

## Virginia State Government Expenditures: Measuring the "Size" of Government

Tara Butler, Everett Peterson, and Mike Ellerbrock

In recent years, the size of the Virginia state government expenditures has been widely discussed. Both political parties are casting the 1995 state elections as a referendum on taxes and state government spending. "Governor Allen and his GOP allies argue that Virginians want less government, fewer services and lower taxes. Democrats say taxes are already low and services lean . . . [any] further reductions will be catastrophic to education and social services. Both parties back their claims by citing a variety of statistics. . . ."<sup>1</sup> The purpose of this paper is to provide an objective historical perspective of the size of the Virginia state government since the mid-1970's in order to determine whether the size of the Virginia state government has increased, decreased, or remained the same. This information is especially important to voters in rural communities where important services, such as education, depend on state support.

Debates on the size of state government generally focus on absolute measures, such as the dollar level of state expenditures. By using absolute measures, it is difficult to determine whether a specific dollar level of state expenditures is large or small, or whether it has increased or decreased. A more meaningful measure of the relative size of the Virginia state government is the level of state expenditures expressed as a percentage of Gross State Product (GSP), which measures the size of

the state government relative to the rest of the economy. By comparing changes in this percentage over time, one can determine whether the size of the state government is growing relative to the rest of the economy. In addition, this percentage can be used to compare the relative size of the Virginia state government to the size of state governments in surrounding states and to the rest of the United States.

### Measuring the Size of State Government

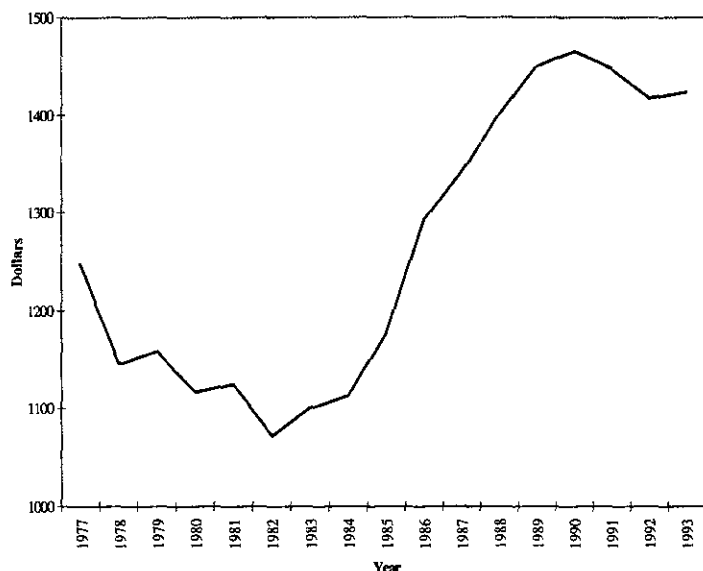
The debate on the size of the Virginia state government has focused on such absolute measures as the magnitude of nominal (not adjusted for inflation) and real (adjusted for inflation) state expenditures. However, neither of these measures takes into account changes in state population. Between 1977 and 1994, the population in Virginia increased by 1.36 million or approximately 26 percent (U.S. Census Bureau). As the population increases, the demand for government services, such as schools, roads, etc. also increases. To be able to compare the size of state government expenditures over time requires the use of real, per capita expenditures.

Figure 1 shows the historical trends in real, per capita state spending for Virginia between 1977 and 1993. During a period of relatively high inflation and an economic recession between 1977 and 1982, real per capita state expenditures declined from \$1248 to \$1072, approximately 14 percent. From 1982 to 1990, a period characterized by significant economic growth in Virginia and the rest of the United States, real per capita expenditures increased by approximately 37 percent from \$1072 to \$1465. Since peaking in 1990, real per capita state expenditures have declined slightly to \$1423 in 1993 (Table 1).

<sup>1</sup> Fiske, W. and D. Yancey. "How Taxing is Va., Anyway? Politicians Don't Agree." *The Roanoke Times*, October 2, 1995.

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**Figure 1. Real Per Capita State Spending in Virginia.**



At first glance, the increase in the level of real per capita state expenditures during the 1980's would seem to support the hypothesis that the size of the Virginia state government has increased. However, only by comparing the size of the state government to other sectors in the state economy can one truly ascertain whether it has grown. For example, one could compare the size of state government to the size of the state economy. As suggested earlier, one measure of the size of the state economy is the Gross State Product (GSP), which represents the value of all goods and services, both private and public, produced in the state in a given year.<sup>2</sup> By comparing state government expenditures as a percentage of GSP over time, one can determine if the state government has indeed increased in size *relative* to all other sectors in the state economy.<sup>3</sup>

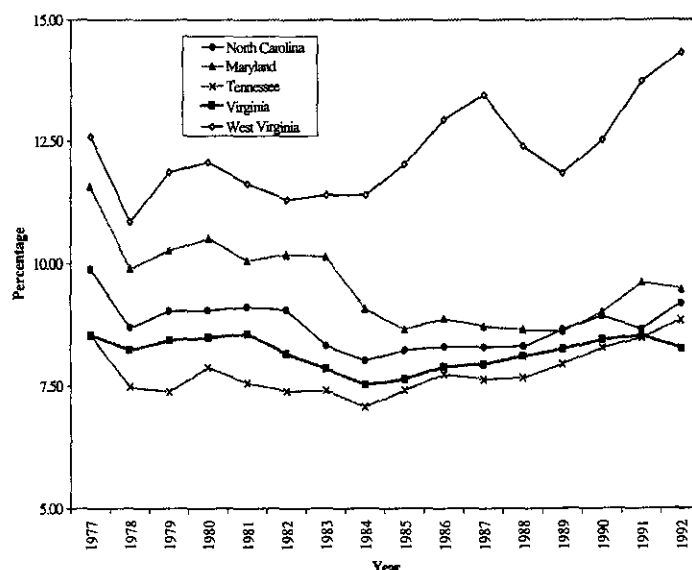
Figure 2 shows the level of state expenditures as a percentage of GSP for Virginia from 1977 to 1992.<sup>4</sup> During this period, the percentage has remained almost constant, varying from a low of 7.5 percent in 1984 to a high of 8.6 percent in 1981 (Table 1), implying that the size of the state government has remained virtually constant. Any increases in the level of state expenditures have essentially been matched by increases in GSP.

<sup>2</sup> Equivalently, GSP also equals the sum of wages and salaries, proprietor's income, rental income, corporate profits, interest payments, indirect business taxes, and depreciation charges.

<sup>3</sup> Because local government expenditures are not included, this measure is not one of the size of the public sector compared to the private sector.

<sup>4</sup> GSP estimates by state are not available after 1992.

**Figure 2. State Spending as a Percentage of Gross State Product.**



### Comparing Virginia to Other States

By comparing Virginia's state expenditures as a percentage of GSP to those of other states in the United States, one can determine if Virginia's state government is larger or smaller relative to other states. Except for Tennessee, the size of Virginia's state government is smaller than all of its neighboring states (Figure 2). On a national level, Virginia has one of the smallest state governments, ranking 46th out of the 50 states in 1992 (Figure 3). Only Illinois, Nevada, Colorado, and Texas spend a smaller percentage of GSP (8.03 percent, 8.02 percent, 7.87 percent, and 7.37 percent, respectively) than Virginia. Conversely, in 1992, Alaska, Rhode Island, Hawaii, and New Mexico had the highest percent of state government expenditures as a percentage of GSP at 18.45 percent, 15.44 percent, 14.77 percent and 14.42 percent, respectively. Since 1983, Virginia's ranking has hovered around 40th. Thus, even with significant increases in real per capita state expenditures during the 1980's, Virginia has maintained a relatively small state government when compared to other states.

### Conclusions

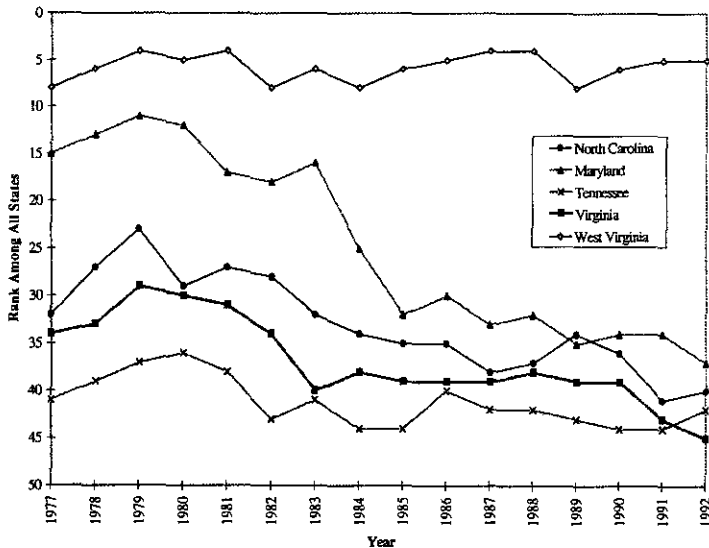
Using a measure of the relative size of state government, state spending as a percentage of GSP, the size of the Virginia state government is shown to have been fairly constant across the 1977 to 1992 period. When compared to other states, the relative size of the Virginia state government has actually decreased over

**Table 1. State Spending, Percentage of GSP and National Rankings in Virginia and Neighboring States, 1977-1992**

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<b>Real Per Capita State Spending in Virginia</b>	\$1248	\$1145	\$1158	\$1116	\$1125	\$1072	\$1100	\$1113	\$1176	\$1293	\$1341	\$1401	\$1450	\$1465	\$1447	\$1416	\$1423
<b>State Spending as a Percentage of Gross State Product</b>																	
North Carolina	9.89	8.68	9.03	9.04	9.11	9.05	8.31	8.01	8.21	8.29	8.28	8.30	8.65	8.93	8.66	9.19	N/A
Maryland	11.57	9.90	10.26	10.51	10.06	10.18	10.14	9.07	8.65	8.87	8.71	8.65	8.61	9.00	9.62	9.48	N/A
Tennessee	8.53	7.48	7.37	7.86	7.55	7.39	7.39	7.07	7.40	7.73	7.63	7.66	7.93	8.27	8.48	8.85	N/A
Virginia	8.53	8.22	8.43	8.48	8.55	8.15	7.84	7.51	7.63	7.89	7.93	8.10	8.25	8.44	8.53	8.25	N/A
West Virginia	12.59	10.85	11.85	12.06	11.62	11.29	11.39	11.39	12.02	12.94	13.44	12.39	11.84	12.52	13.72	14.32	N/A
<b>National Rankings of State Expenditures as Percentage of GSP</b>																	
North Carolina	32	27	23	29	27	28	32	34	35	35	38	37	34	36	41	40	N/A
Maryland	15	13	11	12	17	18	16	25	32	30	33	32	35	34	34	37	N/A
Tennessee	41	39	37	36	38	43	41	44	44	40	42	42	43	44	44	42	N/A
Virginia	34	33	29	30	31	34	40	38	39	39	39	38	39	39	43	45	N/A
West Virginia	8	6	4	5	4	8	6	8	6	5	4	4	8	6	5	5	N/A

N/A: data not available. Sources: U.S. Bureau of the Census, *State Government Finances*, Various issues 1977 - 1992; U.S. Census Bureau, Population Distribution and Estimates Branches; and U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Analysis Division

**Figure 3. National Rankings of State Spending as a Percentage of GSP.**



**Conclusions**

Using a measure of the relative size of state government, state spending as a percentage of GSP, the size of the Virginia state government is shown to have been fairly constant across the 1977 to 1992 period. When compared to other states, the relative size of the Virginia state government has actually decreased over this time period. In 1992, only four states had a lower level of total state spending as a percentage of GSP than did Virginia. Objective data suggest that the Virginia

state government has not grown disproportionately to the rest of the Virginia economy since 1977. Indeed, this brief analysis suggests that Virginia utilizes a more cautious approach to state government spending than do the majority of other states..

**NOTICES**

For further information on the level of Virginia state spending by major category, see the Spring 1994 issue of *The State of Rural Virginia*

A policy paper on tobacco is at the printer and will be available by November 1.

Adjustments are also pending in peanuts. A policy paper is in process and will be available by December 1. You will receive a copy when it is available.

A REAP report on what to consider when evaluating alternative or supplemental on-farm enterprises will also be available by December 1.

A symposium on tobacco adjustments is being planned for December and may involve the Joint Legislative Study Committee. Watch for an announcement of date and location or contact REAP by December 1.

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