
Changes in Minnesota's Spending Similar to National Trends

SUMMARY

According to a study released by the Legislative Auditor, the overall spending trends for state and local governments in Minnesota have been similar to national trends. Over a 35-year period (1957-92), spending per capita has grown a little faster in Minnesota than for all state and local governments nationwide, but spending has increased slightly faster relative to personal income throughout the nation than in Minnesota.

From 1957 to 1992, inflation-adjusted spending per capita grew from \$1,680 to \$4,500 in Minnesota, or 168 percent. Nationally, there was a 153 percent increase. Relative to personal income, spending grew 67 percent nationwide, compared with 62 percent in Minnesota.

Despite the similarity in overall trends, there have been differences in trends for particular government activities. For example, corrections spending has grown much slower in Minnesota than the national average, and health and welfare spending has generally grown faster in Minnesota than throughout the nation.

Spending growth in Minnesota was much faster during the 1950s and 1960s than it has been since the early 1970s. Between 1957 and 1972, spending per capita increased 82 percent, compared with 47 percent from 1972 to 1992. Spending grew 50

percent relative to personal income during the earlier period but only 8 percent since 1972.

The slowdown in spending growth was partially due to the declining impact of the "baby boom" generation on education spending. After growing steadily in the 1950s and 1960s, enrollment in elementary-secondary schools declined from the early 1970s until the mid-1980s. In addition, the costs of building new college campuses and buildings to accommodate the "baby boom" generation peaked in the early 1970s. Education accounted for half of Minnesota's growth in spending per capita between 1957 and 1972, but less than 10 percent of the growth since then.

The stabilization of public employee salaries also contributed to the slowdown in overall spending growth. Between 1972 and 1992,

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Key Findings:

- Overall spending and revenue trends in Minnesota have been similar to national trends for state and local governments.
- Spending growth slowed after the early 1970s as the baby boomers graduated from high school and salary growth slowed in both public and private sectors.
- Education led spending growth between 1957 and 1972, while health and welfare programs led spending growth between 1972 and 1992.
- Although average salaries have not increased much since the early 1970s, fringe benefits have grown rapidly, in large part due to increased health insurance costs and required Social Security contributions.
- Minnesota has consistently spent more per capita than the national average for state and local governments. Most of the difference in spending has been in health and welfare, education, and transportation.

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average inflation-adjusted salaries for state and local government employees increased only 4 percent in Minnesota and 3 percent in the nation as a whole. In the 15 previous years, average salaries increased 70 percent in Minnesota and 60 percent nationally.

Although salaries do not account for much of the spending growth since the early 1970s, fringe benefits have been an important factor. Fringe benefits have grown rapidly, as health care costs have escalated and the federal government has increased employer contributions to Social Security.

A major source of spending growth since the early 1970s has been spending on health and welfare programs. From 1972 to 1992, health and welfare spending was responsible for nearly half of the overall spending growth. The factors behind this growth include significant inflation in medical care costs, expanded eligibility for programs, growing numbers of low-income and single-parent families, and increased longevity.

Minnesota and other states have relied increasingly on fees and other non-tax sources of revenue to finance spending growth. State and local taxes in Minnesota financed only 40 percent of the overall

growth in spending per capita between 1972 and 1992. During that period, tax revenues grew 28 percent per capita--the slowest of all major revenue sources--and declined 7 percent relative to personal income.

Although overall spending trends in Minnesota are similar to national trends, Minnesota has consistently spent more than the national average for state and local governments. In 1992, Minnesota spent 18 percent more per capita than the national average. Much of Minnesota's additional spending pays for a larger and more generous safety net for low-income, elderly, and disabled Minnesotans; education for a greater share of the population; a larger and more costly road system; and more recreational and natural resource facilities and programs to accommodate Minnesotans' greater interest in outdoor activities.

Copies of the report, entitled *Trends in State and Local Government Spending*, may be obtained from the Office of the Legislative Auditor. The executive summary may be found on the World Wide Web at <http://www.auditor.leg.state.mn.us/trends.htm>. For further information, contact John Yunker or Roger Brooks at the Office of the Legislative Auditor (612/296-4708).



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