



State Spending

A Look At 50 Years of NJ Budgets

**NEW JERSEY
POLICY
RESEARCH
ORGANIZATION**

Committed to
Quality Research
on Behalf of
New Jersey
Employers

**FACTS
FOR
DISCUSSION**

January 2005

WHY EMPLOYERS SHOULD CARE

Global competition has caused industry to cut expenses and increase productivity. At the same time, New Jersey employers have been concerned about the unrelenting increases in taxes and fees brought on by government growth at all levels. Recent calls for a State property tax convention to deal with the issue of high property taxes in New Jersey have raised questions about State and local government spending. The total Statewide property tax levy in 2003 was 32 times greater than in 1955. One possible outcome of property tax reform could be the shifting of even higher tax burdens onto business. This has prompted the New Jersey Policy Research Organization (NJPRO) to prepare this benchmark analysis of the increase in State government spending in New Jersey over the past half century.

The Budget: Appropriations for the Support of State Government

The New Jersey State Constitution requires that the State adopt a balanced budget, proposed by the Governor and enacted by the Legislature. Governors traditionally announce new policy initiatives and programs in their annual budget message to the Legislature. Over the past 50 years, the State has continually added new programs and expenditures, but has done little to cut ineffective or outdated programs. Rarely has State spending declined in any given year.

Methodology

NJPRO examined the *State of New Jersey Budget*, published annually by the NJ Office of Management and Budget, between fiscal years 1955 and 2005.

Within the summary of the appropriations section of each budget, the recommended budget amount is recorded for the current fiscal year. The actual expenditure for that same fiscal year is recorded in the budget book published two years later. NJPRO compared these two data points and then calculated the annual percentage increase for both the recommended amount and the actual expenditure for each budget year. Also identified in this analysis are key

legislative or State court-driven mandates that have had a big impact on State government spending. In addition, cost of living index increases, population changes and changes in per capita income are identified from US Census Data, Fitzgerald's New Jersey Legislative Manual, and US Department of Labor, Bureau of Labor Statistics.

How the Budget Has Changed in 50 Years

New Jersey's State budget has risen steadily and dramatically over the last 50 years (see table on page four). Between fiscal years 1955 and 2003, actual budget expenditures escalated to more than \$24 billion from approximately \$243 million, a nearly 100-fold increase.

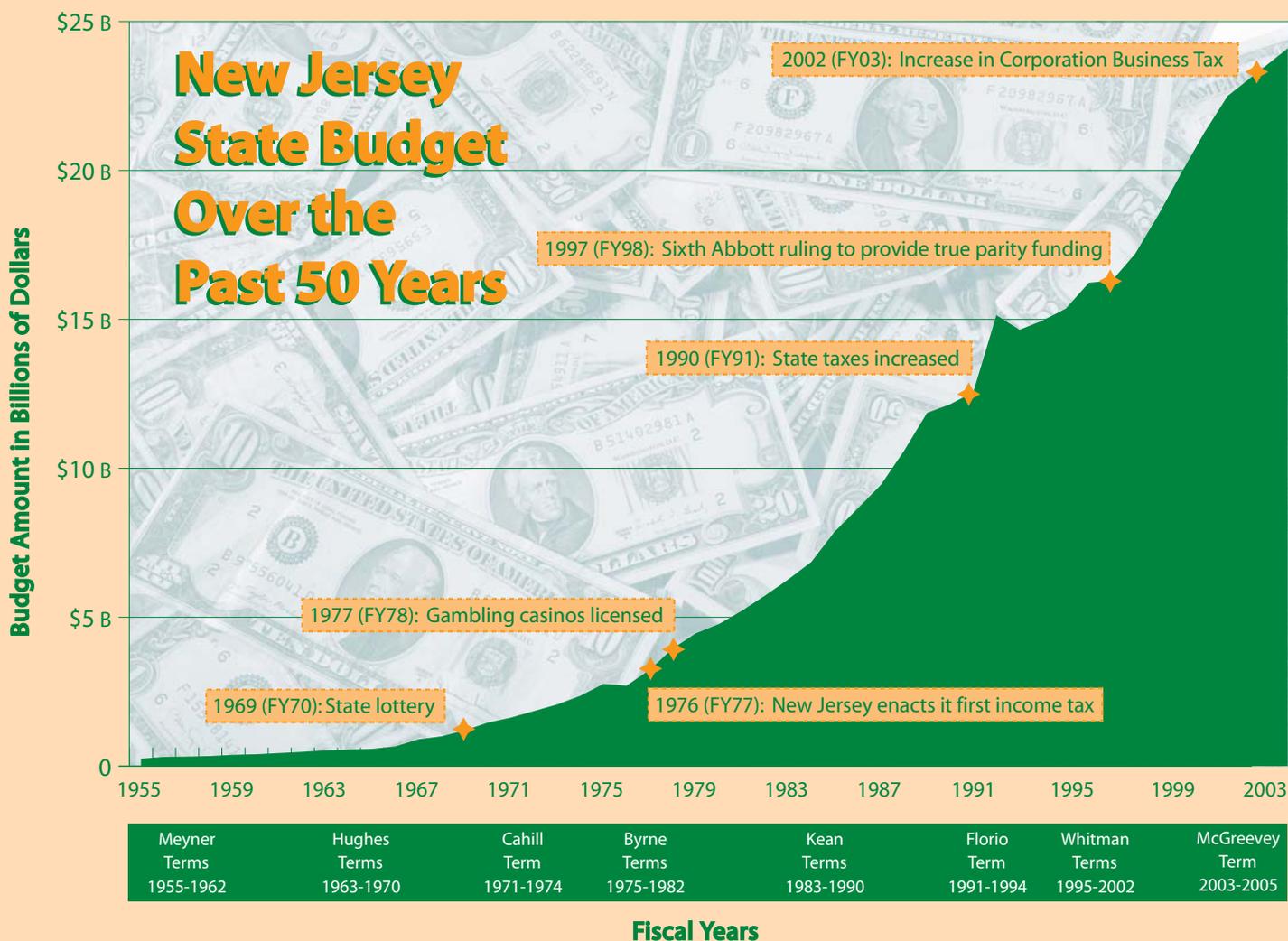
Eight Governors have served during this huge escalation in spending, three Republicans and five Democrats, and this increase has spanned 13 distinct gubernatorial terms. The average recommended budgetary increase during each of these 13 terms (the average term being about three years) was 32%, and the average annual recommended increase was 10%.

NJPRO Facts for Discussion: 5

Budget Requests vs. Actual Expenditures

Over the past 50 years, actual expenditures of New Jersey State government have usually exceeded the Governor's recommended budget amount, often by hundreds of millions of dollars. Since 1955, only 14 of the 49 actual annual expenditures were below the Governors' original proposals. The Administrations of Governors Hughes, Byrne, Kean and Whitman each enacted eight budgets. In only two of the eight budgets in each administration did the State spend less than

was originally recommended. The amount spent exceeded the amount proposed in three of the Meyner Administration's eight years. Spending during the Administration of Governor Florio actually fell within the recommended budget in two of his four years in office, with annual expenditures in both of those years under budget by more than any other year since 1955. In the FY2003 budget (the most recent one for which all data is available), Governor McGreevey proposed spending \$23,663,167,000 while actual expenditures exceeded \$24 billion.



50 Years of the NJ State Budget

Budget Increases: The Driving Factors

Over the last half century, a number of events have contributed substantially to the swelling of the New Jersey State Budget. The chart on page two presents a timeline that graphs the budget changes over the past 50 years. It indicates the Governors' terms, as well as some of the major events that contributed to the growth of the budget. Seven of those major events are:

State Lottery—In 1969, a State lottery was approved to raise money for education in the fiscal year 1970 budget.

State Income Tax—In 1976, for the fiscal year 1977 budget, New Jersey enacted its first income tax to help the State comply with the “thorough and efficient” mandate issued by the State Supreme Court in its *Robinson v. Cahill* decision.

Casino Gambling—In 1977, casinos were licensed in New Jersey. They were taxed to provide extra money for the disabled and elderly starting in the fiscal 1978 budget.

Florio Tax Hike—In 1990, income and sales taxes were increased to assist the State in paying for the urban education-funding parity mandated by the State Supreme Court in *Abbott v. Burke*.

6th Abbott Ruling—In 1997, an attempt to provide “true urban educational parity” was made in the fiscal 1998 budget in response to the 6th Abbott ruling.

Corporate Tax Hike and Fee Increases—In 2002, facing a large budget deficit, New Jersey imposed an Alternative Minimum Tax on the gross receipts of New Jersey corporations, suspended net-operating-loss deductions, and increased many fees.

Whitman/McGreevey Debt Increase - Substantial increases in State borrowing loaded future budgets with increased debt service. Total State government indebtedness, including agency and “moral obligation,” exceeded \$20 billion in 2004.

Additional Factors

To put New Jersey budget increases in perspective, they should be viewed within the context of historical inflation, population increases, and per capita income. As already noted, the actual increase in State spending grew by approximately 100-fold or 10,000% between fiscal years 1955 and 2003. In addition to assistance to elementary, secondary and higher education, many other very expensive State programs have been added in municipal aid, transportation, environmental protection, corrections and public health. Population, per-capita income and inflation have grown at a much slower rate than the State budget, and thus would account for some, but not a substantial portion, of the increases in State spending.

Population - In 1955, approximately 5.5 million people lived in New Jersey. In 2004 the estimated population was 8.6 million. The population increase over that period was 3.1 million or 56%.

Inflation - Since 1955, the Consumer Price Index has increased by a cumulative 712%. At this rate of inflation, Governor Meyner's fiscal 1955 budget of \$235 million would be equivalent to a \$1.6 billion budget today, not \$24 billion.

Income - In 1969, the year of the State's first billion-dollar budget, New Jersey's per capita income was \$4,512. In 2004, per capita income rose to \$40,427, a nine-fold increase.

QUICK FACTS

Since 1955...

Population increased 56%

Inflation increased 712%

Property tax Revenues increased 3,200%

State Budget Expenditures increased 10,000%

...in New Jersey

About the

New Jersey Policy Research Organization (NJPRO)

The Foundation is an independent public policy research affiliate of the New Jersey Business & Industry Association. NJPRO produces innovative, timely and practical research on behalf of New Jersey employers. NJPRO advocates more efficient and effective government and a wiser expenditure of taxpayer dollars. Governed by an independent Board of Trustees, NJPRO is a nonpartisan, tax-exempt organization. NJPRO depends on the support of companies, individuals and foundations for its income.

Policy Questions and Implications

1. What is the long-term impact of these increases in State spending—and the coincident rise in taxes and fees—on the economy, business retention and job creation?
2. Over the same 50 years, how do budget increases for other States, as well as for federal and local governments, compare with New Jersey’s budget increases? Have they grown at a slower or faster pace?
3. Has the increase in the State budget generated structural financial problems in the New Jersey economy?
4. Given the growth of the State budget over the past 50 years, is it realistic to assume that State budgets will continue to increase at the same average rate of about 10% a year? How far into the future?
5. What is the optimum level of total taxation on business?
6. Is it possible to decrease the absolute size of the State budget?
7. What is the most effective allocation of taxes between different levels of government?
8. What is the impact of periodic recessions and expansions on the State budget, revenue collections and expenditures?

Facts for Discussion

This report is part of a series of simple studies focusing on complex policy issues impacting business in New Jersey. Documenting the chronology of events leading up to current problems with data obtained from public information sources, NJPRO is raising awareness of significant policy issues and implications.

For additional information on this report and other NJPRO studies, visit www.njbia.org/njpro.htm.

New Jersey’s State Budget Over the Past 50 Years

Fiscal Year	Governor	Actual Expenditures
1955	Meyner-D	\$ 242,929,964
1956	Meyner-D	\$ 307,112,480
1957	Meyner-D	\$ 318,093,793
1958	Meyner-D	\$ 336,127,577
1959	Meyner-D	\$ 384,483,175
1960	Meyner-D	\$ 397,227,479
1961	Meyner-D	\$ 435,262,539
1962	Meyner-D	\$ 477,629,540
1963	Hughes-D	\$ 531,356,217
1964	Hughes-D	\$ 558,977,315
1965	Hughes-D	\$ 584,128,481
1966	Hughes-D	\$ 659,355,447
1967	Hughes-D	\$ 897,621,332
1968	Hughes-D	\$ 1,001,247,688
1969	Hughes-D	\$ 1,161,564,136
1970	Hughes-D	\$ 1,459,114,183
1971	Cahill-R	\$ 1,628,293,519
1972	Cahill-R	\$ 1,854,002,292
1973	Cahill-R	\$ 2,067,022,314
1974	Cahill-R	\$ 2,359,758,929
1975	Byrne-D	\$ 2,758,277,744
1976	Byrne-D	\$ 2,704,158,590
1977	Byrne-D	\$ 3,326,446,934
1978	Byrne-D	\$ 3,953,529,093
1979	Byrne-D	\$ 4,456,062,721
1980	Byrne-D	\$ 4,770,275,183
1981	Byrne-D	\$ 5,217,833,660
1982	Byrne-D	\$ 5,733,339,897
1983	Kean-R	\$ 6,262,471,000
1984	Kean-R	\$ 6,860,672,000
1985	Kean-R	\$ 7,869,676,000
1986	Kean-R	\$ 8,652,619,000
1987	Kean-R	\$ 9,443,772,000
1988	Kean-R	\$ 10,577,391,000
1989	Kean-R	\$ 11,860,452,000
1990	Kean-R	\$ 12,150,627,000
1991	Florio-D	\$ 12,562,308,000
1992	Florio-D	\$ 15,143,526,000
1993	Florio-D	\$ 14,651,711,000
1994	Florio-D	\$ 14,963,742,000
1995	Whitman-R	\$ 15,365,404,000
1996	Whitman-R	\$ 16,230,524,000
1997	Whitman-R	\$ 16,304,466,000
1998	Whitman-R	\$ 17,189,368,000
1999	Whitman-R	\$ 18,498,999,000
2000	Whitman-R	\$ 19,920,688,000
2001	Whitman-R	\$ 21,279,359,000
2002	Whitman-R	\$ 22,495,603,000
2003	McGreevey-D	\$ 24,065,908,000
2004	McGreevey-D	\$ 25,053,900,000*
2005	McGreevey-D	—

*NJCAFR FY2004

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