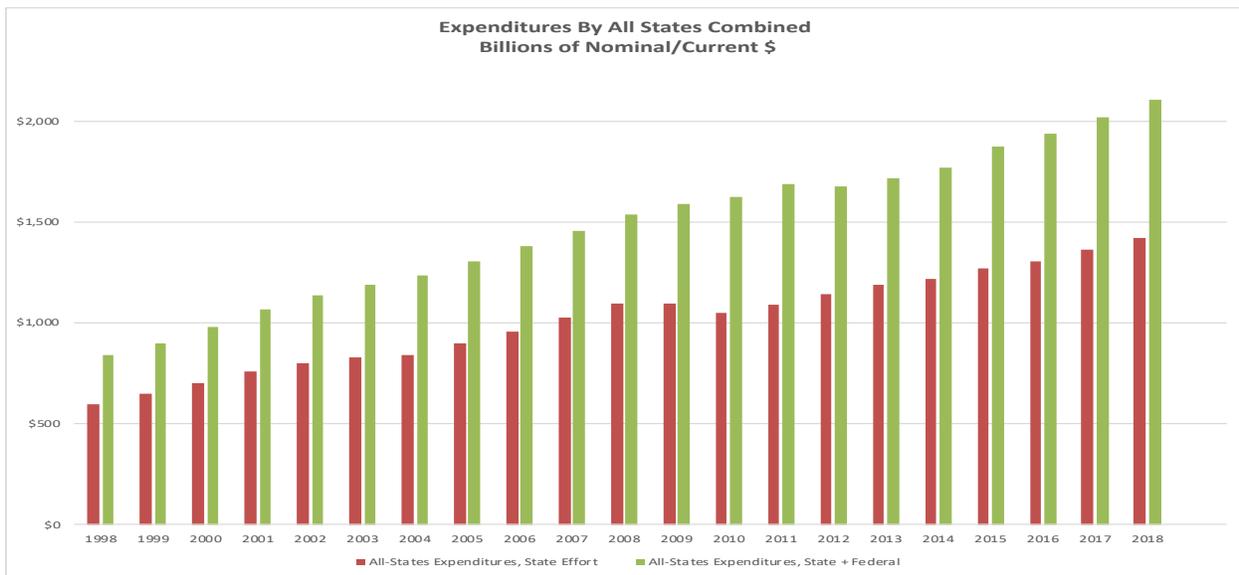


How Large Is Louisiana State Government Compared to Other States?

The question of the size of state government is often a part of the overall budget debate. The following discussion and accompanying charts are meant to inform this question by comparing the size of Louisiana state government to other states over a number of years¹. This analysis ranks the size of each state government for each of twenty years, based on U.S. Census Bureau data of state governmental finances. Census data is utilized to attain a comparable set of finance figures across states and years². Two concepts were utilized for establishing and ranking the size of state governments: total state effort expenditures, and total state expenditures including federal financing.³ The chart below is state effort spending and state effort plus federal financing by all fifty states combined for a twenty-one year period.



Nominal (current dollar) spending by states individually and as a consolidated group, both state effort and inclusive of federal financing, grows over time and is not very interesting by itself⁴. Virtually all nominal economic and fiscal aggregates increase over time, reflecting the

¹ This brief is an extension of earlier analysis that looked at the size of Louisiana state government over time without comparison to other states. State expenditure data utilized for that earlier brief is from Louisiana Executive Budget documents. That analysis can be found at <http://lfo.louisiana.gov/files/revenue/TheSizeOfStateGovernment.pdf>.

² The multi-state expenditure data utilized for this brief is from the Census Bureau's Annual Survey of State Government Finances, reporting financial information for each state for each year under a standard set of definitions. The earliest year utilized was 1998, and the latest year available at the time of this writing was for 2018. Years earlier than 1998 are available, but the data format is more unwieldy than for later years, and a twenty-one year historical horizon seems sufficient.

³ The concept of "state effort" is utilized in Louisiana budget considerations, encompassing state government appropriated expenditures other than federal financing. A proxy for this concept is generated from the Census data for each state by subtracting intergovernmental revenue from total state expenditures. At the state level, intergovernmental revenue largely reflects transfers from the federal government (explicit federally financed expenditures are not identified in the Census data). Insurance trust expenditures are also subtracted, largely pension benefits (a disbursement not typically appropriated or associated with state government size). With these two adjustments to the Census data, as much of an all-in state effort expenditure total, reasonably or typically associated with state government service provision for citizens, is retained.

⁴ Nominal or current dollar expenditures are utilized in this analysis rather than inflation-adjusted or real expenditures because the goal of this analysis is to rank states by the ratio of each state's expenditures to each state's gross domestic product. Thus,

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increasing size of populations, incomes, and the economy in general. Absolutely increasing nominal expenditures don't say much meaningful about the size or growth of governments in general or any government in particular⁵.

When comparing states, those with absolutely larger economies will have absolutely larger expenditures, but that may not say too much about their relative size rankings either⁶. Since state effort expenditures are financed by extracting revenue from the state economy, the more interesting metric is the ratio of state effort expenditures to the size of the economy. This reflects how large state effort expenditures are relative to all expenditures in the economy, and is commonly considered a measure of the size of government in a meaningful sense. For comparisons across states, the ratio normalizes or accounts for the size of each state's expenditures relative to the size of each state's economy, such that the absolute size of expenditures does not by itself determine a state's rank. The size of each state's economy is measured by respective state gross domestic product.⁷

The chart below depicts the ratio of state expenditures to state GDP, for all fifty states combined, for the twenty-one year period. States as a group are about 7% of the economy as reflected in the ratio of state effort expenditures to state GDP. What is notable here is the stability of that ratio over time, varying only very modestly above and below 7% over the entire historical period. This reflects the reality of state balanced budget constraints, which prevent states from getting larger and larger relative to their economies without continual incremental increases in their tax burdens. Whatever changes in the taxation of their economies they engage in from year-to-year, as a group these changes are essentially no greater than the changes in their underlying economies. Consequently, states have maintained a highly stable size of government of 7% of the economy⁸. When federal financing is included the ratios are obviously higher, averaging

inflation-adjustment to both the numerator (state spending) and denominator (economy-wide spending) concepts, and across all states, would have only a scalar effect on the ratios, moving them up or down in unison, but having no effect on the ranking results. Only if different inflation indexes were applied to the numerator and denominator spending concepts, such as a government spending inflation index applied to the numerators while a broader GDP inflation index applied to the denominators, might ranks be different. While arguably an appropriate approach, the use of different inflation indexes might lend itself to criticism for different resulting rankings.

⁵ The most interesting thing about the chart is the period of the last national recession in 2009-2010. In those two years state effort spending dipped, the effect of balanced budget constraints on state budgets, while federal financing (not subject to balanced budget constraints) sustained total expenditures by the states. By the time federal support waned in 2012, state effort spending was on the rise again, and by 2013 both concepts had returned to their pre-recession growth paths.

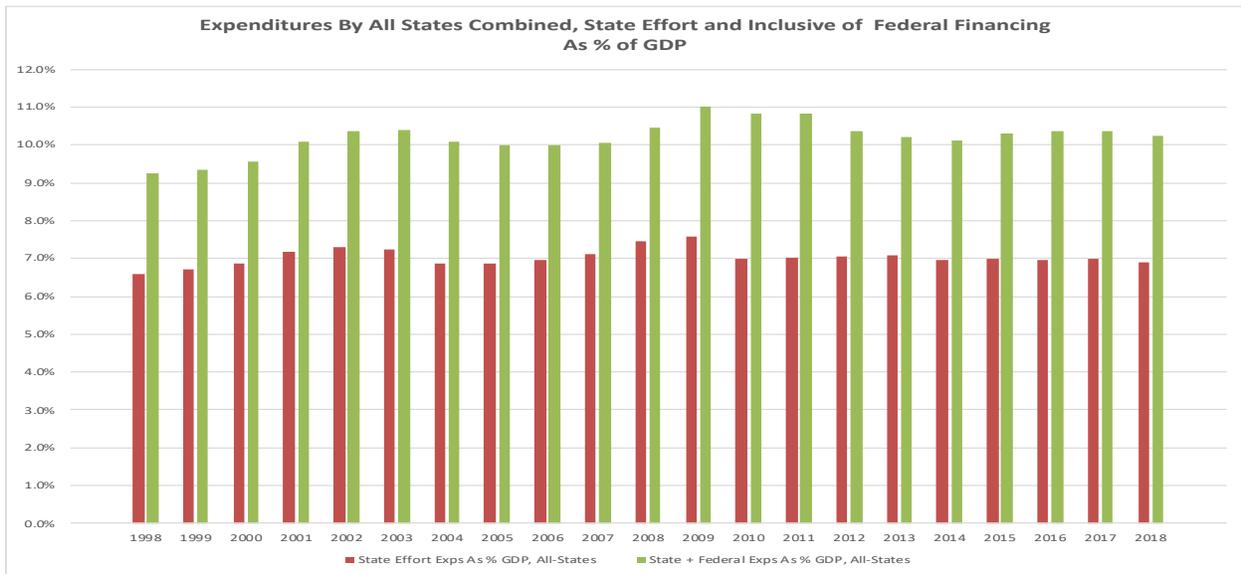
⁶ For example, in 2017 California, the largest absolute expenditure state, had expenditures some 66 times larger than South Dakota, the smallest absolute expenditure state. However, both ranked in the bottom half of state government size relative to their respective economies, the ranking metric utilized by this brief.

⁷ State gross domestic product is analogous to the national gross domestic product concept, and is estimated by the same federal agency, the Bureau of Economic Analysis of the U.S. Department of Commerce. Values reflect total expenditures on current production in the economy and are estimated for each quarter of the year on an annualized basis, and are also available on a full-year basis. The full-year estimates are utilized as the denominator of each state's ratio for each year.

⁸ State governments can also expand their size relative to their economies by exploiting the value of natural resource endowments. While particular states have undoubtedly done that, the valuations of those resources tend to be highly volatile over time and, in the aggregate the effect on state governments' size does not seem to be undiscernible.

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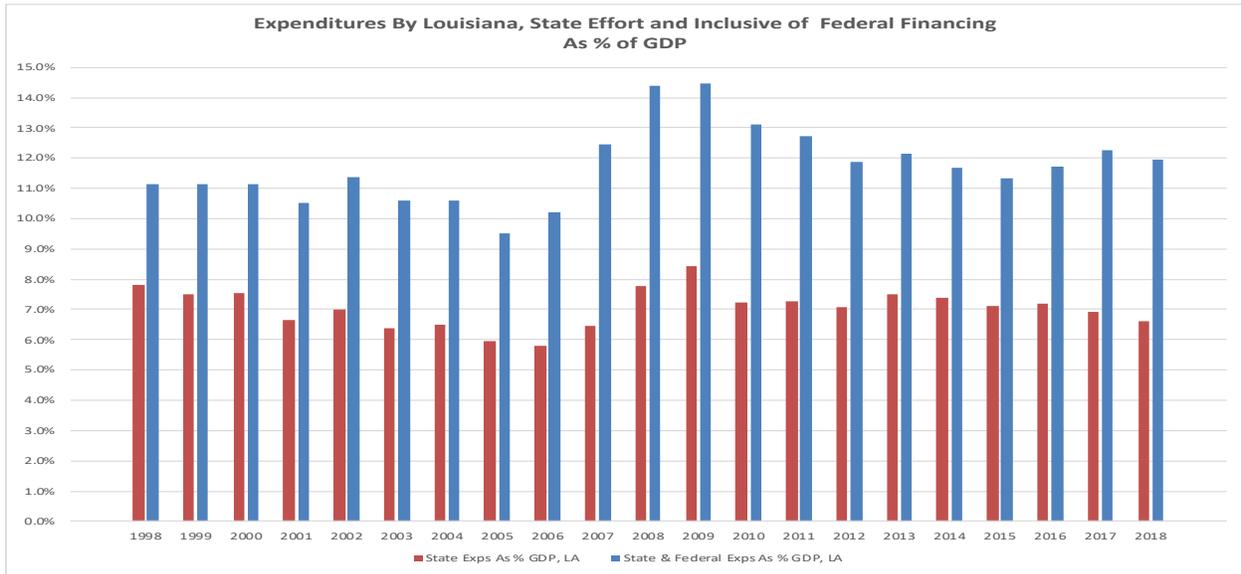
slightly more than 10% of total state economies. In addition, somewhat more variability from year-to-year seems apparent as federal fiscal policy has macroeconomic stabilization features that states do not have, and the federal government faces much less of a balanced budget constraint. It is still notable, though, that the aggregate ratio is fairly stable, even when including federal financing in state expenditures.



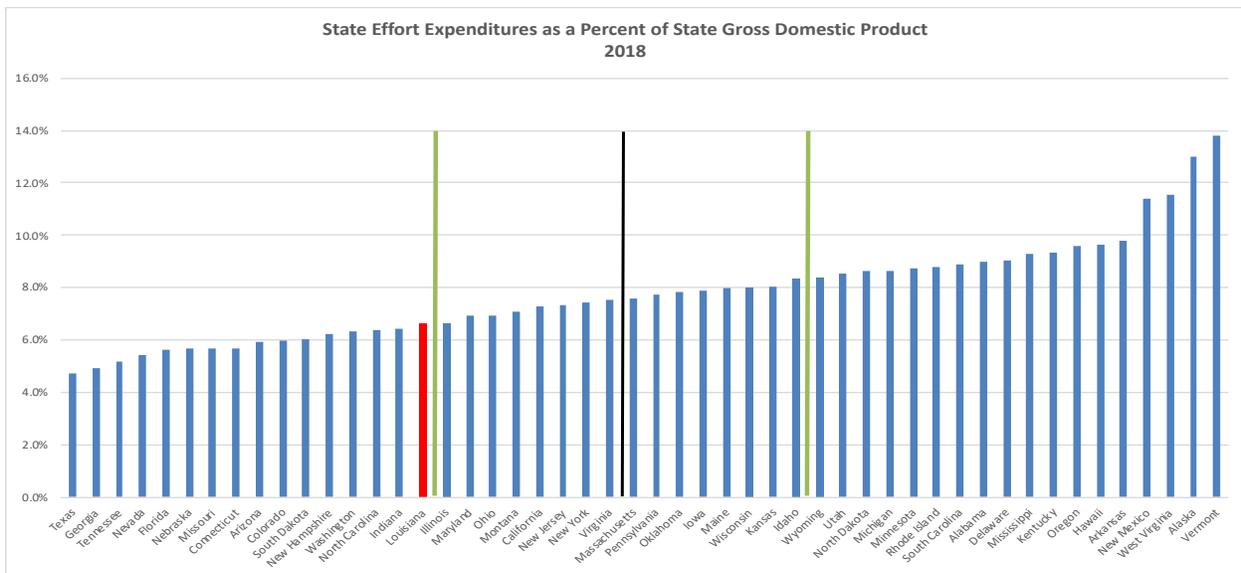
Due to the unique circumstances of each state, it is likely that each state exhibits more variability in its ratios than the combination of all states. The chart below depicts the expenditure ratios for the state of Louisiana. Variability greater than the all-state average variability above is obvious, but there is still a notable stability for both state effort and total expenditures inclusive of federal financing. A step-up in both ratios after Hurricanes Katrina & Rita in 2005 is also apparent, although in the most recent years the state effort ratio is actually lower than in the earliest years, implying permanently higher federal financing. Since the last national recession, the state effort ratio has stayed near 7%, and actually below that level in the last two years of data. The ratio inclusive of federal financing has been in the 11% - 12% range⁹, closer to the upper end of that range in the last two years of data.

⁹ The ratios calculated from Census data differ somewhat from those calculated from the State's own budget documents, due to differences in means-of-finance definitions and identification, the timing differences of state fiscal years, and the calendar years of the GDP estimates. For Louisiana, the ratios calculated from Census data, and utilized in this analysis, are somewhat higher than those calculated from State budget documents. However, the general shapes of the charts and stability of the ratios are very similar.

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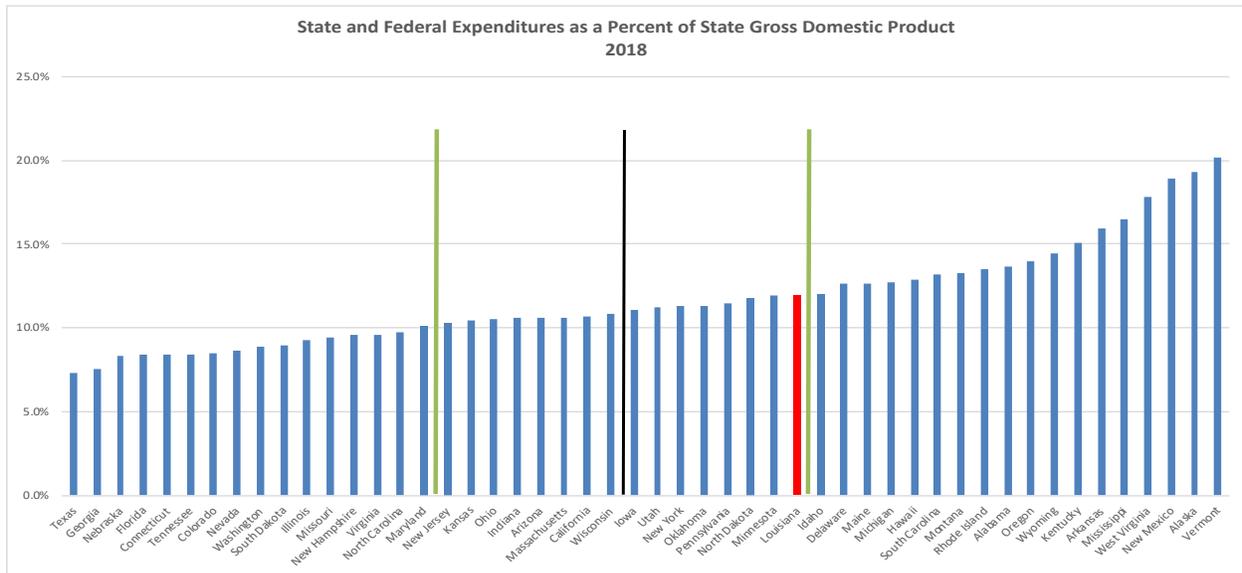


To establish rankings for the states, ratios for both expenditure concepts for each state were calculated and ranked in ascending order (smallest to largest), for each of the twenty years of data. The two charts below depict the ranked ratios for each state for the 2018 Census data, the latest year available. Louisiana is highlighted in red, with the midway point in size ranking indicated by the black vertical line, and the division of the states by approximate thirds is indicated by the green vertical lines. In the first chart below, rankings are based on the ratio of state effort expenditures to state GDP. Louisiana's 6.6% ratio ranked 16th from the bottom of the fifty states; near the top of the smallest third of states.



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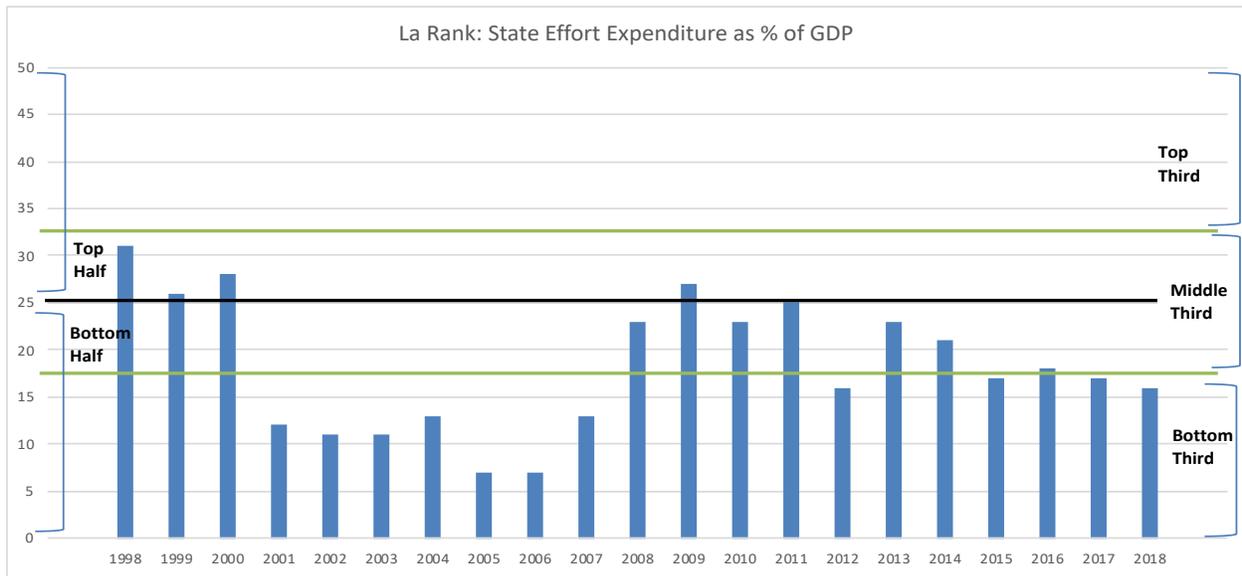
In the second chart below, rankings are based on the ratio of state effort plus federally financed expenditures to state GDP. Louisiana’s 11.9% ratio ranked 32nd from the bottom of the fifty states; near the top of the middle third of states.



The inclusion of federal financing changes Louisiana’s ranking significantly, in most of the last ten years from a bottom-half ranking in terms of state effort financing to a top-half ranking in terms of state effort plus federal financing. Since federal financing is included in the ratio rankings of all states in the chart immediately above, the significant ranking change for Louisiana evidences the State’s disproportionate receipt of federal support, especially in the years after Hurricanes Katrina & Rita.

The ranking position of Louisiana, illustrated for a single year in the two charts immediately above, is summarized for the past twenty-one years in the two charts below. The first chart depicts Louisiana’s rank among the fifty states for state effort expenditures for each year, with the midway point in size ranking indicated by the black horizontal line, and the division of the states by approximate thirds is indicated by the green horizontal lines.

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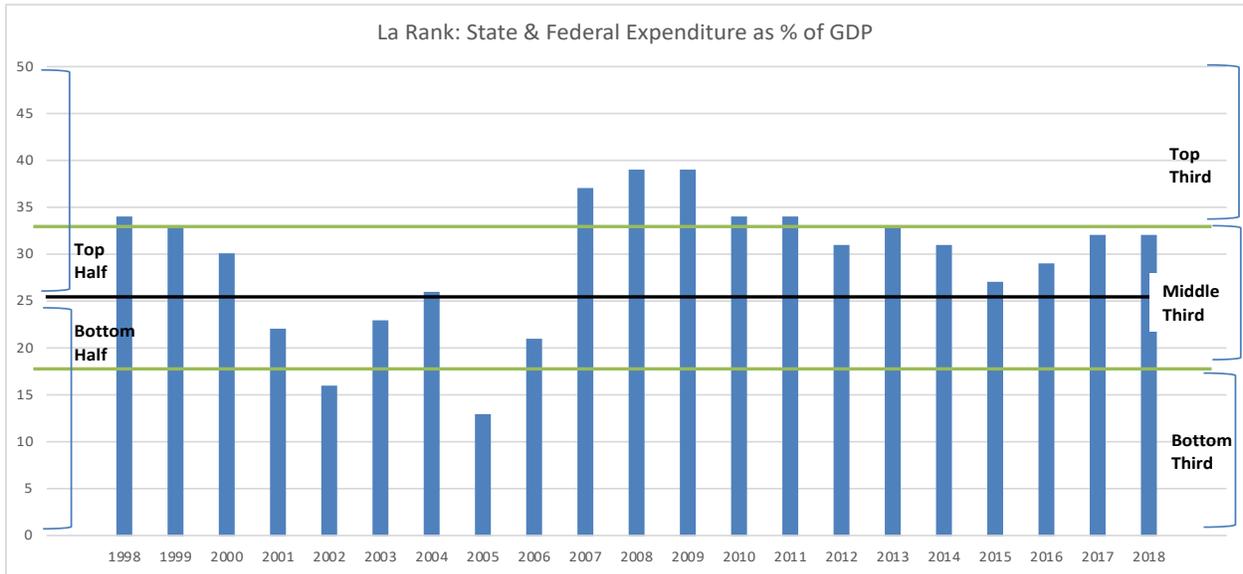


There has been considerable variation in the State’s rank over the years¹⁰, with rankings as low as 7th in the nation in 2005-2006, to a high of 31st in the nation in 1998. Overall, in three-quarters of the years, the state has ranked in the bottom half of states in size; in many of those years in the bottom third of states in size. For the last four years of data, the state effort rank has stabilized at 16th - 18th in size; near the top of the bottom third of states.

The chart below depicts Louisiana’s rank among the fifty states for state effort plus federally financed expenditures for each year, with the midway point in size ranking indicated by the black horizontal line, and the division of the states by approximate thirds is indicated by the green horizontal lines.

¹⁰ It should be realized that in a ranking assessment such as this, a state’s rank in any particular year and the change in that rank from year-to-year is determined not only by the expenditure and economic circumstances of the particular state, but also by the expenditures and economic circumstances of all other states and federal financing programs.

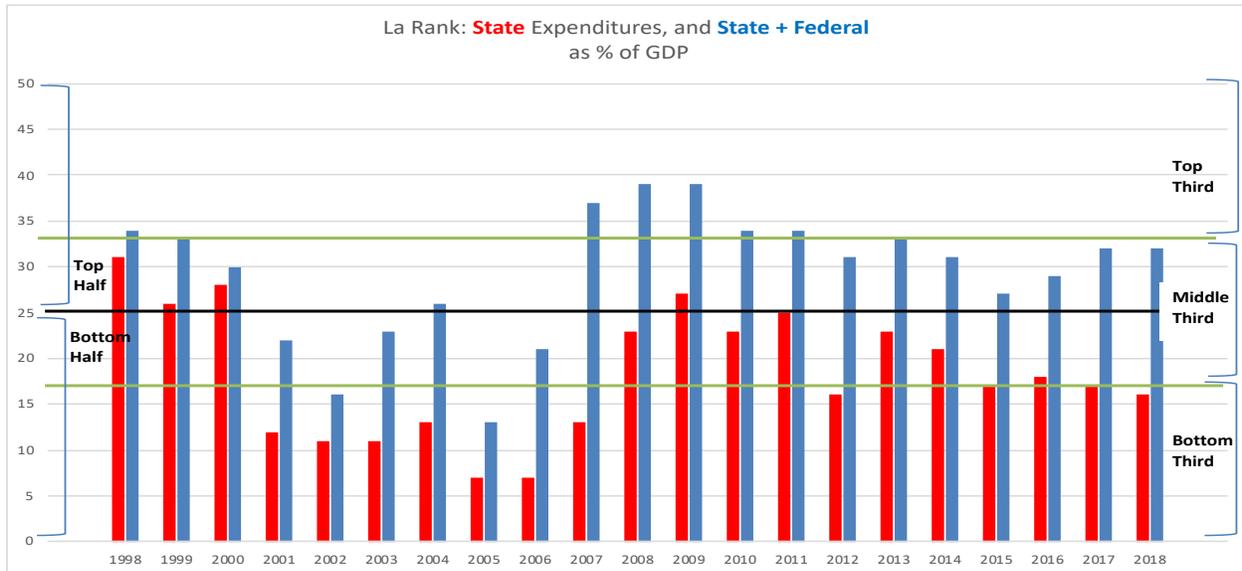
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Again, there has been considerable variation in the State’s rank over the years, with state plus federal rankings as low as 13th in the nation in 2005, to a high of 39th in the nation in 2008 - 2009. In every year the state’s ranking is greater with the inclusion of federal financing and, in three-quarters of the years, the state has ranked in the top half of states in size; in many of those years in the middle third of states in size. In addition, the ranking has increased over the last three years, possibly reflecting expanded federal Medicaid support. The state’s rank has been stable in the last two years, near the top of the middle third of states.

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The chart below combines the two charts above to summarize the Louisiana rank for both expenditure concepts, state effort and state plus federal financing, into one picture¹¹.



None of the discussion above suggests what the correct or optimum size of government should be. It simply indicates what the size is, and how states rank by the size metrics of state funded expenditures relative to the economy, and state plus federally funded expenditures relative to the economy. On a consolidated basis, states exhibit a fairly stable size of about 7% of their economies for state funded spending, and 10% of their economies for state plus federally funded spending. For Louisiana in particular, over the last several years, its size has been about 7% for state-funded spending and 11% - 12% for state plus federally funded spending. Size as measured by both concepts has not trended up or down over the last twenty years for states as a whole or Louisiana in particular, although step-ups or down to new levels are possible, especially as a result of shifts in federal financing, as exhibited by Louisiana in the post-Katrina/Rita era. In terms of size rankings, Louisiana varies from year-to-year as a result of changing circumstances within Louisiana, as well as within all other states. On the whole, Louisiana ranks in the bottom third to middle third of states on a state funded basis, and in the middle third of states on a state plus federally funded basis.

¹¹ As indicated in footnote 3, both ratio concepts being ranked exclude insurance trust expenditures. This exclusion does not uniformly increase or decrease the state's rank. In four years of the data the inclusion of these expenditures would not change the rank. In six of the years the rank would be reduced by one to four positions, and in ten of the years the rank would increase by one to four positions. In one year (2002) the rank would increase by 10 positions, a seemingly aberrant year. A one position change is the most common; eight of twenty-one years.