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# THE Budget IN Brief

## ANNUAL STATE SPENDING COMPOUNDED AT 8.7% FOR THE LAST TEN YEARS; "REAL" GROWTH WAS 2.5%.

Over the past ten years state spending has more than doubled from \$12.1 billion in 1982 to \$25.6 billion in 1991 (see Figure 1). These numbers are net expenditures by function from all funds as reported by the comptroller in the state's annual financial report. Appropriations for the current 1992-1993 biennium guarantee that state outlays will continue to grow over the next two years to more than \$30 billion a year.

population changes and inflation are the most frequently used modifiers.

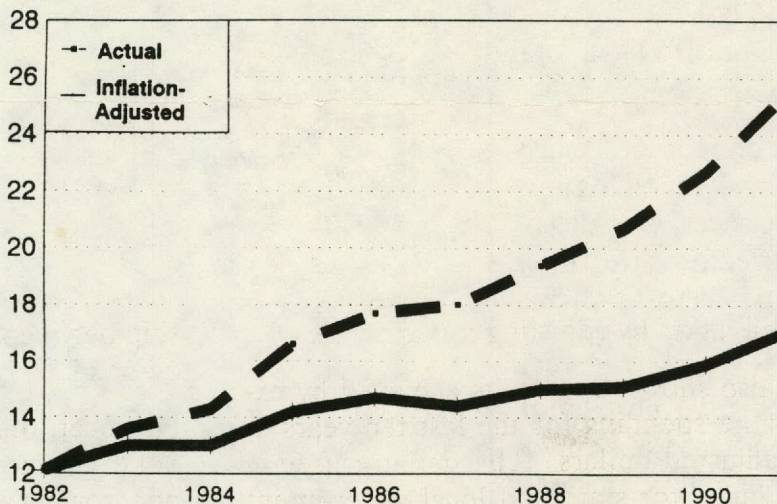
### Inflation Impact

Since governments are consumers of goods and services, inflation drives up government spending in much the same way that it undermines household budgets. Thus, before meaningful comparisons of government financial statistics over time

Although spending increased at widely varying rates over the period, the total ten-year jump of 112% represents an annual average growth of 8.7%.

Accurately deciphering statistics on government spending over time demands that changes in demographic and economic factors be taken into account. Simply citing the raw numbers can be misleading. Determining the "real" increase in expenditures requires that the data be adjusted to exclude the effects of exogenous variables;

Figure 1  
State Expenditures  
1982-1991 (billions of dollars)





can be made, they should be converted to constant dollar values by adjusting for inflation.

Figure 1 also shows the results achieved by expressing state spending for the last ten years in inflation-adjusted dollars. The deflator used is the price index for state and local government purchases developed by the Bureau of Economic Analysis, U.S. Dept. of Commerce, as part of the national income and product accounts. This index has increased somewhat faster than the consumer price index, the most commonly used price deflator.

As demonstrated in Figure 1, adjusting the data for price increases accounts for almost two-thirds of the growth in actual spending since 1982. Over the ten-year period, constant-dollar state spending grew an average of 4% a year, compared to 8.7% for actual expenditures.

### Population Growth Adjustment

Since 1982, the state's population has grown by an estimated 13.6%, from 15.3 million to 17.4 million. This means more people demanding government services, most of which are significantly affected by the number of people in the state.

Figure 2 shows that state spending per capita rose at an annual average rate of 7.2% from about \$790 in 1982 to just under \$1,474 in 1991 -- a total hike of 86.6%.

A growing population clearly increases the demand for government services, but developing an exact measure of this relationship is a most difficult, if not impossible, task. Although adjusting all state spending by total population growth is perhaps the best adjustment that can be made, it admittedly is only an approximation of the precise impact,

since it obviously assumes a one-to-one relationship between population increases and spending demand.

However, this linear relationship probably does not exist since all segments of the population are not growing at the same rate and since each individual does not use state services to the same extent. For example, public school education is the single largest item of state spending (comprising more than one-fourth of total spending) and public school enrollment increased 15.9% from 1982 to 1991, compared to 13.6% for the state's total population. In some cases the difference is much more dramatic -- witness the more than 60% increase in the state's prison population over the same period.

The results of combining adjustments for both inflation and population are also shown in Figure 2. Inflation-adjusted state spending per capita went up 24.8% from 1982 to 1991 -- from \$790 to just under \$986. The resulting annual average increase of 2.5% is the figure most often cited as the best measure of the "real" increase in state spending over the past ten years.

Figure 2  
Per Capita State Expenditures  
1982-1991

