

The Liberty Bullhorn

News and Commentary Based in Free-Market Economics

Publisher and Editor: Sven R Larson

December 14, 2011:

State Spending in the Great Recession

- Spending Cuts? What Spending Cuts? p.2
 - When Uncle Sam Took Over South Carolina p.3
-

Short Take

The NASBO State Expenditure Report

There are many databases that track state spending in one way or the other. Among the best is the annual State Expenditure Report published by the [National Association of State Budget Officers](#). The report publishes state spending divided into four funds: General, Federal, Other and Bonds.

The main strength with the NASBO report is that it uses a similar methodology across the board. Other databases, such as the one published by the Center for Budget and Policy Priorities, come with a methodological patchwork that erodes the reliability of the data.

In fairness, NASBO's report is not free of glitches either. There are isolated discrepancies in year-to-year reporting. An example: the numbers for Connecticut state spending in 2009 as reported in the 2010 State Expenditure report are 20 percent different than the same numbers for 2009 reported in 2011. Earlier data for individual programs also contains minor glitches. Wyoming Medicaid data prior to 2005 is an example.

Despite these glitches, NASBO's state spending report is of high quality and getting better for each year. It compares well to similar data reported by the Census Bureau, though for studies strictly concentrated on Federal Funds, the Census Federal Aid to States report is better.

*The Liberty Bullhorn is published bi-weekly. Copyrighted material.
All rights reserved. Contact: larrison4liberty@gmail.com*

Spending Cuts? What Spending Cuts?

In its [2011 State Expenditure Report](#), the National Association of State Budget Officers estimates that the 50 states spent \$1,687.6 billion in 2011. This is up from \$1,621 billion in 2010.

Since 2008, when we saw the first signs of the Great Recession, the states have increased their total spending by \$208.8 billion. That is an average of 4.5 percent per year, or 14.1 percent in three years.

Spending numbers obviously vary between states, but overall, these numbers make it difficult to see any fiscal crisis in our states.

Six states went on a virtual spending spree in 2011 and increased their total spending by more than ten percent in one year: Alaska (42.1 percent), South Carolina (26.5), Florida (13.6), Nevada (10.4), and California and Idaho (10.3).

The Alaskan increase came after sharp increases in oil tax revenues during 2010. The South Carolina increase is of an entirely different nature, and is discussed in detail in the next article in this newsletter (page 3).

A total of 32 states increased their spending up to ten percent in 2011. This group is topped by Tennessee (8.6), Mississippi (8.2) and Wisconsin (6.9). ([Click here for a full list.](#)) By contrast, New Jersey showed restraint, likely a result of Governor Christie's tight fiscal stewardship. The Garden State's 2011 spending was a meager 0.1 percent above 2010.

Spending actually fell in 12 states. The biggest drop was in Utah (-10.8 percent) followed by Colorado (-8.4) and Illinois (-7.3). The remaining nine spending-cutting states averaged 2.2 percent in reductions.

More states cut spending in 2011 than in 2009 (seven states) and 2010 (11), but there were also a lot of big spenders in those years. Most states, in fact, expanded their budgets. In 2009 a total of 43 states increased their spending, 29 states by more than five percent. Wyoming outpaced them all with a 33.9 percent spending spurt.

In 2010, 39 states increased their spending, a notable 19 of them by at least five percent. Oregon topped the 2010 chart with a 32.7 percent growth in total state outlays. Interestingly, Utah came in second place with 29.7 percent, a number that far outweighs The Beehive State's sharp spending cut in 2011.

Even in the tough year of 2011, a surprising 38 states increased their spending, 17 of them at five percent or more. Average cuts in the states that did reduce total spending in 2011 were smaller than in 2010.

The numbers discussed here are, again, for total state spending. It is easy to be misled into focusing on the General Fund. When state legislators say they cut spending, they often refer to the General Fund. A look at the NASBO data confirms this: the states' total General Fund spending in 2011 was \$636 billion, which is 6.3 percent or \$42.7 billion less than in 2008.

Strict focus on the General Fund can be very misleading. A case in point is Louisiana where the General Fund has been cut three years in a row: by 8.5 in 2009, by 4.5 percent in 2010 and by 12.3 percent in 2011. At the same time, Other Funds spending has gone up by, 30.4 percent in 2009, 8.7 percent in 2010 and 22 percent in 2011. (For full tables with all states, [click here.](#))

When Uncle Sam Took Over South Carolina

For the first time in history a U.S. state now gets at least half of its funding from the federal government. NASBO estimates for 2011 show that South Carolina got \$12.8 billion from the federal government. At the same time, General Fund spending was \$5.1 billion and Other Funds amounted to \$7.7 billion.

While The Palmetto State is still constitutionally an independent jurisdiction, the fact that Uncle Sam literally bankrolls half the state government raises the question of what that independence actually means. Federal Funds are more important to the state government than all state taxes and fees paid by South Carolinians, combined.

It was only a matter of time before one state would pass the 50-percent marker. The expansion of federal funds in state budgets is a long-term trend that this newsletter has analyzed on several occasions. With the ARRA stimulus funds one could expect that some state would temporarily exceed 50 percent in federal funds, only to fall back when the ARRA funds dry up. A first guess would be that this is exactly what has happened in South Carolina.

However, a closer look shows that the state has been on this trajectory for some time. The share of federal money in the South Carolina state budget has grown from 32 percent in 2008 to 34 percent in 2009 to 37 percent in 2010, only to leap to 50 percent in 2011.

During the same time, the Federal Funds share of spending in all 50 states combined has increased from 26 percent in 2008 to 30 percent in 2009 and 34 percent in 2010. The 2011 share was equal to 2010. This means that the expansion of federal funding for states that came with the ARRA stimulus bill capped out in 2011 – something that should be reflected in every state budget. It is to some degree: the Federal Funds share of total spending fell or remained constant in 28 states. Of the 22 states where Federal Funds expanded its share of total spending, South Carolina, Utah, Delaware and Wyoming formed the top quartet.

In terms of dollars, South Carolina took \$5.2 billion more Federal Funds in 2011 than in 2010. That is an increase of 67 percent. What makes this increase particularly troubling is that the money is not going toward any of the major spending programs, such as Medicaid, but is designated as “All Other Expenditures”. By NASBO methodology this means “miscellaneous” items, including but not limited to SCHIP.

Eleven states got more than 40 cents of every dollar they spent from the federal government in 2011. The runner-up was Mississippi (48.4). Another big taker of Federal Funds, Oklahoma, took third place (45.5) followed by Tennessee (45.1). ([Click here for more data.](#))

Mississippi, Oklahoma and Tennessee have been in the top-five for several years. Their continuous dependency on Federal Funds, while troubling in terms of state sovereignty, is at least stable. The sudden rise of South Carolina to the top of the list, and right up to the 50-percent mark, should be a matter of serious concern for Governor Nikki Haley.

Keep up with news and commentary on economics and freedom! Subscribe to
[libertybullhorn.com!](http://libertybullhorn.com)