Institutions and State Spending

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State Spending vs. Private GDP: Multiples of 1950 Values

Source: Matthew Mitchell, “State Spending Restraint: An Analysis of the Path Not Taken” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010)
Real Average Annual Growth Ratio: 1980 - 2009

Private Sector: 1
State & Local Governments: 1.2

Source: Matthew Mitchell, “State Spending Restraint: An Analysis of the Path Not Taken” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010)
Real Average Annual Growth Ratio: 1995 - 2009

Private Sector: 1

State & Local Governments: 1.4

Source: Matthew Mitchell, “State Spending Restraint: An Analysis of the Path Not Taken” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010)
Real Average Annual Growth Ratio: 2000 - 2009

Private Sector: 1

State & Local Governments: 1.9

Source: Matthew Mitchell, “State Spending Restraint: An Analysis of the Path Not Taken” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010)
Actual vs. Slower GDP Growth: 1970 - 2010

GDP Billions of Chained 2005 Dollars


$14,000
$10,500
$8,000
$3,500
$0

Actual
1 Pct. Slower
1/2 Actual Growth

When Will State Debt Levels Reach 90 Percent of GDP?
Debt to GDP > 90% by 2025
Debt to GDP > 90% by 2030

[Map showing states with debt to GDP > 90% by 2030]
Debt to GDP > 90% by 2040

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Debt to GDP > 90% by 2050

MERCATUS CENTER
George Mason University
By 2070: Every State Will Have a Debt to GDP Ratio in Excess of 90 Percent
Actual General Fund Decline, 2009 - 2010
Sustained Cuts Necessary to Close 50-yr Gap

Sources: State Expenditure Report, National Association of State Budget Officers; GAO-10-899, Government Accountability Office
Kentucky Spending During the Recession

Total Kentucky Spending During the Recession


Thursday, February 9, 12
Changes in Real Per Capita KY Spending: 1987-2009

- Total
- Medicaid
- Higher Ed.
- Corrections
- Elem. & Sec. Ed.
- Transportation
- All Other
- Cash Assistance

Sources: NASBO, 1989 and 2010 Fiscal Survey of States; Census Bureau, Annual Population Estimates; Robert Sahr, Inflation Conversion Factors
Sources: NASBO, 2009 State Expenditure Report
How to Change?

“In Period” Changes

Institutional Changes

James Buchanan
Institutional Changes:

Alter the incentives of politicians, bureaucrats and voters so that we can make lasting change.
Institutional Changes:

Fewer Federal Controls

Fewer Federal Dollars

State-Level Institutions
Fewer Federal Controls

$131,000,000,000

Total unfunded mandates from 2004 to 2008.

Source: Molly Ramsdell, Mandate Monitor, National Conference of State Legislatures.
Fewer Federal Controls

$60,000,000,000 - $118,000,000,000

Range of estimated costs associated with PPACA

Sources: Congressional Budget Office and Senate Finance Committee / House Energy and Commerce Committee
Institutional Changes:

- Fewer Federal Controls
- Fewer Federal Dollars
- State-Level Institutions
Less Federal Dollars

Every Dollar a State Spends on Medicaid = Up to 3 Federal Matching Dollars

Source: Federal Department of Health and Human Services
Every Federal Dollar Increases A State’s OWN Future Taxes

Source: Russell Sobel and George Crowley, “Do Intergovernmental Grants Create Ratchets in State and Local Taxes?” (working paper, Mercatus Center at George Mason University, Arlington, VA, 2010)
Institutional Changes:

Fewer Federal Controls

Fewer Federal Dollars

State-Level Institutions
State-Level Institutions and Per Capita Spending

<table>
<thead>
<tr>
<th>Institution</th>
<th>Impact (per $ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate Spend &amp; Tax Cmts.</td>
<td>-1.241</td>
</tr>
<tr>
<td>Item Reduction Veto</td>
<td>-0.471</td>
</tr>
<tr>
<td>One Spending Cmtns. / House</td>
<td>-0.199</td>
</tr>
<tr>
<td>Strict Balanced Budget Reqs.</td>
<td>-0.184</td>
</tr>
<tr>
<td>Supermajority Reqs. for Tax Increases</td>
<td>-0.151</td>
</tr>
<tr>
<td>Annual Budget Cycle</td>
<td>-0.119</td>
</tr>
<tr>
<td>TELs in Low-Income States</td>
<td>-0.114</td>
</tr>
<tr>
<td>Line-item Veto in Divided Gov’t</td>
<td>-0.100</td>
</tr>
<tr>
<td>No Automatic Shutdown Provision</td>
<td>-0.080</td>
</tr>
<tr>
<td>Ten Fewer Senate Seats</td>
<td>-0.059</td>
</tr>
<tr>
<td>House to Senate Ratio Increase by One Unit</td>
<td>-0.045</td>
</tr>
</tbody>
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