Growth in Oklahoma's State and Local Governments From 1992-2002

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Introduction

How fast should government grow? That is a question that elicits different responses depending upon one's views of the proper role of government. On one hand are those who argue that government should provide more services to its citizens, and thus should grow relatively quickly. While on the other hand, there are those that argue that government should do less, and should therefore grow much more slowly (if at all).

In a sense, this debate is a natural and healthy consequence of the types of services governments provide. Government services—including education, healthcare, roads, and prisons—provide important benefits that help improve the lives of Oklahomans. But these government services also come at a cost to the taxpayers who must fund these services. The debate over the proper size of government is essentially a debate over how best to provide these necessary governmental services while protecting the interests of taxpayers.

Recently, this debate has taken on additional flavor with the Taxpayer Bill of Rights (TABOR) proposal that would place stricter limits on the growth of government and would provide greater tax relief to taxpayers. However, opponents argue that the proposal will force devastating cuts in government services.

This report seeks to enhance this debate by addressing three questions: 1. How fast are Oklahoma's state and local governments growing? 2. Which parts of the government are growing the fastest (state vs. local, education vs. corrections, etc.)? 3. How does Oklahoma's government growth compare to the other 49 states? While this report cannot provide conclusive support for either side of the TABOR debate, it does provide critical information for those Oklahomans seeking to learn more about Oklahoma's government growth.

This report proceeds as follows. The first section discusses the data and methodology used to measure government growth. The second

Major Findings:

1. **Oklahoma's state and local governments grew faster than the national average from 1992-2002.**
2. **Local tax revenues grew faster than state tax revenues in Oklahoma during that same time period.**
3. **If TABOR had been in place in Oklahoma in 1992, Oklahoma's state tax revenues would have grown at one of the slowest rates in the nation.**

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section examines the growth in Oklahoma's state and local government revenues. The third section analyzes the growth in government expenditures. Finally, the fourth section explores the implications of this report's findings for the TABOR debate.

Data and Measurement

The first step in analyzing the growth of Oklahoma's state and local governments is to first measure that growth. Typically, this involves either measuring the growth in governmental revenues, or the growth in government expenditures. Each year the U.S. Census Bureau collects data on both revenues and expenditures for state and local governments. This report uses the data from 1992-2002—the last ten years for which data is available.[1]

However, understanding the true growth in government involves more than just simply calculating a growth rate. Economists generally measure the size of government in comparison to the size of an economy. For example, taxes across states are often measured by tax burdens—the percentage of income generated within a state that is paid in taxes. Thus, in order to see a clear picture of government growth across states, differences in economic growth rates (or the growth rate of incomes) must be considered.

To understand this point, consider two mythical states each with tax revenue growth of 50% over a ten-year period. However, in one state incomes have increased by 100% while in the other state incomes have grown by only 50% during the same time period. While the government revenue growth in the two states is identical, the true growth in government is not. When incomes grow faster than tax revenues, the tax burden falls. In other words, the government requires a smaller percentage of income to pay for government services. In a very real sense, when incomes grow faster than tax revenues the government shrinks.

The state with slower income growth has a different experience, though. Since incomes are growing at the same pace as tax revenues, in a very real sense the government has not grown at all (nor has it shrunk) as government services require the same proportion of income as before. In order to make real cross-state comparisons of government growth, one must adjust for the differences in income growth across states.[2]

When incomes grow faster than tax revenues, the tax burden falls. In other words, the government requires a smaller percentage of income to pay for government services.

A straightforward way to make such an adjustment is to take the ratio of tax revenue growth and personal income growth. For a state with incomes increasing by 100% and tax revenues increasing by 50%, this ratio equals 0.50. In other words, for every 1% increase in personal incomes, tax revenues in this state increased by 0.50%. Likewise, a state with personal income and tax revenues both growing by 50% has a ratio that equals 1.00—for every 1% increase in personal income, tax revenues increased by 1.00%.

[1] The author selected this time period as it represents the last ten years for which data is available for all fifty states. Naturally, the selection of a different time period would generate different results.
[2] There are different income measures that can be used. This report uses the growth of personal income in each state. However, one could also choose to use the growth in Gross State Product which generally includes personal incomes as well as corporate income.

This report will use these ratios to compare government growth rates across states. Since, Oklahoma Personal Incomes increased by 61.13% from 1992-2002, Oklahoma's growth ratios are computed by taking either the growth rate of government revenues, or government expenditures, and dividing by 61.13%. Similar computations are made for the other 49 states.

Revenue Growth

The data indicates that Oklahoma's state and local governments are growing faster than the national average.

Table 1 presents the revenue growth rates, the ratios of revenue growth rates to personal income growth rates, and national rankings for Oklahoma's state and local governments. The data indicates that Oklahoma's state and local governments are growing faster than the national average. General revenue from own sources—which includes both taxes and user fees like college tuition—grew by 70.32% from 1992-2002. Thus, for every 1% increase in personal incomes, Oklahoma's state and local government general revenue from taxes and fees increased by 1.15%. This ratio ranks as the 12th fastest rate in the nation.

Tax revenues grew at a slightly slower pace, though. For every 1% increase in personal income, state and local government tax revenues increased by 1.11%--which still ranked as the 10th fastest pace in the nation. This indicates that Oklahoma's governments grew more reliant upon user fees like college tuition from 1992-2002. This appears to be a national trend as well.

Table 1: Oklahoma Government Revenue Growth 1992-2002

	Revenue Growth Rates (1992-2002)	Ratio of Revenue Growth Rates to Personal Income Growth*	Ratio's Rank Among 50 States
Revenues from Federal Government	133.24%	2.18	2
State and Local General Revenue from Own Sources	70.32%	1.15	12
State and Local Tax Revenues	67.57%	1.11	10
State Tax Revenues Only	60.75%	0.99	19
Local Tax Revenues Only	84.99%	1.39	11

**From 1992-2002 Oklahoma Personal Income Grew by 61.13%*

Sources: U.S. Census Bureau and U.S. Bureau of Economic Analysis

Table 2: State Rankings of Tax Revenue Growth 1992-2002						
	Ratio of State and Local Tax Growth to Personal Income Growth	Rank	Ratio of State Tax Growth to Personal Income Growth	Rank	Ratio of Local Tax Growth to Personal Income Growth	Rank
United States	0.94		0.94		0.95	
Alabama	1.10	11	0.94	29	1.49	4
Alaska	-0.17	50	-0.66	50	0.99	30
Arizona	0.80	44	0.71	45	0.97	34
Arkansas	1.26	4	1.46	3	0.64	45
California	0.97	27	0.96	24	1.00	29
Colorado	0.91	33	0.90	32	0.93	38
Connecticut	0.89	35	0.86	36	0.93	37
Delaware	0.97	28	0.91	31	1.25	16
Florida	0.94	30	0.96	23	0.91	40
Georgia	1.07	16	1.01	17	1.15	22
Hawaii	0.82	41	0.87	35	0.66	44
Idaho	0.87	37	0.73	41	1.25	18
Illinois	1.09	12	1.17	11	1.00	27
Indiana	1.03	22	0.80	38	1.46	6
Iowa	0.83	40	0.69	46	1.06	24
Kansas	1.07	17	1.25	7	0.84	42
Kentucky	1.06	18	0.95	27	1.43	8
Louisiana	1.28	3	1.29	6	1.25	17
Maine	1.19	7	0.97	22	1.56	1
Maryland	1.09	13	0.99	20	1.22	19
Massachusetts	0.81	43	0.72	43	0.98	32
Michigan	0.86	38	1.63	1	-0.08	49
Minnesota	0.91	34	1.06	15	0.60	46
Mississippi	1.32	2	1.33	4	1.28	15
Missouri	1.26	5	1.18	10	1.38	13
Montana	0.73	47	0.62	49	1.01	26
Nebraska	1.05	19	0.95	26	1.18	20
Nevada	1.11	9	0.94	28	1.46	7
New Hampshire	0.58	48	1.21	8	0.17	48
New Jersey	0.82	42	0.69	47	0.99	31
New Mexico	0.99	25	0.84	37	1.55	2
New York	0.79	45	0.89	33	0.70	43
North Carolina	1.08	15	0.95	25	1.42	9
North Dakota	1.23	6	1.15	12	1.40	10
Ohio	1.38	1	1.31	5	1.46	5
Oklahoma	1.11	10	0.99	19	1.39	11
Oregon	0.58	49	0.72	44	0.41	47
Pennsylvania	0.88	36	0.73	42	1.11	23
Rhode Island	1.04	21	1.06	14	1.00	28
South Carolina	1.02	23	0.79	40	1.54	3
South Dakota	1.08	14	1.19	9	0.97	33
Tennessee	0.98	26	0.87	34	1.16	21
Texas	0.92	32	0.79	39	1.06	25
Utah	0.99	24	1.01	18	0.96	35
Vermont	0.78	46	1.51	2	-0.27	50
Virginia	1.04	20	1.14	13	0.91	39
Washington	0.83	39	0.64	48	1.29	14
West Virginia	1.12	8	1.05	16	1.38	12
Wisconsin	0.93	31	0.92	30	0.94	36
Wyoming	0.94	29	0.97	21	0.90	41

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Interestingly, revenues originating from the federal government soared over this time period increasing by 2.18% for every 1% growth of personal income. This ratio ranks as the 2nd fastest pace in the nation. Clearly, Oklahoma's governments benefited from the expansion of federal government spending throughout this time period.

Also of note is the difference between state tax revenue growth and local tax revenue growth in Oklahoma. Despite the outcry over the growth in state government, this data indicates that Oklahoma's local governments are growing much faster. For every 1% increase in personal incomes, state tax revenues increased by just less than 1% (the 19th fastest pace in the nation), while local tax revenues increased by 1.39% (the 11th fastest pace). However, the proposed TABOR amendment ignores this growth in local governments and focuses solely on the growth in state government. Table 2 presents state-by-state data on tax revenue growth for all 50 states.

Digging deeper into the data reveals that both major sources of local government revenues—property and sales taxes—grew rapidly over the time period. Property tax revenues increased by 90%, while local sales tax revenues increased by 79%. For state government coffers, the income tax (both individual and corporate) was the major contributor to revenue growth. Income tax collections increased by 80% over the time period. The state sales tax grew at a more modest pace, coming in with 59% growth. The remaining taxes—including motor vehicle and fuel taxes among others—grew by only 45%.

Expenditure Growth

Government expenditures represent the other side of the government finances coin. Since Oklahoma governments witnessed revenue growth that outpaced the nation, it is no surprise that expenditures grew quickly as well. State and Local Government's Direct General Expenditures—a broad measure of government spending at both the state and local levels—grew by 80.86% from 1992-2002, or by 1.32% for every 1% increase in personal incomes. This ranks as the 12th fastest growth rate in the nation.

Table 3 presents data and rankings for the growth in Oklahoma's State and Local government expenditures for various governmental functions. The data indicates that from 1992-2002 spending growth in many different government functions outpaced the growth in incomes. In the listed categories (which represent most government spending) only expenditures by Oklahoma's public hospitals failed to keep pace with income growth (or the spending growth in most other states). Clearly, Oklahoma's governments were growing, and growing faster than the governments in other states.

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Education is one function that benefited from increased spending from 1992-2002. During this time period, total education spending increased by 85.09% or 1.39 times the growth in personal income. This ranks as the 12th fastest growth rate in the nation. It appears that higher education, though, has benefited more than common education as higher education spending grew at the 5th fastest pace in the nation while common education spending growth clocked in at number 17.[3] However, the high rankings for the education and higher education categories are mainly due to Oklahoma's increased reliance on tuition and fees to finance higher education expenditures. Once these charges are removed from the calculations for all states, total education spending growth in Oklahoma ranks 22nd among the 50 states while higher education spending growth ranks 17th.

Interestingly, spending on roads and highways grew at a similar pace in Oklahoma as in other states. However, this category still ranked as one of the slowest-growing categories within Oklahoma. Finally, "Public Welfare"[4] and "Corrections" rank as the two of the fastest growing segments of Oklahoma's governments.

Table 3: Oklahoma State and Local Government Expenditure Growth by Function 1992-2002

	Expenditure Growth (1992-2002)	Ratio of Expenditure Growth to Personal Income Growth*	Ratio's Rank Among 50 States
Total Direct General Expenditures	80.86%	1.32	12
Education Total	85.09%	1.39	11
Elementary & Secondary Education	75.41%	1.23	17
Higher Education	105.32%	1.72	5
Roads and Highways	64.06%	1.05	25
Public Welfare	113.32%	1.85	17
Hospitals	-4.84%	-0.08	46
Corrections	157.76%	2.58	8

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Sources: U.S. Census Bureau and U.S. Bureau of Economic Analysis

[3] The Census Bureau data does not allow one to isolate growth in state education spending vs. local education spending. The Census Bureau classifies most educational spending as local spending, even if the revenue was generated by state taxes. To isolate state spending by function, one could use data collected by the National Association of State Budget Officers (NASBO). However, NASBO does not follow a uniform procedure across states for classifying expenditures. As a result, some expenses are included in some states but not in other states. This makes it impossible to derive an accurate cross-state comparison of spending growth from NASBO data.

[4] Public Welfare includes all types of public assistance including TANF, food stamps, and Medicaid.

Implications for TABOR debate

As mentioned above, the optimal rate of government growth is a source of constant debate. Some think governments should expand and provide more services. Some think that governments are too large and should contract. The data presented above confirms that from 1992-2002, both the taxes and expenditures of Oklahoma's state and local governments grew faster than the national average. However, one's opinion of whether this relatively rapid growth is harmful or helpful depends on one's prior beliefs about the optimal size of government.

Some might argue that Oklahoma's state and local governments should have grown rapidly over these ten years because Oklahoma's governments were too small at the beginning of the period. This view is somewhat supported by changes in the ranking of Oklahoma's state and local tax burden over the time period. In 1992, Oklahoma's state and local tax burden ranked as the 43rd highest (7th lowest) in the nation. By 2002, Oklahoma's ranking increased to 39th.[5] Even though Oklahoma's state and local governments are growing faster than in most states, they remain relatively small.

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However, others might argue that Oklahoma's state and local governments, as well as the governments in other states, were already too large, too wasteful, and taking too many dollars from taxpayers.[6] Consequently, they argue that government should grow at a slower pace.

On December 19, Oklahomans In Action—a group working to slow government growth—submitted signatures to the Oklahoma Secretary of State in an effort to amend Oklahoma's Constitution to include the Taxpayer's Bill of Rights (TABOR) proposal. The Initiative Petition—now known as State Question 726—is pending notification of the Governor. Once the Governor receives the official Notice of Filing, he will set the date of the vote.

The TABOR proposal essentially would limit the growth in state government spending to the sum of the inflation rate and the population growth rate. From 1992-2002, inflation totaled 26.96%[7] while population growth totaled 8.28% in Oklahoma.[8] Thus, the "population + inflation" growth rate total comes to 35.24%. In other words, if TABOR had

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[5] The Tax Foundation publishes state and local tax burdens for each of the fifty states. They are available at http://www.taxfoundation.org/taxdata/show/475.html. Incidentally, Oklahoma's state and local tax burden in 1970 ranked 48th, while Oklahoma's 2005 state and local tax burden ranks #40. The tax burdens are generally computed by taking state and local tax revenues and dividing by the level of personal income.

[6] See the *2004 Oklahoma Piglet Book*, Oklahoma Council of Public Affairs (2004).

[7] This is based off of the CPI-U for the South region (of which Oklahoma is a member). No information on the inflation rate for Oklahoma City, which is specified in the TABOR initiative petition, was available. The national inflation rate was 28.23%.

[8] U.S. Census Bureau Population estimates are: for July 1, 1992 (3,220,500) and July 1, 2002 (3,487,100)

been in place in Oklahoma in 1992, Oklahoma's state government could have grown a maximum of 35.24% from 1992-2002. It is interesting to note that this limit does not apply to appropriations financed by federal funds or user-fees (like college tuition).[9] Furthermore, the TABOR limit does not apply to the growth of local governments—which have outpaced the growth of Oklahoma's state government. As a result, the TABOR limit mainly applies to state tax revenue growth.

In actuality, from 1992-2002 Oklahoma state tax revenues increased by 60.75%, slightly less than the growth in personal income. Using the ratio of tax revenue growth to personal income growth, this ranks as the 19th fastest growing state government in the nation. Under TABOR, however, Oklahoma's state tax revenues would have been limited to only a 35.24% growth rate over the 10-year time frame. Assuming the TABOR limit has no effect on the rates of personal income growth or population growth, then a 1% increase in personal incomes would have resulted in a 0.58% (35.24%/60.75%) growth in state tax revenue—this ratio would have ranked 49th among the 50 states (ahead of only Alaska).

If TABOR had been in place in Oklahoma from 1992-2002, the growth of Oklahoma state tax revenues would have ranked 49th among the 50 states.

Of course, it is possible that the imposition of stricter limits on government growth can affect the growth rate of personal income. However, economic theory is unclear on the direction of any such feedback effect. On one hand a smaller Oklahoma government could have led to gains in economic efficiency and therefore faster growth in incomes.[10] Although it is also possible that a smaller government that provides fewer government services would lead to declining productivity, and slower income growth rates. While economists have performed numerous studies that examine this issue, the evidence from these studies is mixed.[11]

Furthermore, it is possible that TABOR could have generated another feedback effect by changing population growth rates as well. Once again though, it is impossible to determine the direction of any such effect. On one hand, a shrinking government may be more attractive to some individuals leading to an inflow of new residents. On the other hand, a smaller government may be less attractive to those who consume government services…leading to an outflow of residents.

Conclusion

This report finds that Oklahoma's state and local government growth outpaced the national average from 1992-2002. For every 1% increase in personal incomes, Oklahoma state and local government tax revenues increased by 1.11%—the 10th fastest pace in

[9] The user fee exclusion requires the fee to remain less than the cost of providing the government service. Otherwise, the fee will be considered like a tax.
[10] Notice that if incomes grew faster than 61.13% while state tax revenues increased by 35.24%, then the ratio of tax revenue growth to personal income growth would have been smaller than the 0.58 reported in this paper.
[11] For reviews of this research, see Timothy Bartik, *Who Benefits From State and Local Economic Development Policies?* W.E. Upjohn Institute, 1991; and Ronald Fisher, "The Effects of State and Local Government Services on Economic Development", *New England Economic Review*, March/April 1997, pp. 53-67.

the nation. Interestingly, it was the growth in local government taxes—and not state government taxes—that fueled this above-average pace. Oklahoma's local tax revenue increased by 1.39% for every 1% increase in personal incomes, while state tax revenue failed to even keep pace with personal income growth.

On the expenditure side of the ledger, state and local government spending increased by 1.32% for every 1% increase in personal incomes—the 12th fastest pace in the nation. This above-average government growth was not shared equally across governmental functions, however. The growth in corrections spending came in at the 8th fastest pace, and education clocked in at number 11. However roads and highway spending—the source of much attention over the last year—ranked near the national average.

The results would have been dramatically different had TABOR been imposed in 1992. This report finds that instead of having an above-average government growth rate, TABOR would have limited the growth in Oklahoma state tax revenues to one of the slowest in the nation (#49). However, TABOR would have had no effect on the growth of Oklahoma's local governments (which again were growing faster than the state government).

The optimal growth of government is a source of constant debate, and is certain to remain so. This report cannot answer the question of whether Oklahoma's government is too large or too small. Nor can it determine whether Oklahoma's governments are growing too quickly or too slowly. This report aims to only measure the growth of Oklahoma's state and local governments from 1992-2002—information that Oklahomans need in order to determine which side of this debate they should support.

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