Pressures on Tenth District State and Local Government Spending

By Glenn H. Miller, Jr.

State and local governments in the Tenth Federal Reserve District enter the 1990s facing strong pressures to increase their spending. Renewing infrastructure, improving the public educational system, and assuring adequate health care for an aging population are just some of the challenges confronting state and local governments in the district. And these pressures come at a time when "fend-for-yourself federalism" threatens to spread state and local budgets even thinner.

To help citizens and public officials confront upcoming spending issues, this article examines state and local government spending patterns in the district and discusses some factors that will keep upward pressure on spending. The first section shows that relatively rapid growth of spending by state and local governments in the district since 1978 was not fast enough to bring district spending levels up to the U.S. average. The second section discusses some primary economic pressures on spending growth and identifies demographic changes that may add to those pressures in the 1990s.

The article concludes that economic and demographic factors will continue to put upward pressure on several categories of district spending in the 1990s—including infrastructure, education, and health and hospital services. In response, state and local governments in the district may be forced to choose between boosting total expenditures and revenues or making hard choices about spending priorities. A subsequent article will examine some options open to state and local government policymakers as they confront the pressures for continued rapid growth in spending.

I. Spending by District State and Local Governments in the 1980s

To compare spending across states, this article defines spending as direct general expenditures, which are expenditures for public purposes served by government activities, including such basic functions as education, transportation,

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public safety, and social services. Excluded from direct general expenditures are certain types of spending not common to the state and local government sector in all states.[1]

Data on spending by state and local governments are consolidated in this article. Consolidation is necessary because functions paid for and performed by one level of government in some states may be the responsibility of another level of government in other states. For example, state governments make no direct expenditures for elementary and secondary education in about two-thirds of the states. But in Hawaii, where the state operates the schools, local governments make no direct expenditures for elementary and secondary education.

To facilitate comparisons across states, public per capita spending is used. Per capita spending—the measure most commonly used when comparing interstate differences in furnishing government services—adjusts total spending for differences in population size. Spending per capita is also a useful measure because it includes population as an approximation of expenditure need.[2]

Per capita spending comparisons are made both over time and at a certain point in time. To compare growth in public services over time, spending per capita must be adjusted for inflation. Thus, this article uses real, or inflation-adjusted, per capita spending in discussing the growth of public spending. To compare public spending levels across states at a point in time, however, spending per capita need not be adjusted for inflation.[3]

Public spending in the district: 1978-88

To chart the growth in public spending, a base year must be selected. Two events make 1978 a useful benchmark year for state and local public finance. First, 1978 saw the adoption of Proposition 13, which placed constitutional limitations on the growth of California state spending. Measures similar to Proposition 13 were subsequently adopted in other states. While not always completely effective, these measures signaled resistance by citizens to rising public expenditures and increased taxes. Second, 1978 was the peak year for federal outlays for grants-in-aid to state and local governments—whether measured in inflation-adjusted dollars, as a percent of federal outlays, or as a share of GNP. Since then, reduced federal aid has forced state and local governments to make spending decisions based on greater dependence on their own resources.

From 1978 to 1988, state and local government spending in the district grew much faster than both population and the level of prices.[4] Spending in the seven district states increased about 136 percent during the ten-year period, while district population grew only about 11 percent. Consequently, spending per capita more than doubled. Most of the increase in spending was due to inflation, however. Adjusted for the rise in prices, district spending increased 28 percent over the ten-year period. Allowing for both population growth and inflation, real per capita spending by state and local governments in the district grew about 15 percent from 1978 to 1988, or at an average rate of 1.4 percent per year (Table 1). This growth was equal to growth in the nation for the same period.

Per capita spending in the district: 1988

Despite its growth in the 1980s, spending by district state and local governments has remained below national levels.[5] When compared on a per capita basis, state and local government spending in the district fell short of the national average in 1988. Spending nationally was $2,857 per person, compared with $2,527 in the district (Chart 1).

Per capita spending also varied considerably across district states in 1988, ranging from $2,139 in Missouri to $4,279 in Wyoming. Put

Table 1

Real Per Capita State and Local Spending, 1978-88

	Tenth District			United States		
	(1982 dollars)		Average annual	(1982 dollars)		Average annual
	1978	1988	growth	1978	1988	growth
Total[1]	1,742	2,006	1.4	1,981	2,268	1.4
Education	718	770	.7	751	795	.6
Social services	345	398	1.4	432	489	1.2
Transportation	212	228	.7	183	206	1.2
Public safety	120	154	2.5	154	199	2.6
Environment and housing	129	148	1.3	155	191	2.2
Administration	86	113	2.7	100	121	2.0
Interest	49	130	10.3	80	143	6.0
Other	83	67	−2.2	126	123	−.2

[1] Direct general expenditures.
Source: Bureau of the Census.

another way, per capita spending in district states ranged from 75 percent of national per capita spending in Missouri to 150 percent in Wyoming. Per capita spending fell below the national average in five district states—Kansas, Missouri, Nebraska, New Mexico, and Oklahoma.

Per capita spending on most government activities in the district was below national average levels in 1988 in spite of the spending growth of the 1980s (Table 2). Major spending activities include education, social services, transportation, public safety, and housing and the environment. Among the major spending functions, only transportation spending—particularly highway spending—exceeded the national average in 1988. High levels of highway spending in the district are not surprising, given the large land area to be served. Per capita highway spending in the district was 112 percent of the national average, ranging from Missouri's 85 percent of the U.S. average to Wyoming's 247 percent. Only in two district states—Missouri and Oklahoma—was highway spending below the national average.

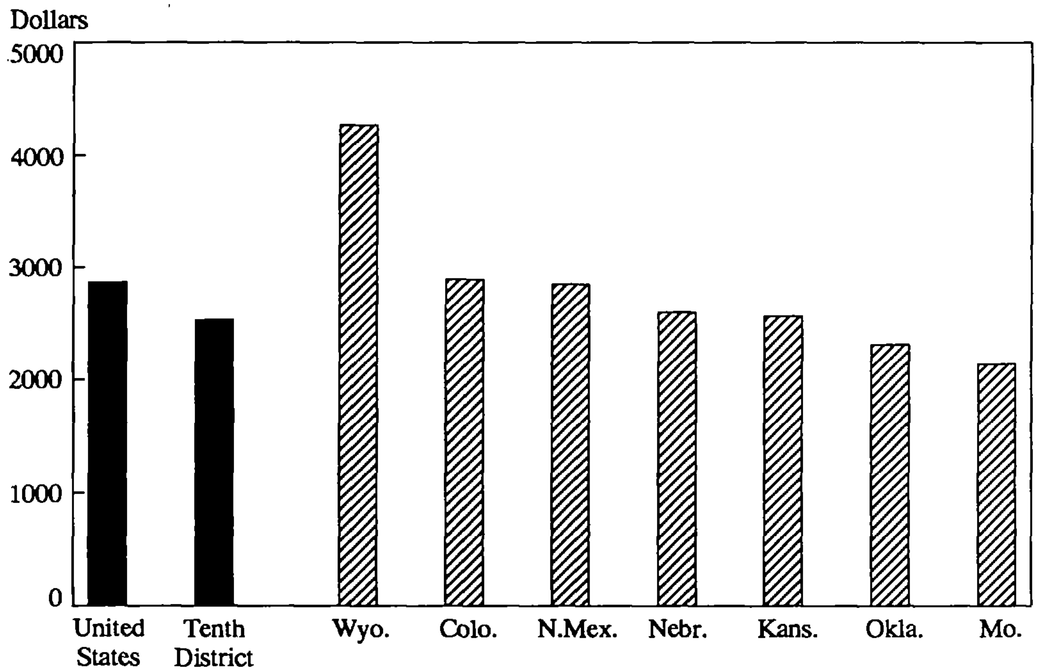
A mixed picture emerges from comparing spending on education in the district and the nation. District spending on all education services was slightly below the national average. Four district states exceeded national average per capita spending—Colorado, Nebraska, New Mexico, and Wyoming. Wyoming spent the most on education among district states, with 160 percent of the national average; Missouri spent the least with 84 percent.

The shortfall in per capita spending on education in the district was concentrated in the elementary and secondary education sector. All district states but Colorado and Wyoming spent less per capita than the national average on elementary and secondary education. On the other hand, all district states except Missouri spent more per capita than the national average on higher education.

Chart 1

Per Capita State and Local Government Spending

United States and Tenth District States, 1988



Source: U.S. Department of Commerce.

Spending shares in the district: 1988

Comparing the way state and local governments distribute their spending among government activities or spending functions can shed additional light on public support for public services. Citizens or public officials in various states may value a particular activity differently, leading to different shares of total spending for that activity. Spending on the various functions as shares of total spending tend to reflect differences from state to state in relative preferences of electorates for those expenditures.

The largest share of state and local government spending in the district goes to education (Table 3). While the same is true on average for the nation, every district state spent a larger share on education than the national average in 1988. Education spending in the district ranged from 37 percent of total spending in New Mexico to more than 39 percent in Missouri and Nebraska, compared with a national average of 35 percent.

Most state and local government spending for education is for elementary and secondary (K-12) schooling. Such expenditures accounted for about one-fourth of spending nationally in 1988. Spending for K-12 education in New Mexico matched the national average. The other six district states bettered the national average, with Missouri's share the largest in the district. All district states spent a larger share of total spending on higher education than the national average. District state shares were lowest in Wyoming and highest in Kansas.

Social services spending—spending for public welfare expenditures and health and hospitals—makes up the second largest share of total spending in both the district and the nation.

Table 2
Per Capita State and Local Government Spending, 1988

	U.S.	Colo.	Kans.	Mo.	Nebr.	N. Mex.	Okla.	Wyo.	Dist.
Total expenditures[1]	$2,857	$2,889	$2,562	$2,139	$2,597	$2,841	$2,308	$4,279	$2,527
Education	1,002	1,084	999	840	1,024	1,056	877	1,614	970
Elementary and secondary	690	743	668	593	676	686	586	1,122	660
Higher	255	304	301	211	301	324	258	415	273
Social services	616	504	448	458	565	497	536	782	501
Health & hospitals	252	218	217	223	279	228	233	572	238
Transportation	260	309	327	220	337	358	242	570	287
Highways	226	255	312	193	286	298	219	558	253
Public safety	251	248	166	180	156	228	177	241	194
Police protection	107	116	77	86	71	98	71	121	88
Corrections	77	68	45	48	40	74	54	56	54
Environment and housing	241	256	151	154	185	203	166	317	186
Administration	152	199	165	105	117	162	117	227	142
Interest	180	206	192	119	127	227	131	342	163
Other	155	85	115	64	86	110	62	187	84

[1] Direct general expenditures.
Source: Bureau of the Census.

District states differ more among themselves in spending for social services than in spending for education.

Transportation represented the third largest share of total state and local government spending in both the district and the nation in 1988. Every district state spent a larger share on highway construction and maintenance than the national average. Highway spending in the district ranged from almost 9 percent of total spending in Colorado to 13 percent in Wyoming, compared with about 8 percent nationally.

District spending characterized

After a decade of fairly rapid growth, per capita government spending in the Tenth District overall, as well as in five district states, still falls short of national per capita spending. Yet per capita spending is larger in the district than in the nation for some functions. Expenditures per capita for higher education and highways are larger in the district and in most district states. Based on the distribution of total spending between functions, citizens and public officials in district states choose to direct more of their expenditures to education and transportation, and less to social services, public safety, and housing and the environment, than does the nation as a whole. With few exceptions, the same is true for every district state.

The district, therefore, may be characterized as fiscally conservative overall, because its level of per capita spending is less than the

Table 3
Percentage of State and Local Government Spending by Function, 1988

	U.S.	Colo.	Kans.	Mo.	Nebr.	N. Mex.	Okla.	Wyo.	Dist.
Total expenditures[1]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Education	35.1	37.5	39.0	39.3	39.4	37.2	38.0	37.7	38.4
Elementary and secondary	24.2	25.7	26.1	27.7	26.0	24.2	25.4	26.2	26.1
Higher	8.9	10.5	11.7	9.9	11.6	11.4	11.2	9.7	10.8
Social services	21.6	17.4	17.5	21.4	21.8	17.5	23.2	18.3	19.8
Health & hospitals	8.8	7.5	8.5	10.4	10.7	8.0	10.1	13.4	9.4
Transportation	9.1	10.7	12.7	10.3	13.0	12.6	10.5	13.3	11.4
Highways	7.9	8.8	12.2	9.0	11.0	10.5	9.5	13.0	10.0
Public safety	8.8	8.6	6.5	8.4	6.0	8.0	7.7	5.6	7.7
Police protection	3.7	4.0	3.0	4.0	2.7	3.4	3.1	2.8	3.5
Corrections	2.7	2.4	1.8	2.2	1.6	2.6	2.4	1.3	2.1
Environment and housing	8.4	8.9	5.9	7.2	7.1	7.1	7.2	7.4	7.4
Administration	5.3	6.9	6.4	4.9	4.5	5.7	5.1	5.3	5.6
Interest	6.3	7.1	7.5	5.6	4.9	8.0	5.7	8.0	6.5
Other	5.4	2.9	4.5	3.0	3.3	3.9	2.7	4.4	3.3

[1] Direct general expenditures.
Source: Bureau of the Census.

national average. But the district also may be characterized as willing to prioritize spending for some highly valued functions, such as education. Each district state seems to appraise education about as highly as do its district neighbors and somewhat more highly than the national average, in terms of education's share of total public spending. But district per capita spending for education is less than national per capita spending because district citizens and public officials choose to spend less per capita on government services overall than the national average. That is, per capita education spending in the district falls below the national per capita level, not because education is less valued here than other government spending activities, but because of the electorates' decisions on the distribution of resources between the public and private sectors. As the decade of the 1990s unfolds, state and local governments will face increasing pressures to spend more on public services and perhaps to change the ways they distribute their spending dollars.

II. Pressures for Increased State and Local Government Spending

In recent years several factors have pressured state and local governments to spend public funds—and many of the same factors are likely to persist in the years ahead. These factors affect all parts of the nation, and state and local governments in the district will also have to face them. For example, government and business leaders see a continuing need to renovate, replace, and add to existing physical infrastructure. Moreover, to enhance prospects for economic growth and competitiveness and to elevate the quality of citizenship and personal life, further attempts to improve the quality of education are likely. And "fend-for-yourself federalism" will increase pressures on state and local government spending. Other factors, such as population changes in some district states, may exert changing pressures on spending in the 1990s. This section explores these upward pressures on state and local government spending.

Infrastructure renewal

Perhaps the most noticeable source of pressure for increased state and local government spending is the nation's physical infrastructure. As the primary caretakers of the nation's infrastructure, state and local governments are responsible for a wide range of public facilities—from roads, airports, and fire stations, to water and sewerage systems. Yet because many communities have put off rehabilitating public structures or building new facilities, the public services these facilities provide are often lacking. Not only are governments "feared to be seriously underinvesting in public infrastructure. . . even more alarming is the pervasive expectation that matters are getting worse" (Johnson and others 1988).

Among the many infrastructure problems, one of the most critical is the condition of America's highways, roads, and bridges. The nation's system of about 4 million miles of federal, state, county, and local roads has many deficiencies. The Federal Highway Administration reported about 53 percent of U.S. nonlocal roads to be in fair or poor condition in the mid-1980s. The nation's local rural road system (roads maintained by counties or townships) shows evidence of deteriorating rapidly, with bridges of particular concern (Baumel and others 1989). Bridges outside the federal-highway-aid system fare especially poorly, with 55 percent of such bridges labeled deficient in 1986. While the bridge-deficiency problem is national in scope, four district states—Missouri, Nebraska, Oklahoma, and Kansas—are among the 12 states with the largest number of deficient bridges (Baumel and others 1989).

All levels of government participate in highway finance, yet recent financing patterns point to more and more involvement by state and local governments.[6] About two-thirds of the 1987 national "road bill" of about $66 billion was financed by user taxes (such as fuel taxes) and tolls. Most of the rest was paid for by state and local governments from other revenue sources (Small and others 1989).

Federal support for the nation's roads and bridges has lessened in recent years. From 1977 to 1986, real total federal highway aid per mile fell about 23 percent. Moreover, General Revenue Sharing (GRS) for local governments was discontinued in 1986. Because some GRS funds were used for highway purposes at the discretion of local governments, their discontinuation represented a further loss to counties and other local governments responsible for roads and bridges (Walzer and McFadden 1989).

The nation's deficient road system is expected to remain under continuing strain, bringing strong pressures for improvement. With federal financial aid for highway purposes declining, much of the burden of financing more and better roads will be left to state and local governments. Attempts to shoulder the burden of highway improvement and other infrastructure renewal are likely to keep upward pressure on state and local government spending in the current decade.

Education improvement

The top spending priority of state and local governments in the district and the nation is education, yet many observers question whether satisfactory educational services are being provided. Concerns are especially great at the elementary and secondary education level. For example, a presidential commission report issued in 1983 was highly critical of the K-12 education system. Spurred by concerns about the school system, and aided by stronger economic growth and lower inflation, spending on education by state and local governments trended upward after the early 1980s. Real per capita spending for K-12 schooling grew much faster after 1982 than in the previous four years, both in the district and in the nation.

Yet the growth in spending has not relieved all concerns about the satisfactory provision of education services. For example, a study of labor force training presented to the Kansas legislature this year suggested the state's K-12 educational system could better prepare students for work by emphasizing basic education skills (Sullinger 1990). Moreover, many concerns arise from recognition of America's need to compete in a world economy where technological and other skills must rest on a firm educational foundation. A recent study of education spending in 16 industrial countries reported that educational effort in the United States ranks generally near the bottom, when K-12 educational expenditures are compared in relation to size of national incomes (Rasell and Mishel 1989). While the authors of this study agree that spending increases alone will probably not bring better quality education, they also doubt the objective can be attained without spending increases.[7]

Those concerned with the quality of education agree on the importance of progress toward education excellence. Yet they do not all agree on the extent to which more spending will bring the desired improvement. Nevertheless, further pressure for increased spending in the near future is likely to be part of any drive toward higher quality education.

Fend-for-yourself federalism

A strong move to devolve spending from the federal government to the state and local levels promises to keep upward pressure on state and local government spending in the Tenth District. Fiscal federalism entered a new epoch after 1978, the high-water-mark year for federal grants to state and local governments. According to one observer, state and local governments now operate "in a fairly harsh and politically risky fend-for-yourself fiscal environment" (Advisory Commission on Intergovermental Relations 1989).

Federalism's present fiscal environment can be better understood by comparing it with the more affluent fiscal environment that existed from the end of the Korean War to 1978. Where the earlier period was characterized by heavy state and local government reliance on federal aid, reduced federal aid in the 1980s has forced state and local governments to finance more of their own spending. The shift represents a return to a more decentralized allocation of fiscal responsibilities within the federal system, which existed through most of the nation's history before the 1950s. The recent appearance of fend-for-yourself federalism is thus not an innovation but a return to an earlier fiscal environment. Nonetheless, the impact of fend-for-yourself federalism on state and local government spending is real.

Increased pressures on state and local government spending are underlined by two features of the return to fend-for-yourself federalism. The first feature concerns federal grants-in-aid to state and local governments. Federal grants are payments to individuals passed through state and local governments, or other grants (including shared revenues) generally spent directly by state and local governments with some discretion in their spending choices. With the return to fend-for-yourself federalism, fewer federal grants allow for spending discretion by state and local governments, and more grants are simply passed through state and local governments to individuals.

A large decline in federal grant funds, over which state and local governments had considerable discretion in spending, has constrained state and local government spending. Exemplifying the decline in this kind of federal funding was the end of general revenue sharing for states in 1980 and for local governments in 1986. Federal outlays for grants-in-aid to state and local governments (including shared revenue) declined about 15 percent in constant 1982 dollars from 1978 to 1989. Meanwhile, the share of grants made as payments to individuals, primarily Aid to Families with Dependent Children and Medicaid, increased from 31 percent to 54 percent (Table 4). Thus, while federal grant funds passed through state and local governments to individuals increased about 49 percent from 1978 to 1989, grant funds spent directly by state and local governments declined about 44 percent from 1978 to 1989.

The second feature of fend-for-yourself federalism is a turn toward regulatory federalism. Regulatory federalism describes a range of actions through which the federal government controls and regulates various activities of state and local governments by means of direct legal authority rather than by providing financial aid for specified purposes.

A continued trend toward regulatory federalism has accompanied the decline in federal grants, strengthening a tendency toward unfunded federal mandates to state and local governments. Mandates and grants differ significantly in character. A grant is a transfer of funds, usually conditional on the recipient's complying with a set of conditions set by the giver. A mandate is a set of conditions backed by the force of law to achieve some purpose.[8]

In the American system of federalism, Congress and the federal courts have imposed mandates on state and local governments. Mandates are direct orders that force compliance with conditions set out in statutes or court orders under threat of civil or criminal penalty. The federal government finds mandates attractive because they have no budgetary cost and can help the federal government implement its own policy initiatives by requiring state and local governments to enforce and finance them. But because mandates usually provide no funds to carry out the initiatives, state and local governments naturally tend to oppose them.

Federal mandates have increased substantially over the past decade, putting increasing pressure on state and local governments for higher spending. For example, many states have been required by federal court decisions to upgrade and enlarge their prison facilities. Corrections spending increased rapidly in the 1980s, due partly to the growing prison population but also partly to court-ordered improvements in liv-

Table 4
Federal Grants-in-Aid to State and Local Governments

	1978	1989
Total grants	109.7	93.4
Payments for individuals	34.0	50.6
Other	75.8	42.8
Payments for individuals as percent of total	30.9	54.2
Grants as percent of federal outlays	17.0	10.7
Payments for individuals	5.3	5.8
Other	11.7	4.8
Grants as percent of GNP	3.6	2.4
Payments for individuals	1.1	1.3
Other	2.4	1.1

Source: *Budget of the United States Government: Fiscal Year 1991*, p. A-321.
Note: Grants are federal outlays including shared revenue expressed in billions of FY1982 dollars. Years are fiscal years.

ing conditions for prisoners. At least 35 states were subject to such orders in the late 1980s (Gold 1987). Further increases in prison populations and continuing mandates for enlarging and improving institutions will likely keep upward pressure on corrections spending.

To offset the burgeoning costs of federal mandates, state and local governments have sought relief through legislation requiring federal reimbursement for the costs accompanying mandates (Whitman and Bezdek 1989). Whether states and localities can effectively make their case and whether the federal government will become more sensitive to state and local government concerns are open questions.

As long as federal aid grants do not grow substantially, and unless mandating becomes less prevalent, fend-for-yourself federalism is likely to remain the order of the day. Consequently, state and local governments will continue to be forced to support their rising expenditure needs primarily from their own resources.

Changing demographics

Changing demographics can have a strong influence on the need for government services. Examining population projections for 1995 for two age groups—persons aged 5 through 17 and 65 and older—reveals how demographic changes could significantly affect spending patterns in this decade.

School-age population. Increases in state and local government spending for K-12 education in the years ahead will depend on three factors: how many school age persons are served, how much prices rise, and how much is spent per school-age person. The first of these factors—how many school-age persons are served—will depend largely on changes in the size of the 5 through 17 age group.

Table 5 illustrates some of the potential for higher district K-12 education spending in 1995. District population aged 5 to 17 is projected to be about 3,608,000 in 1995, about 7.3 percent more than in 1988 (U.S. Bureau of the Census 1988). If district spending per school-age person in 1995 is unchanged from its 1988 level, total spending will be $12.6 billion—7.3 percent higher than in 1988 (1995 column 1).

This illustration does not provide for any inflation between 1988 and 1995, however, and some rate of price increase should be assumed. If the implicit deflator for state and local government purchases increases annually from 1988 to 1995 at the 1989 rate of 4.7 percent, the price level would be about one-third higher in 1995 than in 1988. If prices rise that much, keeping district real spending per school-age person at its 1988 level would require total spending of about $16.7 billion in 1995—about 43 percent more than in 1988 (1995 column 2).

But what if district citizens and public officials decide to try to improve the quality of education by increasing real spending per school-age person? Increasing total spending to the 1988 national average level of $3,739 per person, taking into account the projected population increase but allowing for no inflation, would bring district state and local government spending on K-12 education in 1995 to about $13.5 billion (1995 column 3). With the same price rise assumed earlier, total district spending in 1995 to provide real spending per school age person equal to the 1988 national average level would be about $17.9 billion, about 53 percent more than total spending in 1988 (1995 column 4).

These spending amounts for 1995 are simply illustrative; they are not forecasts. Price increases may be smaller, the population projections may be wrong, and electorates may make different choices about education spending. But simply as illustrations, these numbers give some sense of the potential for increased K-12 education spending in the district in the early 1990s.

How do these illustrations compare with earlier growth in district K-12 education spending? Total K-12 spending in the district more than

Table 5
Illustrations of Potential 1995 Spending for K-12 Education in the Tenth District

	1988	1995			
	Actual	1	2	3	4
School-age population	3,364,000	3,608,000	3,608,000	3,608,000	3,608,000
Spending per school-age person	$3,485	$3,485	$4,635	$3,739	$4,961
Total K-12 spending	$11.7 bil.	$12.6 bil.	$16.7 bil.	$13.5 bil.	$17.9 bil.

Column 1: Per person spending at 1988 district level; no inflation adjustment.
Column 2: Per person spending at 1988 district level; adjustment for inflation.
Column 3: Per person spending at 1988 U.S. average level; no inflation adjustment.
Column 4: Per person spending at 1988 U.S. average level; adjustment for inflation.

Source: Bureau of the Census and Federal Reserve Bank of Kansas City.

doubled from 1978 to 1988, rising from $5.2 billion to $11.7 billion. Although much of the increase was eroded away by rapidly rising prices, real spending still rose significantly. Moreover, the district population aged 5 through 17 declined by about 2.5 percent over that ten-year period, permitting real spending per school-age person to increase significantly from 1978 to 1988. Yet even with these increases, district spending per person remained below the national average level in 1988. In Table 5, column 1995-4 illustrates some increase in district real spending per school-age person from 1988 to 1995, but still not enough to equal the national average level if the latter increases at all.

Among district states, the projected increases from 1988 to 1995 in population aged 5 through 17 vary widely. The projected increases range from 1 percent in Nebraska and Oklahoma to 12 percent in Colorado and 25 percent in New Mexico. These variances suggest different spending pressures from state to state. Based on the potential effects of these demographic changes alone, the pressures for more K-12 education spending appear to be greater in New Mexico and Colorado than in Nebraska and Oklahoma. But all district states except Oklahoma and Wyoming are projected to have faster growth in school-age population from 1988 to 1995 than they had over the previous ten years. Three states—Kansas, Missouri, and Nebraska—are expected to return to positive growth in the age group after experiencing a decline from 1978 to 1988.

The search for improved quality of education and the influence of demographic factors will put upward pressure on education spending in district states, especially at the K-12 level. With such spending accounting for about a fourth of district direct general expenditures, pressure for substantial spending increases for K-12 education will force district citizens and public officials to make important choices about overall spending increases or a reordering of spending priorities.

The older population. The aging of the population and the rapidly rising cost of medical care put strong upward pressures on the growth in district public spending for health and hospital services in the 1980s. In the Tenth District, the population group aged 65 and over grew nearly twice as fast as the total population from 1978 to 1988. Persons 65 and older made up 12.4 percent of the district's population in 1988, up from 11.6 percent in 1978.

The increase in the size of the 65-and-older age group has made health and hospital services a major element of total state and local government spending. From 1978 to 1988, inflation-adjusted government spending for health and hospital services in the district rose faster than total expenditures.[9] Over the same period, district real per capita spending for health and hospital services rose fairly steadily. By 1988, the health and hospitals share of total spending in the district stood at 9.4 percent, not much smaller than the spending shares for higher education and highways.

According to Census Bureau projections, the number of persons 65 and older in the district is expected to grow much more slowly from 1988 to 1995 than during the previous ten years, but still more rapidly than the total population. Growth in this age group in the district is also projected to be significantly slower than in the nation from 1988 to 1995. The percentage share of the total population age 65 and older is expected to be only slightly larger in 1995 than in 1988. Growth in the 65-and-older age group will probably not put as much upward pressure on district state and local government spending in the first half of the 1990s as growth in the school-age population. Yet faster growth in the number of persons 85 and older in the 1990s will probably put further pressure on state and local government spending for health services, because of this group's greater need for costly medical care.[10]

Just as for the school-age population, the projected changes in the 65-and-older age group vary widely among district states. The size of the age group is expected to decline in Wyoming from 1988 to 1995, while the group is expected to grow as much as 20 percent in New Mexico. Unlike growth in the school-age group, however, the older population in all district states is projected to grow more slowly from 1988 to 1995 than in the previous ten years.

III. Conclusions

State and local governments in the Tenth District are facing strong pressures to increase their spending in the 1990s. District expenditures grew fairly rapidly in the 1980s, but generally remained below national average levels as the decade drew to a close. Closing this gap is not necessarily a goal that by itself will push spending up, although it might be a factor. But other factors that have brought pressure for increased state and local government spending in the past are likely to persist in the current decade. Renewing the infrastructure, especially the road system, and improving the quality of education are examples of major tasks expected to call for increases in major components of public spending. Continuing the devolution of spending from the federal government to the state and local levels also promises to maintain upward pressure on state and local government spending in the district. Moreover, demographic changes in district states may well apply additional upward pressure to public spending.

In an atmosphere of resistance to overall increases in public spending and taxes, however, pressures to increase and improve major components of public services may not translate directly into overall spending increases. Electorates and public officials can make choices about spending priorities as well as about boosting total expenditures. Decisions about changes in state and local government spending will continue to be made against a background of citizen resistance to rising public expenditures and in an environment of fend-for-yourself federalism. Thus, state and local governments will make choices in the context of greater dependence on their own resources, constrained by citizens' resistance to tax increases and a district economy that is likely to continue growing only slowly.

Endnotes

1 Direct general expenditures differ from total expenditures mainly because the former exclude some specific classes of spending—utility expenditures, liquor store expenditures, and insurance trust expenditures. Utility expenditures include spending for construction of facilities and for production and distribution of services provided by government owned and operated water, electric, gas, and transit systems. Liquor store expenditures include purchases of liquor for resale, and provision and operation of alcoholic beverage distribution facilities, where governments maintain alcoholic beverage monopoly systems. Insurance trust expenditures include payments to beneficiaries of social insurance programs operated by governments, such as employee retirement and unemployment compensation programs.

2 Population is only a rough approximation of need, however, especially where particular expenditure functions are concerned. For example, school-age population is a more refined measure of need for education spending, and land area or highway mileage could be better indicators of highway spending need. Per capita expenditure comparisons also do not allow for differences from state to state in the price or quality of public services. For example, a state with a lower cost of living may be able to purchase the same amount of education services with less public spending than a state with a higher cost of living (Aronson and Hilley 1986).

3 This assumes the absence of state measures of the price level.

4 The price measure used in this article is the implicit deflator for state and local government purchases of goods and services.

5 National average spending by all state and local governments can be used as a standard to measure district spending. The national level is primarily a reference point, however, and is not necessarily a level to be attained, since regional factors and social preferences may prompt state and local governments to support public services at different levels.

6 The Federal-Aid Highway Program provides assistance funds to state and local governments for highway purposes, and other federally provided funds can also be used by states and localities for highway purposes.

7 This study has been criticized, partly for using spending measures which may not be appropriate for international comparisons but primarily because solutions to the education system's problems may require curricular and structural changes only, rather than increased spending (Hood 1989).

8 For further discussion of these definitions and of intermediate situations, see Whitman and Bezdek 1989.

9 Expenditures by state and local governments for health and hospital services are payments for services provided directly by governments through their own hospitals and health agencies, and payments to other governments for such purposes. Vendor payments made directly to private purveyors of medical care are not included in this category. Such payments are classed as public welfare expenditures and included in that category of the Social Services spending function.

10 The number of persons age 85 and older is projected to grow faster in the district from 1988 to 1995 than in the earlier 1980s. Growth in this population group is also expected to far outpace growth in the number of persons age 65 and older.

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