local spending

States Assumed More of the Costs of Some Local Programs

At the same time that responsibilities were shifting from the federal government to states and local governments, states were increasing their role relative to local governments in many areas.

For example, state and local governments pay most of the cost of public education. During the 1990s, in an effort to remedy funding inequalities among school districts, some states reduced the share of school costs financed by local property taxes by providing additional state funding. In many cases, this increased the rate of growth of state spending while reducing the rate of growth of local spending. Between the 1988-89 school year and the 1998-99 school year, the share of public elementary and secondary education financed by states increased from 47.8 percent to 48.7 percent, while the local share declined from 46.0 percent to 44.2 percent. (The remainder was funded by the federal government.)³

Table 1
State and Local Own-Source Spending
As Percent of Personal Income

	Spending as Percent of Personal Income		
	1989	1999	Change
State	8.0%	8.4%	0.4
Local	6.5%	6.5%	0.1

Similarly, some states reduced taxes levied by local governments (such as motor vehicle taxes) while increasing aid to local governments to maintain revenue for local services. This caused an increase in state spending but did not affect the overall size of state and local government.

These shifts in funding responsibilities from the local to the state level explain some of the increase in state spending during the 1990s. As Table 1 shows, state spending increased more as a share of personal income than local spending did during the last decade. State spending grew from 8.0 percent to 8.4 percent of personal income — an increase of 0.4 percentage points — while local spending grew only 0.1 points.⁴

States Responded to Public Pressure for Increased Spending on Education, Health, and Corrections

While a significant portion of state spending growth during the 1990s was the natural result of a growing economy, state government spending did grow faster than the economy as a whole. The reasons for this are best seen by examining changes in spending in different parts of the state budget.

² Note that figures on chart for the components of spending do not add to the totals in the text due to rounding.

³ Source: Digest of Education Statistics 2001, National Center for Education Statistics.

⁴ Difference differs from amount derived from table due to rounding.

Figure 5

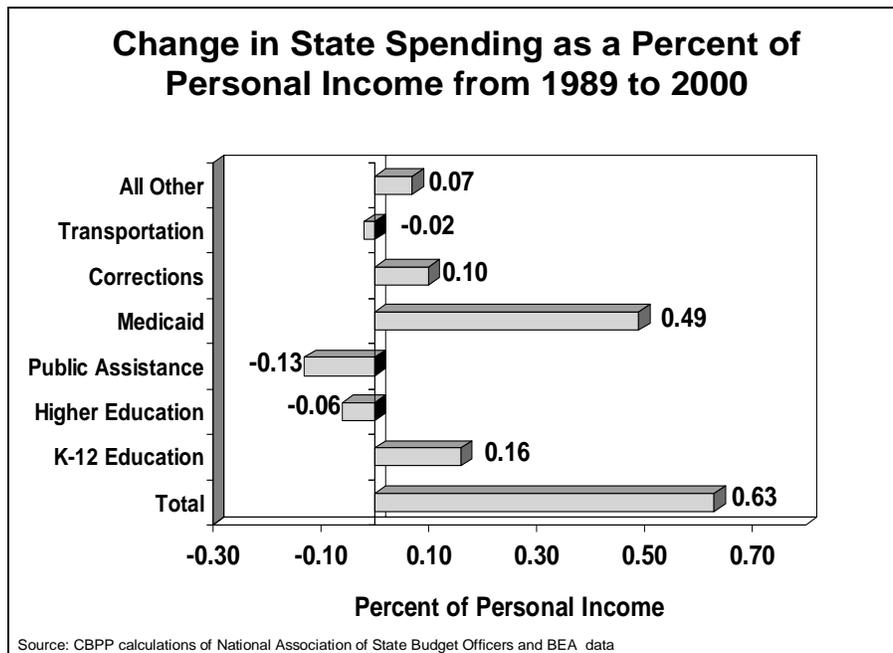


Figure 5 examines changes in state spending by function, using data collected by the National Association of State Budget Officers in its annual State Expenditure Report. This report organizes state spending by spending categories commonly used in state budgets. In addition, NASBO collects data on state spending from states' general fund and other state funds, so it is possible to exclude spending that is financed by the federal government. The NASBO report also makes possible the use of an additional year of data because NASBO has published a state spending report for fiscal year 2000.

As Figure 5 shows, state spending from the general fund and other state sources (state own-source spending) as a percent of personal income increased by 0.6 percentage points between 1989 and 2000.⁵ Most of this increase was accounted for by an increase in Medicaid spending which grew by 0.5 percentage points. In addition, spending on primary and secondary education as a percent of personal income increased by 0.2 percentage points during the 1990s, and corrections spending increased by 0.1 percentage points. At the same time, state spending on public assistance declined relative to personal income. Spending on higher education and transportation remained at about the same share of personal income.

⁵ The 0.6 percentage point increase in state spending shown in Figure 5 differs from the 0.4 percentage point change in the earlier charts. There are two main reasons for this difference. The first is that the NASBO data used here are for the period from 1989 to 2000 and thus include one additional year of growth. In addition, the data on state spending collected by the National Association of State Budget Officers differs from the data collected by Census for a variety of reasons including differences in definitions of what constitutes state own-source spending. As a result, the total dollar figures differ. However, the trends over time shown by both data series are similar.

The increases in health and education spending were driven in part by increases in costs and in the number of individuals served. In addition, during the 1990s education and health care consistently ranked high on the list of areas that the public believed government should address, so states responded with initiatives to improve public schools and expand health coverage. Public pressure for intensified anti-crime efforts was considerable as well. Changes in state spending during the 1990s are examined in more detail below.

Investment in Education Remained a Priority

Education is the largest single area of spending for state and local governments. For the 1999 fiscal year, elementary and secondary education, combined with higher education, made up one-third of total state and local general spending.

Between 1989 and 2000, state spending on elementary and secondary education as a share of personal income increased by 0.2 percentage points, from 2.1 percent to 2.3 percent of personal income. One reason was that the growth in public elementary and secondary school enrollment (a 16.7 percent increase, from 40.2 million to 46.9 million students) exceeded the increase in the general population (which was 14.3 percent).

School enrollment grew faster than the general population for several reasons. First, the school-age population as a percent of the total population increased from 18.4 percent to 18.9 percent. Second, the share of all children aged three to five who were enrolled in preschool and kindergarten programs jumped from 54.4 percent to 65.8 percent (from 5,978,000 to 7,844,000). Third, the high school dropout rate declined from 12.6 percent to 10.9 percent.

In addition to having more children to teach, public schools faced higher costs associated with teaching them. Between 1989 and 2000, the employment cost index for public schools (a measure of the costs of wages and benefits for school employees) increased by 45.5 percent. That exceeded the increase over that period in the cost of state and local government purchases in general, which rose by 35.8 percent.

Changing needs for educational services also brought added costs. The number of special education students increased from 4.5 million to 6 million, or from 11.2 percent to 13.0 percent of all students. Special education students are often highly expensive to serve, requiring individualized instruction and additional staff.

Also, many states operated under court-ordered education finance reforms during this period. These reforms often involved substantial increases in overall funding as states gave additional funds to school districts that had traditionally been underfunded. In 1999, ten states (Alabama, Arizona, Arkansas, Kentucky, Massachusetts, Montana, New Jersey, Texas, Vermont, and Wyoming) were working to comply with court decisions issued within the previous ten years, while another five states (Connecticut, New Hampshire, Ohio, Tennessee, and West Virginia) were still engaged in active cases in which the state supreme court had rendered a decision in favor of the plaintiffs.

Finally, the 1990s brought continued public pressure to improve public education by reducing class sizes, improving teacher training, and adopting other costly measures. State and local governments responded to this pressure — as well as to the growing importance of a well-educated workforce in promoting economic growth — by increase their investment in education.

Spending on Medicaid Grew During the 1990s

After education, the next largest category of spending for state and local governments is Medicaid. State spending on Medicaid grew faster than the economy as a whole during the 1990s. Between 1989 and 2000, state spending on Medicaid doubled as a percent of personal income, increasing from 0.5 percent of personal income to 1.0 percent.

State spending on Medicaid also grew faster than other areas of state budgets. Without adjusting for inflation or personal income growth, Medicaid spending grew 12.2 percent per year between 1989 and 2000 — almost twice as fast as total state spending. As a result, Medicaid absorbed a larger share of state budgets at the end of the period than at the beginning. The increased spending on Medicaid resulted from a number of factors, including health care cost inflation, changes in enrollment, and changes in the ways states funded care for low-income residents.

Figure 6

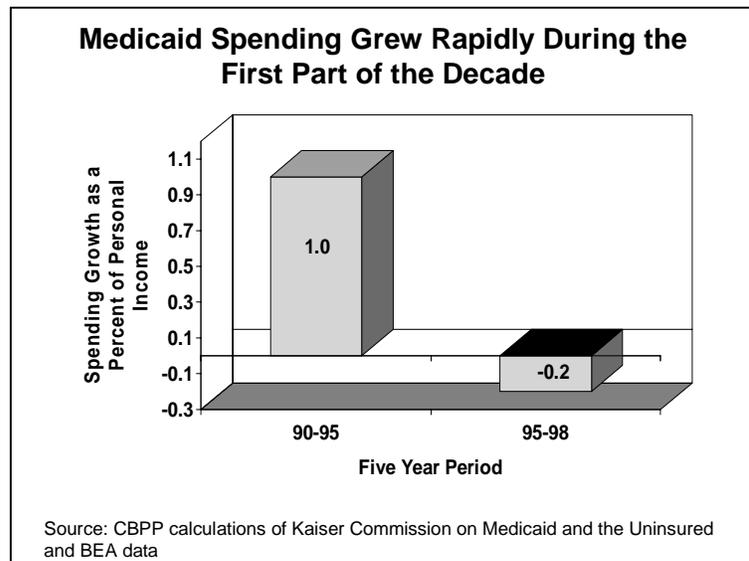


Table 2 shows data published by the Kaiser Commission on Medicaid and the Uninsured on changes in Medicaid spending between 1990 and 1998, the most recent year available. (Note: Table 2 shows combined state and federal Medicaid spending rather than simply state spending. However, federal Medicaid funding levels are based on state Medicaid spending levels, so changes in combined spending will broadly reflect changes in state spending.⁶)

⁶ It is, however, not the case that federal and state Medicaid spending increase at the same rate at times that the federal government is changing the way it provides a match for state spending. For example, over the next few years, the federal government will be restricting a financing method called the Upper Payment Limit. As a result, states will no longer receive a federal match for certain types of state Medicaid spending. If services are maintained at a constant level, this shift in financing will result in a faster increase in state spending than in federal spending. A similar situation existed when the federal government restricted the way Disproportionate Share Hospitals were funded, so, the growth rates here are likely understated for states in the mid-1990s. Nonetheless, the major trends shown by these data are the same for states and for the federal government.

Table 2
Changes in Total Medicaid Spending by Type of Spending

	Spending (in billions)		Spending as Percent of Personal Income		
	1990	1998	1990	1998	Change
Total	\$ 73.7	\$ 176.3	1.5%	2.4%	0.9
Benefits	69.2	154.4	1.4%	2.1%	0.7
Elderly	23.6	45.9	0.5%	0.6%	0.1
Blind & Disabled	26.0	66.7	0.5%	0.9%	0.4
Adults	8.8	16.3	0.2%	0.2%	0.0
Children	10.9	25.3	0.2%	0.3%	0.1
Disproportionate Share Hospitals	1.3	15.0	0.0%	0.2%	0.2
Administration	3.2	7.0	0.1%	0.1%	0.0

As noted earlier, Medicaid spending increased as a share of personal income during the 1990s. Federal and state spending on Medicaid increased from 1.5 percent of personal income in 1990 to 2.4 percent in 1998. Of this 0.9 percentage-point spending increase, the bulk — 0.7 percentage points — was the result of increased spending on Medicaid benefits. Within the Medicaid benefit category, benefits paid to blind and disabled persons increased the most. In addition, spending on the Disproportionate Share Hospital (DSH) program, which provides financial assistance to hospitals that serve a large number of low-income and uninsured patients, increased from \$1.3 billion to \$15 billion over that period. As a result, DSH spending, which had been close to zero at the start of the decade, had risen to 0.2 percent of personal income by 1998.

All of this growth in Medicaid spending took place in the early part of the decade. Between 1990 and 1995, federal and state combined Medicaid spending jumped from 1.6 percent of personal income to 2.6 percent. Between 1995 and 1998, Medicaid spending actually declined somewhat as a share of personal income. (See Figure 6.)

There were a number of reasons for the dramatic change in Medicaid spending trends within the decade:

- Medical costs rose much more slowly during the second half of the 1990s than during the first half. Between 1990 and 1995, the implicit price deflator for medical care rose 5.2 percent per year. Between 1995 and 1998, it rose only 2.3 percent per year.
- The growth in Medicaid enrollment took place entirely in the first part of the decade. As Table 3 shows, Medicaid enrollment grew 7.6 percent per year between 1990 and 1995, mostly because of the phase-in of federal initiatives enacted in the 1980s to expand eligibility among pregnant women and children, but also because of the recession of the early 1990s. Between 1995 and 1998, in contrast, Medicaid enrollment actually declined. The strong economy was a factor in this decline. In addition, the later stages of the phase-in of the

expansions for pregnant women and children brought in fewer people. Another factor was the 1996 welfare reform law, which eliminated the automatic link between eligibility for Medicaid and welfare and resulted in a decline in Medicaid enrollment.

**Table 3
Changes in Medicaid Enrollment**

Group	Average Annual Percent Change in Enrollment	
	1990-1995	1995-1998
Total	7.6%	-1.1%
Elderly	3.8%	0.0%
Blind and Disabled	9.5%	3.6%
Adults	7.5%	-3.6%
Children	8.0%	-1.4%

- Similarly, spending on Disproportionate Share Hospitals (DSH) grew rapidly during the early 1990s and then slowed dramatically. States increased funding for DSH hospitals in the first part of the decade using methods such as provider fees and intergovernmental transfers from local governments to finance DSH hospitals and leverage additional federal Medicaid dollars. In 1991 and 1993, Congress passed legislation limiting states' ability to increase spending on DSH hospitals in these ways; spending on the DSH program subsequently declined.
- State governments were not unique in facing increases in health care spending. According to data from the Centers for Medicare and Medicaid Services, the percent of GDP spent for health services rose from 11.3 percent to 13.1 percent between 1989 and 1998. The increase in health costs and in demand for health services affects state governments disproportionately because health spending makes up a larger share of government budgets than those of individuals and companies.

Unfortunately, it appears that the slowdown in Medicaid spending during the latter half of the 1990s was an anomaly. Health care costs and Medicaid enrollment have now begun to grow more rapidly.

To summarize, state spending on Medicaid grew rapidly during the early part of the 1990s mainly because of rapid increases in health care costs and increased enrollment of elderly and disabled individuals. Lesser causes of the increase were eligibility expansions for low-income children and pregnant women and financing of Disproportionate Share Hospitals. Spending declined during the latter part of the 1990s.

Corrections Spending Grew Modestly During the 1990s

Spending on corrections makes up a smaller but still significant part of state budgets. State corrections spending grew during the 1990s, with states spending more both to operate existing prisons and to build new ones. The need for prison space grew significantly as stiffer penalties and other policy changes, as well as technological advances that improved the ability of

law enforcement officers to apprehend criminals, increased incarceration rates. Between 1989 and 2000, the number of prisoners under state jurisdiction almost doubled, from 253 per 100,000 population in 1989 to 432 per 100,000 population in 2000.

Public Assistance Spending Declined, While Higher Education and Transportation Spending Remained Steady

During the 1990s, state spending in a number of areas grew more slowly than or at the same pace as the economy and thus did not increase relative to personal income.

Public assistance spending — spending on cash assistance whether through the TANF program or other state programs such as general assistance — saw the most significant decline, falling from 0.3 percent of personal income in 1989 to 0.2 percent in 2000. This was the result of a number of factors, most notably the steep drop in caseloads that accompanied the economic expansion of the mid- and late-1990s, the implementation of the TANF program, and increased work supports.

State spending on higher education remained about level relative to personal income during the 1990s. One likely reason is that the college-age population grew less quickly than the school-age population. In addition, states faced greater public pressure to expand investments in elementary and secondary education than in higher education during this period.

State spending on transportation also remained about even relative to personal income over this period. States did not embark on significant new initiatives using their own funds; instead, they relied on increased federal assistance to address the growing transportation needs of an expanding economy.

Conclusion

State and local government spending increased during the 1990s. Some of that increase reflected the desire of elected officials to dedicate a portion of the nation's real economic growth to improving the scope and quality of public services. For example, health insurance was extended to millions of low-income children. Many states invested in popular new initiatives to improve public schools. Stiffer sentencing guidelines and increasingly effective law enforcement techniques contributed to a dramatic rise in incarceration and a corresponding need for the expansion of prison infrastructure.

Most of the growth in state and local spending, however, was caused by factors largely outside states' control — population increases, cost increases, and changes in the size and nature of the economy. Far from an explosion in spending, the 1990s was a time when state and local policymakers kept pace with the nation's expanding population and economy while making some limited and targeted new investments in public services.

APPENDIX

Appendix Table 1
Census - State General Spending Minus Revenue From Intergovernmental Grants

	General State Own-source Spending	General State Spending	Intergovernmental Revenue	Real Per Capita Spending (99\$)	Avg Annual % Change	Spending as % of Personal Income	Point Change
1949	8,777.5	10,859.5	2,082.0	553.9		4.2%	
1959	19,755.0	26,007.0	6,252.0	740.1	2.9%	5.2%	1.0
1969	50,248.0	68,023.0	17,775.0	1,151.4	4.5%	6.8%	1.6
1979	143,430.0	200,517.0	57,087.0	1,400.5	2.0%	7.3%	0.6
1989	353,594.3	469,359.3	115,765.0	1,865.8	2.9%	8.0%	0.7
1999	635,783.2	889,475.2	253,692.0	2,278.5	2.0%	8.4%	0.4

Source: CBPP calculations of Census Government Finances and NEA data

Appendix Table 2
Change in State Spending by Function 1989 – 2000
(State General Fund and Other State Sources)

			Percent of Personal Income		Change
	1988-89	1999-00	1988-89	1999-00	
Total	348,042	681,873	7.9%	8.5%	0.629
K-12 Education	93,781	183,301	2.1%	2.3%	0.164
Higher Education	50,358	86,936	1.1%	1.1%	-0.055
Public Assistance	12,803	13,192	0.3%	0.2%	-0.125
Medicaid	22,296	79,823	0.5%	1.0%	0.491
Corrections	13,947	33,675	0.3%	0.4%	0.104
Transportation	31,535	55,730	0.7%	0.7%	-0.019
All Other	123,322	229,216	2.8%	2.9%	0.068

Source: CBPP calculations based on NASBO State Expenditure Reports and NEA data.