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The revenue and expenditure patterns of state and local governments have experienced major shifts over the last several decades. Principal causes of these shifts include the growing expectations citizens place on the services provided by the public sector. While wanting more and better public services, citizens wish to keep their personal tax burden to a minimum. The revenue sources that state and local governments depend on have also experienced major transformations as the economic base of many regions has changed. Additionally, responsibilities associated with programs and policies formerly provided by the federal government have been transferred to state and local governments. Funds to administer those programs do not always accompany this change in responsibility.

Due to this environment, the revenue and expenditure patterns of state and local governments have changed. Shifts in the demographic makeup further affect the conditions in which state and local governments must operate. Given this scenario, this study examines revenue and expenditure patterns for 13 Southern states for a 23-year time period. States included in the analysis are: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia. Revenue and expenditure patterns within and between states as well as the Southern region as a whole and the United States are examined in this study. This study extends the work done earlier by Deller and Clouser.

Data used in this study were obtained from the Bureau of the Census report *Governmental Finances: 1968-69* and *Governmental Finances: 1991-92*. Every effort was made to maintain data consistency between time periods. Table 1 shows a detailed breakdown of the revenue sources available in 1991-92 and marks those sources that were available in 1969 and those sources included in the study. Total direct general expenditure data accessible in 1992 are identified in Table 2. Those expenditure categories with data available in 1969 and that are included in the analysis are indicated in this table. Capital general expenditures are the last category of state and local expenditures to be examined. Table 3 list the capital expenditure categories for which information is available in 1992 and marks those categories that were available in 1969 and are included in the study.

Revenue sources and expenditure categories will be examined on several levels to determine the changes that have taken place from 1969 to 1992. Both the policy environment and the general population levels within which state and local governments operate have changed over time. Thus the study will examine both

the overall and the per capita change in state and local governments revenues and expenditures. Table 4 provides the population figures for the states in the Southern region and the United States in 1969 and 1992.

Growth in population for the Southern region exceeded that of the United States for the 23 year period examined. From 1969 to 1992 the United States' population grew by 26.3 percent and the Southern region's population grew by 42.6 percent. Florida's population more than doubled and Texas' grew by over 57 percent. Mississippi's population grew the least with a 10 percent increase for the 23 year period. The annual change in population for the Southern region and the United States were 1.5 and 1.0 percent, respectively. Seven of the Southern state, Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma and Tennessee, grew at a slower annual pace than the United States as a whole. Florida, Georgia, North Carolina, South Carolina, Texas and Virginia grew at a faster rate than the United States. Florida and Texas, increasing by 3.3 and 2.0 percent, respectively, had the largest annual population changes. Mississippi's annual growth of .4 percent was the lowest for the region. Both the rapid population growth in the top three states and the slow growth in several other states creates special challenges for state and local governments.

General Revenue

How much has state and local government revenue grown from 1969 to 1992? All general revenue sources showed an annual increase. The total general revenue of the Southern region increased annually more than the United States for all revenue categories examined (see Table 5). The annual change in total general revenue for the region was 4.4 percent compared with 3.5 percent for the United States. General revenue to state and local governments from federal aid increase annually by 4.2 percent in the Southern region and 4.0 percent in the United States. Total own source revenue increased by 4.4 percent and 3.4 percent for the Southern region and the United States, respectively.

Revenues received from charges and miscellaneous grew the fastest. Property tax revenue experienced the lowest annual growth rate for both the Southern region and the United States. However the disparity between the growth rates in the Southern States and United States was the greatest for this sources 3.9 and 1.8 percent, respectively.

Of the states examined, Florida had the largest annual increase for all revenue categories with total general revenue increasing annually by 6.0 percent. South Carolina had the second highest increase in general total revenue of 5.0 percent annually. The lowest increase (2.8 percent) was in Oklahoma. Florida and Texas, the only two states in the region without a state income tax, had the largest annual increase in both property and other taxes.

Table 6 adjusts for the impacts of population change on public revenues. Except for property taxes in Oklahoma, all revenue sources in the regions considered experienced an annual increase. The per capita annual change in total general revenue for the region was 2.8 percent compared to 2.5 percent for the United States. Revenue from own sources increased annually by 2.8 and 2.4 percent, respectively for the Southern region and the United States. Federal aid revenue increased at a larger annual rate for the United States (2.9 percent) than for the Southern region (2.6 percent). Charges and miscellaneous showed the largest annual increase for all regions included in the analysis. Property tax again had the slowest annual increase for both the Southern region and the United States and the largest difference between the annual rates for the two regions.

South Carolina had the largest per capita annual increase for all revenue sources examined except other tax revenue with per capita general revenue increasing at 3.7 percent annually. North Carolina had the second highest per capita increase, 3.2 percent, in general revenue and Oklahoma at 1.8 percent had the lowest annual increase in general revenue. The fastest growing states, Florida and Texas, ranked eleventh and seventh, respectively, in per capita annual growth in total revenue.

While total and per capita general revenue has increased from 1969 to 1992 for both regions and sources with one exception, the differential growth rates indicates shifts in relative importance of the various sources. Where does state and local government revenue originate? Table 7 shows the percent of total general revenue of state and local governments from each revenue source for 1969 and 1992.

Other tax revenue, including both income and expenditures taxes, comprises the largest percentage of total general revenue for both regions and time periods. Two sources, charges and miscellaneous and federal aid, make up a larger percentage of total revenue in the Southern region than in the United States in 1969 and in 1992. The relative importance of property taxes dropped for all states and for the Southern states, but the drop across the United States was greater going from 26.8 percent in 1969 to 18.3 percent in 1992.

The states in the Southern region experienced a slight shift from federal aid towards own sources of revenue. The movement was in the opposite direction for all states in the United States. Six of the Southern states exhibited a pattern like the total United States - Florida, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee. Each Southern state and the United States exhibited a shift toward charges and miscellaneous States. This represents a significant shift toward user fees as a basis for government revenue.

Property tax, though the least important source of total revenue in 1992 for both the region and the United States, made up 18.3 percent of the United States total general revenue compared to 16.1 percent of the region's general revenue. The percentage of revenue from property tax from 1969 to 1992 did increase for both

South Carolina and Virginia. Arkansas, Kentucky and Oklahoma all experienced an increase in the percent of revenue from other taxes from 1969 to 1992. With all of the variations across the Southern states the sum of these thirteen states seems to be converging with the pattern exhibited by the United States.

Where does general revenue of state and local governments originate and which division of government spends it? See Table 8. The distribution of the origin of general revenue of state and local revenue between federal aid, state government and local government was nearly the same for the Southern states and the United States in 1992. For the Southern states 18.8 percent of general revenue was supplied by federal aid. State government generated 43.8 percent of that revenue and local government, 37.4 percent. Allocation of revenue between state and local governments also exhibited a similar pattern for the Southern states and the United States. In 1992 state government for the Southern states used 43.3 percent of the general revenue and local government used 56.7 percent.

These patterns resulted from a convergence of the United States and Southern states from the divergent patterns that existed in 1969. For the Southern states the percentage of general revenue of state and local government coming from federal aid and state government decreased while the percentage coming from local government increased. Across the United States the movement was in the opposite direction.

The individual Southern states exhibited considerable variation. The percentage of general revenue coming from federal aid increased in six states and decreased in seven states. The percentage of general revenue coming from state sources increased in only four states while decreasing in nine states. A distinct shift occurred in the general revenue coming from local government sources. This percentage increased in eleven of the thirteen Southern states. The percentage of general revenue generated by local government ranged from a low of 23.1 percent and 23.5 percent in Kentucky and Arkansas, respectively to a high of 47 percent in Florida. The shifts represent the changing role of local government and the differences represent the diversities of responsibilities given to local government in different states.

An examination of which level of government spends general revenue reveals a convergence between the Southern states and the United States as indicated above. However, the individual Southern states went their separate ways. For seven of the thirteen Southern states the percentage of general revenue allocated by state government increased, while it decreased in the other six states.

Thus the data reveals a convergence between the United States and the Southern states in general revenue origin and allocation by level of government; and a variety of shifts between the states in the Southern region.

How much burden have government revenues placed on tax payers in the Southern states and in the United States? One measure of that burden is the percentage of total personal income devoted to government revenue. This study focuses on general revenue of state and local governments. However, in order to gain an appreciation of the impact general revenue of state and local government, one must examine all government revenue including federal revenue that is not an intergovernmental transfer. See Table 9. All government revenue; including general revenue, utility and liquor stores, and insurance trust revenue; of federal, state and local governments is a large proportion of total personal income — 46.4 percent in 1969 and 51.6 percent in 1992. This also represents a 5 percentage point increase over the time period.

The sources of government revenue shifted significantly across the United States. Taxes in general decreased in relative importance representing 29 percent of total personal income in 1969 and 24 percent in 1992. Charges and miscellaneous, and insurance trust fund placed a heavier burden on tax payers in 1992 than in 1969 increasing by 3.8 and 4.5 percentage points, respectively.

The general revenue generated by state and local governments represented 8.8 percent and 9.4 percent, respectively of total personal income in 1969. These figures increased to 11.8 and 11.2 percent in 1992. Combined general revenue of state and local governments accounted for 18.2 percent of total personal income in 1969 while the federal government accounted for 21.2 percent. By 1992 the situation had reversed with the federal government accounting for a smaller percentage of total personal income than state and local governments — 16.6 percent and 23.0 percent, respectively.

We now turn our attention to the burden placed on tax payers by general revenue (not including liquor stores and insurance trust revenue) of state and local governments, including intergovernmental transfers from the federal government but omitting that part of government revenue that would be strictly federal. See Table 10. The figures on this table will be slightly different from the previous one because of intergovernmental transfers.

The burden on taxpayers for total general revenue of state and local governments increased for the Southern states and for the United States. It went from 14.6 percent of total personal income in 1969 for the Southern states to 18 percent in 1992, while the figures for all states increased from 15 percent to 19 percent. All Southern states exhibited a pattern of increasing general revenue burden. The burden in South Carolina increased the most over the time period (13.5 to 19.6 percent of total personal income) and Oklahoma increased the least (17.0 percent to 18.7 percent). In 1992 the heaviest burden was exhibited in Louisiana and Mississippi with general revenue of state and local government representing 23.0 and 21.1 percent of total personal income. The burden was the lightest in Virginia, 15.9 percent.

The burden from property tax exhibited mixed results. Property tax represented 2.7 percent of total personal income for the Southern states in 1969 increasing to 2.9 percent in 1992 as those same figures for the United States dropped from 4.0 to 3.0 percent. The burden from property taxes increased in five of the thirteen Southern states and dropped in eight. The burden from other taxes exhibited a pattern of increase for the United States, Southern states and for each Southern state. Unfortunately, the 1969 figures do not allow disaggregating the income and expenditures taxes the category contains. Charges and miscellaneous exhibited a similar but more pronounced pattern, indicating a strong shift toward the use of user fees to finance state and local government activities.

Thus, revenue sources are increasing in the Southern states at a faster rate than the United States even after the effects population growth are removed. There has also been a strong move away from other types of taxes and towards charges and miscellaneous fees for all regions studied. The Southern region shifted towards revenue originating from local sources while shifting away from revenue originating at the federal and state level. This is opposite of what is happening in the United States.

Direct General Expenditures

Now that we have a feel for how state and local governments revenue has changed, we will examine changes in expenditures. The annual change from 1969 to 1992 in direct general expenditures by source for the Southern states and the United States are shown in Table 11. The table indicates that general expenditures grew faster in the Southern region than in the United States for all expenditure categories. Total general expenditures increased annually 5.0 percent for the Southern states and 4.0 percent for the United States.

Sewer expenditures experienced the largest annual increase for the region and the United States of all the expenditure categories examined. Southern states annual change in sewer expenditures was 7.8 percent compared to 6.6 percent for the United States. Louisiana, with a 4.8 percent increase, was the only state in the South to have a smaller annual increase in sewer expenditures than the United States. Welfare was the second fastest growing expenditure category for the Southern region increasing by 6.7 percent annually and interest on debt the second fastest growing expenditure category for the United States increasing by 6.1 percent. Highway expenditures showed the smallest annual increase for both the region and the United States increasing by 2.2 percent and 1.8 percent, respectively. The disparity between the growth rates of the Southern Region and the United States was the greatest for health and hospitals and police and fire expenditures with the difference being 1.6 percentage points for each category.

Of the Southern states, only Louisiana, Mississippi and Oklahoma have an annual

change in total expenditures which were lower than that of the United States. Southern States tended to show the highest increase in expenditure for the sewer, welfare, health and hospitals and interest on debt categories. Florida and South Carolina experienced the largest annual increase in total direct general expenditures with increases of 6.6 percent and 5.5 percent, respectively. Texas came in third with a 5.5 percent increase. Oklahoma had the smallest annual increase of 3.3 percent.

Were the increases in government expenditures due to population growth? Annual changes in per capita direct general expenditures of state and local governments removes the effect of population change. See Table 12. The annual change in per capita direct expenditures was 3.4 percent for the Southern states and 2.9 percent for the United States. Comparing the annual change between the United States and Southern region shows that the per capita expenditures grew at a faster pace for the Southern states for all but two functions. The annual per capita increase in highways was greater for the United States than the Southern region and the United States and Southern region had equal annual changes for interest on debt. The annual change in per capita highway expenditures were also the smallest increases for the United States and Southern states of all expenditure functions. Per capita sewer expenditures annual change of 6.2 percent and 5.5 percent, respectively, for the Southern region and the United States were the highest of all expenditure categories.

In examining the annual changes in expenditures for all function, it is found that the difference of 1.1 percentage points between the Southern region and the United States for police and fire protection is the largest of all expenditure functions. Per capita health and hospital expenditures experienced the second largest difference of 1.0 percentage points.

South Carolina's annual per capita increase of 4.3 percent was the highest reported within the Southern states and 3.8 percent for North Carolina was the second highest. The lowest, 2.3 percent, for the Southern region was in Oklahoma. Per Capita highway expenditures experienced an annual decrease for 4 states - Georgia, Kentucky, Louisiana, and Mississippi. Except for Florida and North Carolina, per capita highway expenditures had the lowest annual change of any function for all 13 Southern states. Growth in annual per capita local education expenditures remained rather low compared to all other expenditure functions other than highways for most states.

Exactly how much do state and local governments spend per capita? Total and per capita expenditures increased from 1969 to 1992 for all expenditure categories except per capita highway expenditures for four states. See Table 13.

United States per capita direct general expenditures of state and local governments in 1992 were greater than the expenditures in the Southern region for all functions

except health and hospitals. Total per capita expenditures for the United States exceed those of the Southern region by 537 dollars or the Southern states spent 16 percent less per capita than the national average. Local education received the most per capita expenditures of the function examined for both the Southern region and the United States. There was a near tie for the second highest per capita function for both the United States and the Southern region between welfare and all other general. While experiencing the largest annual percentage increase in per capita for both the Southern region and the United States, sewers received the smallest per capita expenditure amount of 45 dollars per capita for the United States and 34 dollars per capita for the Southern region.

Louisiana had the highest (3,300 dollars) per capita total direct expenditures of the Southern states and Arkansas the lowest at 2,446 dollars. No Southern states spent more per capita on local education than the United States average. This is the only expenditure category that in which at least one of the Southern states did not spend more than the United States per capita expenditure amount. Per capita total expenditures for Florida and Texas, the two fastest growing states in the Southern region, ranked second and ninth, respectively.

Table 14 shows the percent distribution of direct general expenditures of state and local governments by function for 1996 and 1992 and identifies changes in the relative importance of each expenditure category for the 23 year time period. The largest percentage of total revenue was spent on local education for both time periods and regions considered. However, both regions experienced a decrease from 1969 to 1992 in the proportion of general expenditures spent on local education. The percentage of revenue spent on local education dropped by 8 percent from 1969 to 1992 for both the Southern region and the United States. This was the largest change in the percent distribution observed by any function for both the United States and the Southern region. Local education made up 30 percent or more of general expenditures for ten states in 1969 and 25 percent or more of general expenditures for seven states in 1992.

Comparing the movements in the relative importance of each expenditure function for the two time periods shows that changes in the United States and Southern region were in the same direction for all functions except police and fire and administration. The relative importance of police and fire did not change in the United States and increase by 1.0 percentage points for the Southern region while the percent distribution for administration did not change for the region and decreased by 1.0 percent for the United States from 1969 to 1992. Welfare expenditures saw the second largest change in relative importance for the United States and Southern region increasing by 5.0 percentage points for both areas from 1969 to 1992.

In 1992, the disparity between the percent distribution of general expenditures of state and local governments by function for the Southern region and the United

States were the greatest for health and hospital, welfare and all other general. A larger percentage of United States general revenue was spent on welfare and all other general than for the Southern region while the region spent more on health and hospitals than the United States. This disparity equaled 2 percentage points for all discussed functions.

Table 14 also reveals a significant difference between the revenue patterns and expenditure patterns found in the Southern states as compared to the United States. In 1969 the distribution of general revenue between sources for the Southern states was quite different than that for the United States. While there was substantial variation between individual states, the Southern states and the United States moved toward a more similar distribution over the 23 years. On the expenditure side the Southern states and the United States started with a similar distribution in 1969 and maintained it through 1992.

Capital General Expenditures

Have capital expenditures been following the same type of growth pattern as general direct expenditures? Annual changes in capital expenditures from 1969 to 1992 are shown in Table 15. Capital expenditures have actually declined for several functions and regions. The Southern region experienced an annual decrease of .3 percent from 1969 to 1992 in higher education expenditures while the United States had a 3.4 percent increase. This also represents the largest difference in annual changes between the United States and the Southern region. Highway capital expenditures annual change for the United States and the Southern region showed the figures moved in opposite directions. The United States experienced an annual decrease of .3 percent compared to a .6 percent increase for the Southern region in highway capital expenditures.

Total capital general expenditures annual increase of 1.5 for the Southern region was more than the .8 percent increase for the United States. Health and hospitals showed the largest annual increase, 3.6 percent, for the Southern region while sewers annual increase of 3.6 percent was the largest of all functions for the United States.

Florida experienced the largest annual increase in total capital expenditures of the 13 states and for all other capital expenditure categories except sewers. The annual increase in total capital expenditures for Florida was 4.6 percent. Alabama, Arkansas, Kentucky, Louisiana and Mississippi all had declining annual total capital general expenditures. Arkansas, Florida, and South Carolina were the only Southern states that had at least a 1.0 percent annual increase in higher education capital expenditures while nine states showed a decline in this category.

How do the annual changes in capital expenditure respond when population

movements are also considered? This question is the focus of Table 16. On a per capita basis both the United States and the region observed an annual decline in total capital expenditures. This is also the case for the annual changes for per capita higher education and per capita highway capital expenditures. For the Southern region per capita health and hospitals capital expenditures, having an annual increase of 2.0 percent, was the fast growing category while sewers increasing by 1.9 percent was the fastest growing for the United States.

The largest annual increase in capital total expenditures for the 13 Southern states was 1.2 percent for Florida. Seven states observed a decline in total per capita capital expenditures. All states except South Carolina experienced an annual decline in at least one of the capital expenditure categories. South Carolina and Arkansas are the only two states with a positive annual change in per capita higher education expenditures. Four states, Florida, Georgia, Mississippi and South Carolina, observed an increase in highway per capita capital expenditures. Arkansas and Virginia were the only two states showing a decline in annual per capita health and hospital capital expenditures.

Declining capital expenditures were observed for several expenditure functions and regions. How much are state and local governments spending on capital investments? Table 17 shows the 1992 per capita capital expenditures of state and local governments. For the United States, state and local governments spent 458 dollars per capita on capital expenditures compared to 421 dollars for the Southern region. Health and hospitals is the only capital expenditure category where the Southern regions per capita capital expenditures were more than the United States per capita expenditures. Higher capital expenditures for health and hospitals in the Southern region may be due to the increase in the elderly population the region has experienced. The population over the age of 65 increased by 79.6 percent for the Southern region compared to 55.4 percent for the United States from 1970 to 1990. See Table 18.

Per capita expenditures for highways and all other capital expenditures were over 100 dollars for both the United States and the Southern region while per capita higher education, health and hospitals, and sewers expenditures were under 40 dollars for the United States and region. Comparing the per capita capital expenditures for the individual states shows that Florida had the highest expenditure level at 520 dollars and Arkansas the lowest at 305 dollars.

While this provides an indication of the importance of each capital expenditure category in 1992 it does not provide a picture of how capital expenditures patterns have changed from 1969 to 1992. Table 19 shows the percent distribution of general capital expenditures of state and local governments by function from 1969 to 1992.

Changes in the percentage distribution of capital expenditures from 1969 to 1992

shows that both the Southern region and the United States observed the same directional movements within all categories. Sewers, local education, health and hospitals and all other capital expenditures relative importance increased from 1969 to 1992. The percentage of total capital expenditures spent on higher education and highways decreased from 1969 to 1992 for the United States and Southern region.

There was a shift away from highways toward all other capital expenditures in the United States and Southern states. Highway capital expenditures still comprises the largest percentage of total capital expenditures for the Southern region and the United States in both time periods. Highway capital expenditures decreased for the Southern region in relative importance from 41 percent in 1969 to 34 percent in 1992 while all other capital expenditures increased from 22 percent in 1969 to 28 percent in 1992. The United States observed a similar pattern with highway capital expenditures of 40 percent and 32 percent for 1969 and 1992, respectively and all other expenditures of 25 percent and 31 percent for 1969 and 1992, respectively.

For most of the 13 states, highways comprises the largest percentage of total capital expenditures for both time periods. Arkansas and Mississippi were the only two states in 1969 where highways did not comprise the largest percentage of total capital expenditure while the same was true for South Carolina and Florida in 1992. In these cases all other capital expenditures received the largest percentage of total capital expenditures. In 1992 highway and all other capital expenditures were equal for Virginia.

All other and highways combine for more than 55 percent of total expenditures for both time periods and all of the states and for 60 percent or more for all but six states. If local education is added to all other and highways 75 percent or more of total capital expenditures in 1969 and 1992 are accounted for all of the Southern states.

Conclusions

- Rapid population growth is occurring in Florida, Texas and Georgia.
- Revenue from charges and miscellaneous have seen the largest increase of all revenue sources for the Souther region, United States and the 13 Southern states.
- There has been a movement away from property tax towards charges and miscellaneous.
- Revenue sources increased faster in the Southern states than in the United

States even after the effects of more rapid population growth is removed.

- The largest source of local and state revenue is other taxes which includes income and expenditures for all regions studied in 1969 and 1992.
- For the Southern region the percentage of revenue from federal aid and state governments decrease while local revenue increased. This is opposite of what happened in the United States. Convergence between the United States and the South is occurring.
- User fees increased at a more rapid rate than other revenue sources.
- Property taxes increased the least.
- Taxes are placing less of a burden on United States taxpayers while charges and miscellaneous and insurance trust fund are placing heavier burdens.
- South Carolina experienced the largest per capita annual increase in revenue.
- Oklahoma experienced the smallest per capita annual change in revenue.
- Direct expenditures are increasing in the Southern states faster than in the United States as a whole.
- Annual increase in direct expenditures is the greatest for sewers in both the Southern region and the United States. However, the per capita direct expenditures for sewers were the smallest expenditure category for both the Southern region and the United States.
- Largest disparity in growth of direct expenditures between the United States and Southern region were for health and hospitals and fire and police.
- South Carolina had the highest annual increase in direct general expenditures while Oklahoma had the lowest.
- Though expenditures are growing at a faster rate in the Southern region than the United States, the United States spends more per capita on general expenditures than the South for all functions except health and hospitals.
- Welfare and all other expenditures comprise a larger percentage of total direct expenditures for all regions and the United States in 1992 than in 1969.
- The United States spent a larger percentage of money on welfare than the

Southern region in both 1969 and 1992.

- Capital expenditures have declined for some states and functions.
- The per capita annual change in total general capital expenditures from 1969 to 1992 decline for the Southern region and the United States
- The United States spent more per capita on capital expenditures in 1992 than the Southern region for all functions except health and hospitals and local education in which expenditures were equal.

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