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## Official spending outpaces revenue

By Dennis Cauchon, USA TODAY

State and local government spending has been rising three times as fast as revenue amid warnings from governors that their finances are nearing crisis stage.

As many Americans face stagnant wages, high gas prices and job uncertainty, new government figures show that state and local governments boosted spending 7.8% in the second quarter compared with 2007 while revenue rose 2.5%. Government is on a hiring binge, too, even as private-sector jobs disappear.

In a move to curb spending, California Gov. Arnold Schwarzenegger took sweeping action Thursday to pressure the Legislature to pass an overdue budget. He signed an order laying off up to 22,000 part-time and temporary state workers and cutting the pay of 200,000 others to the minimum wage of \$6.55 per hour. The state is on track to spend \$15 billion more than it will take in during the next year.

The robust public spending reported Thursday by the Bureau of Economic Analysis means that government can provide more services, such as smaller class sizes, bridge repairs and expanded health care, but it also could bring higher taxes. The added spending is financed mostly by debt and budget reserves.

State and local governments are on track to spend more than \$2 trillion for the first time in 2008 — about 13% of the nation's gross domestic product. A key factor driving higher spending: New employees and higher compensation.

Even California, despite years of budget woes, has continued to add employees. "It's the strangest thing. Government keeps hiring even when times are tough," says Jack Kyser, chief economist at the Los Angeles County Economic Development Corp., a private business group.

A large share of the new workers are teachers, police officers and prison guards, says Ron Snell, a budget analyst at the National Conference of State Legislatures. Those positions generally must be filled because of class-size rules, longer prison terms for inmates and other requirements, he says.

Snell says new, leaner budgets took effect July 1 in most states and will reduce spending growth.

New Jersey, Tennessee and Vermont are among states considering buyouts or layoffs, he says. New York Gov. David Paterson called this week for a hiring freeze and a special legislative session to consider spending cuts.

Raymond Scheppach, executive director of the National Governors Association, says governors proposed spending increases of just 1.1% this year. He predicts that deep spending cuts and modest tax increases could occur in mid-2009 as tax problems persist and budget reserves become depleted.

"What scares me is this problem may not be deep, but it could last a long time," Scheppach says.

Chris Edwards, budget director of the libertarian Cato Institute, says elected officials don't manage money well.

"Why can't government adjust a percentage or two here and there without having a crisis?" he asks. "Businesses do it routinely."

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