

M E M O R A N D U M

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SUBJ: A Cursory Analysis of the Economic Impact of Different Categories of State Government Expenditures

A. Computer Analysis of Expenditure

Table A shows the results of four MAP model simulations investigating the economic impact in 1982 of three expenditure alternatives.¹ They are as follows:

- CIBASE - A base case against which the three others are measured.
- CITR - A distribution of \$1,000 per capita to all Alaskan residents in FY 1982 (\$435 million).
- CICAP - A supplement to the capital budget of the equivalent amount in FY 1982 (\$435 million).
- CIOP2 - A supplement to the operating budget of the equivalent amount in 1982 (\$435 million).

The employment effect of this expenditure increase is largest when the funds go to the operating budget (9.5 thousand), followed by distributions (5.5 thousand), and then capital expenditures (4.5 thousand). This is obviously the result of the fact that an operating budget expansion directly creates new jobs while other types of expenditures only create jobs indirectly.

The population effect closely corresponds to the employment effect. Roughly half of newly created jobs go to current residents while migrant workers--and their families--fill the remaining jobs. In all cases, a residual population remains which requires several years to dissipate.

¹In all cases the level of government expenditures is set outside the model so there is no feedback from population growth induced by government spending to further growth in the demand for government services.

TABLE A
MAP MODEL EXPENDITURE ANALYSIS

POP = Population (thousands)
 EM99 = Total employment (thousands)
 ENCN = Construction employment (thousands)
 EMGS = Gov't employment (state) (thousands)
 EMS2 = Trade/Service/Finance-Insurance-
 Real Estate employment (thousands)

PI = Personal income (million \$)
 DPI = Disposable PI (million \$)
 RTPIF = Federal income taxes (million \$)
 RSGFBM = State revenues (million \$)
 BALGF = General fund balance (million \$)

SIMULATION OUTPUT BY TIME

TIME PERIOD - 1982

	CIBAGE	CICAP	CICAP_LER	CICP2	CICP2_LER
POP	435.7	439.981	4.281	444.784	9.086
EM99	231.018	235.495	4.479	240.478	9.461
ENCN	18.553	19.325	2.773	17.03	0.475
EMGS	25.347	25.377	0.03	31.409	6.062
EMS2	68.843	70.064	1.222	70.918	2.075
PI	7068.45	7246.56	180.137	7371.92	303.473
DPI	3896.73	6043.86	147.105	6144.73	247.98
RTPIF	1076.15	1107.04	30.89	1128.06	51.905
FIA.PIU	1.127	1.145	0.018	1.152	0.025
RSGFBM	4644.53	4648.39	3.859	4652.81	8.281
BALGF	1477.27	1067.26	-430.012	1119.86	-377.406

	CITR	CITR_LER
POP	440.953	5.253
EM99	236.508	5.491
ENCN	17.4	0.848
EMGS	25.398	0.051
EMS2	72.614	3.771
PI	7646.42	577.977
DPI	6369.68	472.93
RTPIF	1174.38	98.232
FIA.PIU	1.206	0.051
RSGFBM	4649.82	5.293
BALGF	1515.87	-381.402

The employment mix of jobs created varies by policy. About 6.1 thousand government jobs and government related jobs (suppliers, consultants, etc.) are created by the expansion of the operating budget. Most jobs created by distribution are in trade, services, and finance/real estate (3.8 thousand). Most capital budget jobs are in construction (2.8 thousand). The employment multiplier in these cases is about 1.6.

The disposable personal income effect is highest for the distribution program. This program puts \$473 million of disposable income into the Alaskan economy. (This figure takes account of federal tax leakages as well as indirect economic effects of government spending.) The increased disposable income is shared in some degree by all residents, and only a small portion goes to newcomers. Increasing the operating budget generates \$248 million in disposable income and increasing the capital budget \$147 million.

The revenue effect in all cases is dramatically negative. A small increase in population and income-related revenues occurs in each case (\$8.3 million for operations, \$5.3 million for transfers, and \$3.9 million for capital spending). Of greater importance is the fact that general fund earnings fall in all subsequent years by an amount much larger than the increase in population and income-related revenues (about \$40 million annually).

The "bang per buck" of these three policies can be calculated for employment or any other target. The expenditure necessary to support any one job for one year is as follows:

<u>Expenditures</u>	<u>Thousand \$</u>
Operations	46
Distribution	79
Capital	97

Since the jobs created by these expenditures are not self-sustaining, the "bang per buck" to sustain these jobs in a succeeding year can also be calculated. It consists of the annual cost shown above plus the lost earnings because general fund or permanent fund balances must be spent to create the jobs. The year two "bang per buck" to maintain jobs created in the previous year (not create new ones) is composed of three parts as follows (with inflation assumed to be 10 percent):

<u>Expenditure</u>	<u>Thousand Dollars</u>			
	<u>Base Cost</u>	<u>Lost Fund Earnings</u>	<u>Inflation</u>	<u>Total</u>
Operations	46	4	5	55
Distribution	79	8	8	95
Capital	97	9	10	116

The conclusion is that to buy a new job for two years by various government expenditure policies, the costs are as follows:

<u>Expenditure</u>	<u>Thousand Dollars</u>		
	<u>Year 1</u>	<u>Year 2</u>	<u>Total Net of Inflation</u>
Operations	46	50	96
Distribution	79	87	166
Capital	97	106	203

B. Interpretation of Computer Simulation Results

These computer simulations provide a general comparison of the economic effect of different spending policies under normal conditions of economic expansion, but do not and cannot reflect all the actual economic conditions which may be present at the time an expenditure policy is actually initiated. Some important considerations would be the following:

(1) The health of the national economy. When unemployment is high in the Lower 48, more people will look at the economic opportunities in Alaska.

This will mean more competition for available jobs, more competition with non-Alaskan firms for government contracts (construction and other types), and more speculative in-migration, particularly if there is a monetary distribution program in effect which newcomers can take advantage of. The effects of these factors on the simulation results are that given the current recession, economic impacts may be reduced because a larger share of the expenditures leak out of the economy, and the employment and income gains may be shared to a larger extent with individuals who are not currently Alaskan residents.

(2) The health of the Alaskan economy. When the Alaskan economy begins to operate at a full capacity level, the inputs (workers and machines) necessary to expand production must be imported from outside the state. Indications are that this is currently the economic condition of the state implying there would be a dissipation of newly created jobs and income outside the state, and to non-residents if state expenditures were to expand.

(3) Nonsymmetry of expansion and contraction of spending. The historical experience which forms the basis for these projections covers two decades of growth in government spending and the economy. Thus the effects are appropriate for analyzing government expansion. The effect of cutbacks in government programs could be quite different from expansion effects because of the presence of constituencies anxious to avoid budget cuts to their programs.

(4) Various forms for distribution policy. The specific form that a distribution policy takes will determine its economic impact through its effect on how the money is spent (who gets it), and how many people are induced to move to Alaska (or not move out) as a result of the program. In the simulation, it was assumed all the distribution money was taxable, as if it were distributed to adults only, when in fact, a significant portion would go to children who would incur no tax liability. Also it was assumed that children would spend at the same rate as adults, which may not be the case (there may be substantial savings). These two factors tend to be offsetting, but without a detailed analysis of a specific proposal, the economic effect can be only generally described.

(5) Induced economic effects of expenditures. These simulations look only at the direct consequences of various spending alternatives, but not at possible induced effects. The induced effects are of two types. First would be those generally associated with a larger economy, such as import substitution, expanded market, etc. The second would be specific new economic activities attributable to new economic conditions. The usual example of this is the economic development which would be the result of infrastructure development in the state. The simulations cannot quantify this effect, and to be properly done, each project which makes such a claim would need to be separately analyzed. Since there have been no such studies, this factor cannot be included in the analysis.

(6) Government loan programs. The economic effects of government loan programs will be related to the size of the subsidy implied by the program and the specific activity being subsidized. Consequently, it is not possible to generalize upon their economic impact except to say that, in most cases, subsidies go to people who would have engaged in the subsidized activity anyway. Also, subsidies are generally directed towards capital, whereas the target of subsidies is generally job creation. Direct subsidization of job creation, as exemplified by the larger employment impact of the operating over the capital budget, has a larger employment payoff than an indirect method.

(7) The mix of spending within a category. Specific operating programs have very different spending requirements, as do specific capital projects. Different individuals also have different spending patterns. The specific spending mix will affect the size and character of the final economic impact. The simulations assume an average mix of expenditures in each case. In the next section, the composition of expenditures for the policies investigated in the simulation analysis are reviewed.

C. What Do Different Government Expenditures Buy?

(1) Direct distribution. If money is distributed by government to individuals, the ultimate economic effects of the distribution will

depend upon who receives the money and if the distribution is perceived to be temporary or permanent. Different people spend their money (and save it) on different things. Some purchases impact the local economy more than others. For example, a new home purchase has a larger local economic multiplier than a vacation in Hawaii.

People will likely react differently if they view a distribution as a one-time phenomenon rather than a permanent increase in income. In either case, the final change in expenditures brought about by an increase in income may not be the same as the direct effect. For example, I may take my \$1,000 distribution and pay off a credit card debt, but over the course of the next 12 months, increase my spending in ways which result in the same debt level. The immediate effect is a reduction in short term debt. The longer term effect is to spend the money on a range of different goods more representative of my average consumption pattern.

The kinds of industries which directly benefit, in terms of cents per dollar, from average personal spending from various federal government transfer programs are shown in Table B. For the three programs shown, which were chosen because of the differences among the groups which they serve, there are a couple of significant differences in consumption patterns. Twenty-three cents of each AFDC dollar is spent on food, compared to 13-14¢ for the pension and unemployment insurance programs. Ten cents of each AFDC dollar goes to real estate, compared to 14-16¢ for the other programs.

More striking than these differences is the similarity between nonwelfare type transfer payments and personal consumption expenditures net of transfers, which is shown in the final column of Table B. In general, transfers are treated like other income by individuals, and we could expect that a state distribution would be spent by individuals much the same as other income was spent.

(2) Capital expenditures. Table C shows the distribution of contract construction costs nationally for various types of public construction projects. The on-site wage component of contract construction ranges from a low of 24 percent for federally funded highways to a high of 36 percent for public housing. Materials generally account for about one half of the cost, and overhead and profit the other quarter of the cost.

Of these costs, wages are the component with the most obvious economic effect on the local economy, although even the local impact of this component depends upon place of residence of the worker.

Table D shows the distribution of occupations for the various construction categories. Unskilled workers (laborers, helpers, and tenders) comprise one quarter to one third of the employment requirements.

TABLE B. DIRECT EFFECTS ON INDUSTRY OUTPUT OF SELECTED
GOVERNMENT TRANSFERS (1972)

(¢ of \$ of transfers)

<u>Industry</u>	<u>AFDC</u>	<u>Federal Civilian Pensions</u>	<u>Unemployment Insurance</u>	<u>Nontransfer Personal Consumption Expenditures</u>
Other Agricultural	.01	--	--	--
Food	.23	.14	.13	.13
Tobacco	.03	.01	.01	.01
Apparel	.04	.03	.04	.04
Cleaning Articles	.01	--	--	--
Motor Vehicles	.02	.03	.04	.04
Footwear	.01	--	--	--
Communication except Radio/TV	--	.02	.01	.01
Appliances	.01	--	--	--
Utilities	.04	.04	.03	.03
Wholesale and Retail Trade	.26	.21	.22	.22
Finance	--	--	--	.03
Insurance	.01	.02	.02	.02
Real Estate	.10	.16	.14	.14
Medical	--	.06	.05	.05
Education	.01	.04	.03	.03
All others < 1¢				

SOURCE: "Industry Effects of Government Expenditures: An Input-Output
Analysis." Survey of Current Business, May 1975, Tables 3-4,
pages 9-23.

TABLE C

Percent distribution of contract costs, all construction studies, 1958-73

Type of construction	Year of construction	Total contract costs	Onsite wages	Materials	Equipment	Overhead and profit ¹
Initial studies:						
Federally aided highways	1958	100.0	23.9	50.6	(²)	25.5
Federal office buildings	1959	100.0	29.0	51.4	1.9	17.7
Elementary and secondary schools	1959	100.0	26.7	54.1	1.4	17.8
Civil works:						
Land projects	1959-60	100.0	26.0	35.0	19.3	19.7
Dredging		100.0	32.3	17.3	24.9	25.5
Public housing	1959-60	100.0	35.5	45.0	2.5	17.0
General hospitals	1959-60	100.0	28.2	53.2	1.2	17.4
College housing	1960-61	100.0	29.3	52.6	1.6	16.5
Single-family housing ³	1962	100.0	22.1	47.2	1.0	29.7
Sewer works:						
Lines	1962-63	100.0	24.3	44.5	11.2	20.0
Plants		100.0	26.6	49.2	8.2	16.0
Multifamily housing	1971	100.0	27.9	44.2	3.0	24.8
Second studies:						
Elementary and secondary schools	1964-65	100.0	25.8	54.2	1.0	19.0
General hospitals	1965-66	100.0	29.6	50.4	1.3	18.7
Public housing	1968	100.0	32.4	41.9	1.5	24.2
Single-family housing ³	1969	100.0	20.4	43.4	.9	35.3
Federally aided highways	1973	100.0	24.6	44.5	(²)	30.9

¹ Includes offsite wages, fringe benefits, construction financing costs, inventory, and other overhead and administrative expenses as well as profit.

² Equipment included with overhead and profit.

³ Includes selling expenses.

NOTE: Detail may not add to totals due to rounding.

SOURCE: Labor and Material Requirements for Private Multi-family Construction, USDL, BLS 1976, Bulletin 1892.

TABLE D

Percent distribution of onsite employee-hour requirements per 1,000 current dollars of contract cost, by occupation, all construction studies, 1958-73

Type of construction	Year of construction	All occupations	Administrative and supervisory	Bricklayers	Carpenters	Electricians	Ironworkers	Operating engineers	Painters	Plasterers and lathers	Plumbers and pipefitters	Other skilled construction trades	Laborers, helpers, and tenders	Other occupations (including truck drivers)
Initial studies:														
Federally aided highways	1958	100.0	10.4	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)	² 38.2	(¹)	³ 51.4
Federal office buildings	1959	100.0	6.0	5.2	12.6	9.1	4.2	2.4	2.1	3.8	8.7	11.8	32.5	1.5
Elementary and secondary schools	1959	100.0	3.9	9.3	18.7	7.1	2.8	1.9	3.3	2.7	9.4	7.9	29.1	4.0
Civil works:														
Land projects	1959-60	100.0	10.1	—	6.4	—	3.1	24.1	—	—	—	6.9	23.0	26.4
Dredging	100.0	4.7	—	—	—	—	—	1.1	—	—	—	1.7	1.7	⁴ 90.8
Public housing	1959-60	100.0	4.0	7.6	19.1	4.1	2.1	2.7	4.4	6.8	7.8	6.5	30.9	4.0
General hospitals	1959-60	100.0	3.9	5.4	13.2	8.8	3.5	1.6	2.8	6.2	14.2	12.0	26.7	1.7
College housing	1960-61	100.0	3.4	10.0	16.9	6.6	3.9	1.7	3.6	3.4	9.7	7.8	31.8	1.1
Single-family housing	1962	100.0	3.0	5.5	34.6	2.8	—	1.4	9.5	2.0	5.2	12.2	23.3	.5
Sewer works:														
Lines	1962-63	100.0	10.1	1.3	2.4	.1	.4	19.6	—	—	.4	2.7	44.5	18.5
Plants	100.0	9.0	2.0	14.3	3.3	3.9	3.9	14.6	1.5	—	5.1	6.6	31.7	8.0
Multifamily housing	1971	100.0	5.8	5.0	25.4	5.9	2.3	2.9	4.0	1.7	7.6	11.3	25.8	2.3
Second studies:														
Elementary and secondary schools	1964-65	100.0	3.6	9.2	16.5	7.3	3.1	2.7	3.5	2.0	9.6	10.1	30.9	1.5
General hospitals	1965-66	100.0	3.2	5.0	13.0	9.9	3.1	1.8	2.6	6.1	15.6	13.1	25.7	.7
Public housing	1968	100.0	3.6	7.8	20.3	5.8	3.5	3.1	4.9	3.0	9.3	6.6	30.2	1.9
Single-family housing	1969	100.0	2.8	5.7	34.9	3.0	—	1.8	7.3	1.7	4.3	20.0	27.9	.5
Federally aided highways	1973	100.0	5.9	—	6.1	1.1	2.5	25.5	.3	—	.2	⁵ 8.9	34.0	⁶ 19.0

¹ Detail by occupation not available.

² Excludes apprentices and on-the-job trainees.

³ Includes apprentices and on-the-job trainees and laborers, helpers, and tenders.

⁴ Includes mostly ships' masters, captains, mates, crewmen, and support personnel.

⁵ Includes apprentices and on-the-job trainees.

⁶ Includes blue-collar supervisors.

NOTE: Detail may not add to totals due to rounding. Dash denotes zero.

SOURCE: See Table C.

Table E shows that the majority of jobs created in construction occur off-site as a result of the final demands created for material and equipment for construction. For example, of the 227 employee hours generated by \$1,000 of spending for federal office buildings, only 97 hours were at the construction site. A larger number, 130 hours, was generated off-site. In the Alaskan case, most of these off-site jobs would be generated at manufacturing sites outside the state.

Materials are mostly fabricated and purchased out of state, with the possible exception of stone, clay, glass, and cement products. Table F indicates that this component of materials is only 20 to 30 percent of the total.

The final component of contract costs--overhead and profit--is very difficult to trace to either a local or nonresident pocket. If the firm is local, the administrative expenses, construction financing costs, profits, and other components of this element of cost would to a large extent accrue locally. Otherwise, they would largely leak outside the state.

Interpretation of these statistics should be done with two things in mind. First, only a portion of the state capital budget actually gets spent on contract construction. Planning, design, administration, and other costs must be paid directly out of the capital budget. Second, these are all national average statistics, and the Alaskan mix of expenditures will differ somewhat from the national average. In general, labor costs and transport costs are high here, so the use of these inputs will be minimized as much as possible to save money. It is difficult to generalize about this, however, without a detailed examination of actual state construction contracts.

(3) Operating budget. Personal services expenditures is an important component of the operating budget, but not the largest, which is grants and claims. Grants and claims is a broad category covering not only transfers to local government (such as education transfers), but also transfers to individuals (such as the Permanent Fund Dividend Program). Because transfers to local government are largely used for personal services, the proportion of each dollar of the operating budget which funds personal services is larger than is reported in that category. Table G shows the distribution of state operating budget expenditures by object in three recent years. It appears as though personal service expenditures growth has lagged behind growth in the size of the total budget. In 1978, personal services expenditures were 33.5 percent of the operating budget; but in 1982, they were only 28 percent.

TABLE E

Employee-hour requirements per 1,000 current dollars of contract cost, by industry, all construction studies, 1958-73

Type of construction	Year of construction	Total, all industries	Onsite construction	Offsite construction	Manufacturing	Wholesale trade, transportation, and services	Mining and all other
Initial studies:							
Federally aided highways	1958	237	97	10	66	39	24
Federal office buildings	1959	227	97	12	72	31	16
Elementary and secondary schools	1959	222	86	10	74	32	19
Civil works:							
Land projects	1959-60	201	85	6	53	35	22
Dredging		237	134	11	57	23	12
Public housing	1959-60	236	114	14	62	29	18
General hospitals	1959-60	210	89	11	79	19	13
College housing	1960-61	226	94	11	73	30	17
Single-family housing	1962	202	72	12	61	31	26
Sewer works:							
Lines	1962-63	211	86	7	74	29	16
Plants		210	83	7	72	32	16
Multifamily housing	1971	126	50	8	43	15	10
Second studies:							
Elementary and secondary schools	1964-65	188	72	9	65	26	15
General hospitals	1965-66	178	76	10	64	18	10
Public housing	1968	160	80	14	42	16	8
Single-family housing	1969	137	52	10	41	20	14
Federally aided highways	1973	114	44	6	37	18	8

NOTE: Detail may not add to totals due to rounding.

SOURCE: See Table C.

TABLE F

Percent distribution of cost of materials, supplies, and equipment per 1,000 current dollars of contract cost, by product group, all construction studies, 1958-73

Type of construction	Year of construction	Total materials, supplies, and equipment	Lumber and wood products (including furniture)	Paint and chemicals	Petroleum products	Stone, clay, glass, and cement products	Metal products (except as indicated elsewhere)	Plumbing products	Heating, ventilating, and air-conditioning equipment (except electrical)	Electrical products	Other fixed equipment	Construction equipment ¹	All other
Initial studies:													
Federally aided highways	1958	100.0	1.8	(²)	17.1	28.1	19.5	(²)	(²)	(²)	(²)	(³)	33.6
Federal office buildings	1959	100.0	3.3	.9	.9	22.2	25.1	5.1	12.3	18.2	8.0	3.5	.5
Elementary and secondary schools	1959	100.0	8.6	1.4	2.0	24.4	28.9	5.8	9.6	10.9	2.9	2.5	3.0
Civil works:													
Land projects	1959-60	100.0	4.0	3.8	12.6	25.5	15.6	.3	.1	.2	.2	35.5	2.2
Dredging	1959-60	100.0	(²)	3.9	28.1	.2	7.5	(²)	(²)	.4	.2	59.0	.7
Public housing	1959-60	100.0	14.1	1.8	1.7	27.9	22.8	10.0	3.6	4.8	6.1	5.3	1.7
General hospitals	1959-60	100.0	4.2	.8	.9	19.4	26.4	8.7	9.8	11.0	16.3	2.1	.5
College housing	1960-61	100.0	10.7	1.1	1.1	26.6	28.2	7.7	5.9	8.3	6.9	2.9	.7
Single-family housing	1962	100.0	40.0	2.1	2.3	24.2	11.4	5.6	3.8	3.6	2.8	2.0	2.0
Sewer works:													
Lines	1962-63	100.0	.8	.4	3.0	60.5	11.1	(²)	(²)	.6	3.1	20.2	(²)
Plants	1962-63	100.0	1.6	1.0	1.8	19.0	27.6	.4	2.0	8.3	23.3	14.2	.6
Multifamily housing	1971	100.0	22.0	2.2	2.3	22.1	14.0	9.5	5.0	5.8	5.7	6.5	4.7
Second studies:													
Elementary and secondary schools	1964-65	100.0	9.4	1.0	2.3	24.0	24.8	7.2	9.6	9.8	6.8	2.8	2.4
General hospitals	1965-66	100.0	4.7	.8	.8	18.1	22.9	10.3	9.8	12.2	16.1	2.5	1.8
Public housing	1968	100.0	14.4	2.0	2.2	25.5	22.6	10.0	4.4	7.9	5.8	3.5	1.8
Single-family housing	1969	100.0	40.6	1.8	1.8	21.5	9.4	6.9	4.2	3.9	2.5	1.9	5.5
Federally aided highways	1973	100.0	1.7	2.0	17.3	32.2	22.8	(²)	(²)	4.5	(²)	(³)	19.7

¹ Rental cost and depreciation or equivalent value.

² None reported.

³ Construction equipment included in all other.

NOTE: Detail may not add to totals due to rounding.

SOURCE: See Table C.

TABLE G
STATE OF ALASKA OPERATING BUDGET EXPENDITURES BY OBJECT

<u>Million \$</u>					
<u>Year</u> ^a	<u>Personal Services</u>	<u>Grants & Claims</u>	<u>Contracted</u>	<u>Other</u> ^b	<u>Total</u>
1978	336.4	405.6	139	123	1,004
1979	401.6	497.4	143.6	150.4	1,193
1982	674.0	1,148.7	278.8	301.9	2,403.4

<u>Percentage of Total</u>					
1978	33.5	40.4	13.8	12.3	100
1979	33.7	41.7	12.0	12.6	100
1982	28.0	47.8	11.6	12.6	100

^a1978 is actual appropriations; 1979 and 1982 are authorized appropriations.

^bTravel, commodities, equipment, land and buildings, miscellaneous.

SOURCE: "Employment Effects of State of Alaska Capital and Operating Budget Expenditures," Lance Rovig, Division of Budget and Management, October 1979.

Executive Budget, various years.

D. The Economic Effect of a Permanent Cash Distribution Program

If a \$1,000 per capita distribution in 1982 is followed in subsequent years by a distribution of 50 percent of permanent fund dividends, the economic impact would be as shown in Table H. (This case assumes revenues based on the December 1981 DOR petroleum revenue projection and, consequently, results in optimistic permanent fund contribution and earnings level estimates.)

A continuing program, even at a reduced level initially, results in employment growth beyond the increase in the first year. The general fund balance falls continuously at an accelerated rate. In 1990, it is \$4.2 billion lower than a case with no distribution program.

E. Fiscal Viability of Increased State Spending

Given the most recent projections of petroleum prices, even maintenance of the state budget at the current level, after adjusting for inflation and population growth, is untenable beyond a few years.

Projecting the general fund current account balance employing the proposed expenditure limit (\$2.8 billion in 1982), in conjunction with Department of Revenue petroleum projections (December 1981), adjusted downward by the more recent estimate done by Legislative Finance (February 1982), yields the pattern shown in Figure A. With no expenditures beyond those within the spending limit, the general fund current account balance (revenues minus expenditures) has a small positive value until 1990. Subsequently, it goes dramatically negative indicating that either massive reductions in government programs will be necessary after 1990, or the base for the spending limit will need to be sharply reduced in the present.

TABLE H

ECONOMIC IMPACTS OF A SUSTAINED STATE DISTRIBUTION PROGRAM

CITR. 2. LER

	EXTRNS	POP	EM99	ENCN	ENCS
1980	0.	0.	-0.	0.	-0.
1981	0.	0.	0.	0.	0.
1982	435.	5.253	5.491	0.848	0.051
1983	173.6	6.625	6.546	0.517	0.044
1984	279.4	7.782	7.427	0.665	0.04
1985	345.2	8.468	7.749	0.738	0.057
1986	417.5	9.718	8.704	0.843	0.072
1987	481.5	10.891	9.329	0.901	0.087
1988	538.2	11.834	10.136	0.93	0.097
1989	587.2	12.608	10.444	0.946	0.103
1990	641.3	13.245	10.663	0.958	0.113

	ENS2	PI	DPI	RTPIF	RSGFEM
1980	0.	-0.004	-0.004	0.001	-0.
1981	0.	0.004	0.008	0.001	0.
1982	3.771	577.977	472.93	98.232	5.293
1983	3.663	366.992	299.414	63.323	-15.988
1984	4.424	508.066	414.5	87.838	-30.777
1985	4.606	593.129	484.867	101.882	-44.113
1986	5.19	709.312	578.594	123.286	-65.758
1987	5.657	833.137	680.02	149.288	-94.543
1988	6.007	960.504	774.18	176.006	-130.824
1989	6.197	1055.54	850.098	194.226	-173.23
1990	6.331	1155.97	929.348	214.435	-222.5

BALBF

1980	0.
1981	0.
1982	-381.402
1983	-364.552
1984	-539.902
1985	-1183.04
1986	-1614.75
1987	-2128.34
1988	-2726.65
1989	-3408.72
1990	-4156.43

KEY: See Table A.

FIGURE A
THE PROJECTED STATE GENERAL FUND CURRENT ACCOUNT
(REVENUES - EXPENDITURES)
(Billion \$)

