REGIONAL RESOURCE
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# Tightening Fiscal Conditions in the Southern Legislative Conference (SLC) States : Focus on Three Major Indices

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## Introduction

Amidst the litany of dismal economic news that has flooded the nation recently, a report from the U.S. Department of Commerce, entitled *Poverty in the United States: 2001,* helped reinforce the gravity of the current economic tightening in a very real way. According to this September 2002 publication, the poverty rate in the United States was 11.7 percent in 2001, an increase from 11.3 percent in 2000. In actual terms, people below the poverty thresholds in 2001 stood at 32.9 million, a figure 1.3 million greater than the 31.6 million defined as poor in 2000.[1] In the aftermath of the most impressive economic expansion in the history of the country, an expansion that extended from March 1991 to March 2001, the economic choices currently confronting millions of Americans remain very serious. In addition to the increases in the ranks of those in poverty, the recent economic downturn has resulted in increased Medicaid expenditures in the states and rising rates of unemployment. Inevitably, these tough economic developments place tremendous pressures on certain segments of the population, and this *Regional Resource* examines some of the specific areas currently under stress.

Across a number of criteria, the grim economic news percolating across the country continues to befuddle both astute students of public policy and casual observers of the economy alike. For instance, after running budget surpluses four years in a row (federal fiscal years 1998 through 2001), the most dramatic drop in tax revenue since 1946, alongside several other contributory factors such as the 2001 tax cuts, has propelled the federal government into a deficit for the next three years. This year's $131 billion plunge in tax revenue was considerably steeper than the economy's own fall. Just last year, the Congressional Budget Office (CBO) projected a $5.6 trillion surplus between fiscal years 2002 and 2011, a projection that permitted the Bush Administration to push through its 10-year, $1.35 trillion tax cut while leaving room for a prescription drug plan for seniors and a significant allocation toward paying off the federal debt. Yet, a combination of factors has resulted in shriveling up these projected surpluses even though in March 2002, the CBO forecasted that the government would run a surplus amounting to $2.4 trillion. Now, that number has plummeted to $1 trillion between fiscal years 2003 and 2012.[2] For the just concluded federal fiscal year, 2002, the Bush administration announced a budget deficit of $159 billion, confirming that the federal government officially returned to the red for the first time since federal fiscal year 1997. As noted earlier, the surplus began in federal fiscal year 1998, peaked at $237 billion in fiscal year 2000 and slipped to $127 billion in fiscal year 2001. The 2002 deficit was the largest since the $164 billion deficit reached in fiscal year 1995.[3]

At the state level, the scenario is equally dire. At least 46 states struggled to close a cumulative budget gap of $37 billion in their most recent fiscal year, most often ending June 30, 2002. For the current fiscal year, the estimated state budget gaps are even higher, with a combined $58 billion deficit expected.[4] Unlike the federal government, most states are constitutionally required to balance their books at the end of their one- or two-year budget cycles, so they will be forced to slash spending, raise taxes or utilize reserve funds. A few examples from around the Southern states will help reinforce the dismal choices confronting states. Virginia currently faces a budget shortfall of up to $2 billion, and the governor will have to make substantial program and personnel cuts.[5] In Texas, the state's budget shortfall may reach an unmanageable $12 billion by early next year.[6] Maryland's next governor and General Assembly will face a budget shortfall of as much as $1.7 billion when they arrive in Annapolis in January 2003, a scenario that portends severe cutbacks in state services.[7] By the end of October 2002, Georgia had experienced declining tax revenue and fee collecting in 15 out of the 16 prior months, a dismal trend not seen since the 1950s.[8]

The pounding taken by state budgets is further reflected in a news release from the College Board that indicated that public colleges and universities raised tuition by almost 10 percent this year (2002/2003), with tuition at private institutions rising by almost 6 percent.[9] During the past decade, a period of very low inflation, the report noted that tuition at both public and private institutions had increased by 38 percent. The pressure to raise tuition rates at the public institutions has been brought about as a result of cutbacks in funding from state government on account of reduced revenue collected by states from capital gains and income taxes, reduced returns from endowments and investments due to the collapsing stock market, and lower donations from benefactors.

The late October 2002 report from The Conference Board indicated that consumer confidence plunged to a nine-year low in October this year.[10] The Board's consumer confidence index, which gauges the present and future expectations of consumers, fell to 79.4 in October from 93.7 in September, the steepest one-month drop since the decline registered from September to October 1990. Furthermore, it is also the lowest reading on consumer confidence since November 1993, when the index stood at 71.9 and was climbing as the economy recovered from the 1990-91 recession. The fact that the consumer expectations about conditions six months from now were also sharply lower was another disconcerting piece of news. These declines remain particularly unsettling because consumer spending accounts for about two-thirds of the nation's gross domestic product.

Another indication of the severity of economy's free fall involves the fact that the number of people employed as a proportion of the working-age population has fallen more steeply in this recession than the average of the last nine recessions.[11] For the month of October 2002, the U.S. Department of Labor reported that the number of unemployed persons (8.2 million) and the unemployment rate was 5.7 percent, slightly higher than the rate reported in the prior month. Job losses in the construction, manufacturing and help supply industries were partially offset by gains in a number of other industries, among them finance, real estate, and health services.[12] In terms of regional and state unemployment rates, the South posted a rate of 5.3 percent, with the Midwest and Northeast regions posing 5.2 percent and the West posting the highest regional rate of 6.1 percent in September 2002. Compared with September 2001, jobless rates were higher in 36 states, lower in 12 and unchanged in the remaining two states. Manufacturing remained the weakest industry division, with 49 states posting employment decreases between September 2001 and September 2002. Two SLC states (Georgia and Texas) occupied the second and third of the top four spots in terms of states with the largest decreases in employment during this one year period with drops of 76,800 and 76,600, respectively.[13] The large number of unemployed workers scattered across the country has resuscitated proposals to extend unemployment benefits to those eligible beyond the customary period. It is estimated that unless the economy improves rapidly, two million workers will exhaust their unemployment insurance coverage by the end of the year in addition to the couple of hundred thousand workers who will lose coverage every month thereafter.[14]

Yet another indication of the economy's depressing composition was the fact that for the quarter that ended September 30, 2002, the Standard & Poor's index of 500 stocks plunged 17.6 percent, its worst quarterly showing since the market crashed in the latter portion of 1987. Much of that loss came in September 2002 alone. Even though the lackluster performance of the American stock market was still better than the even grimmer showing of the British, French, German, Japanese and Brazilian markets during the same period, indisputably, the world's major economies are in trouble.

Finally, in terms of the economy's overall growth, the U.S. Department of Commerce reported that for the third quarter of 2002 (July through September 2002), the economy grew at an annual rate of 3.1 percent, a performance that was stronger than the 1.3 percent rate reached in the second quarter, though still considerably slower than the growth level of 5 percent experienced in the first quarter of 2002. (In contrast, annual GDP growth rates amounted to 4.1 percent in 1999, 3.8 percent in 2000 and 0.3 percent in 2001.)[15] The major contributors to the increase in real gross domestic product (GDP) this quarter, the output of goods and services produced by the labor and property located in the United States, were personal consumption expenditures, an upturn in state and local government spending and an acceleration in equipment and software purchases. Even though the increase was the fourth in a row for the economy, the gains were somewhat less than experts had predicted; drawing on reports from other economic data strongly suggests that whatever growth momentum was present during the summer was waning and growth in the final quarter of 2002 will very likely be lower than what it was in the third quarter.

All these seemingly disparate pieces of economic news act in concert to apply pressure on different sectors of the economy. As expected, the most vulnerable sectors of the economy experience the most pressure, and the weak performance of the economy, exemplified in some of the items listed above, resulted in an increase in the poverty levels across the country. This *Regional Resource* presents the results of the latest poverty study released by the U.S. Department of Commerce, alongside providing data on a number of other factors that contribute to higher poverty rolls, such as rising unemployment numbers and increasing Medicaid caseloads.

**Rising Poverty Rates**

The impact of the ongoing economic slowdown is readily apparent in a review of the latest poverty statistics.[16] Not only does this data offer an important mechanism to assess the economic health of Americans across a range of criteria in different parts of the country, it also reveals important shifts in the changing face of poverty. As indicated at the outset, both the percentage of Americans considered poor and the number of poor rose in 2001 compared to 2000. Specifically, the number of poor rose from 31.6 million in 2000 to 32.9 million in 2001 or a percentage increase from 11.3 percent of total population to 11.7 percent. This increase in poverty was the first such increase since the 1991/92 economic recession and coincided with the recession that swept the country beginning in March 2001. Regionally, the poverty rate in the South increased from 12.8 percent in 2000 to 13.5 percent in 2001, while poverty rates in the other three regions of the country remained unchanged.

A key factor in a discussion of poverty rates is the official measure of poverty. Following the Office of Management and Budget's (OMB) directives, a complex set of money income thresholds that vary by family size and composition determine who is poor. If a family's total income is less than that family's threshold, then that family, and every individual in it, is considered poor. While the official poverty thresholds do not vary geographically, they are updated annually to reflect inflation using the Consumer Price Index (CPI-U). In addition, the official poverty definition does not include capital gains and noncash benefits such as public housing, Medicaid and food stamps; it only counts money income prior to taxes.

Table 1 demonstrates the matrix of different income levels and number of family members which eventually determines the poverty thresholds.

**Poverty Thresholds in 2001 by Size of Family and Number of Related Children Under 18 Years**

| Size of Family Unit | Related Children Under 18 Years | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | None | One | Two | Three | Four | Five | Six | Seven |
| One Person | | | | | | | | |
| - Under 65 years | $9,214 | | | | | | | |
| - 65 years and over | $8,494 | | | | | | | |
| Two people | | | | | | | | |
| - Householder under 65 years | $11,859 | $12,207 | | | | | | |
| - Householder 65 years and over | $10,705 | $12,161 | | | | | | |
| Three people | $13,583 | $14,255 | $14,269 | | | | | |
| Four people | $18,267 | $18,566 | $17,960 | $18,022 | | | | |
| Five people | $22,029 | $22,349 | $21,665 | $21,135 | $20,812 | | | |
| Six people | $25,337 | $25,438 | $24,914 | $24,411 | $23,664 | $23,221 | | |
| Seven people | $29,154 | $29,336 | $28,708 | $28,271 | $27,456 | $26,505 | $25,462 | |
| Eight people | $32,606 | $32,894 | $32,302 | $31,783 | $31,047 | $30,112 | $29,140 | $28,893 |
| Nine people or more | $39,223 | $39,413 | $38,889 | $38,449 | $37,726 | $36,732 | $35,833 | $35,610 |

table 1

Source: U.S. Census Bureau

For instance, suppose a family consists of five people (father, mother, two children and a great aunt). According the 2001 data, the family's poverty threshold was $21,665 (see shaded area in matrix). If, for example, the three adults in the family had a total income of $25,000 in 2001 (with the father earning $12,000, the mother earning $6,000 and the great aunt earning $7,000), they would not be considered "poor" according to the estimates utilized that year. This is because their total income in 2001 was greater than the prescribed poverty threshold of $21,665.

The long-term perspective on poverty (number of people and percent) in the United States present useful insights into the economic well-being of the nation over several decades. As demonstrated in Table 2 and Figure 1, the proportion of people considered poor in the country has been declining, though the inevitable increase in numbers is quickly apparent during economic contractions.

**Time Series Poverty Estimates**

| Year | Population | Below Poverty Level | |
|---|---|---|---|
| | | Number | Percent |
| 1959 | 176,557 | 39,490 | 22.4 |
| 1969 | 199,517 | 24,147 | 12.1 |
| 1979 | 222,903 | 26,072 | 11.7 |
| 1989 | 245,992 | 31,528 | 12.8 |
| 1999 | 273,493 | 32,258 | 11.8 |
| 2000 | 275,924 | 31,054 | 11.3 |
| 2001 | 281,475 | 32,907 | 11.7 |

table 2

Source: U.S. Census Bureau

As demonstrated in Table 2, the poverty level in the United States never rose as high as it did in 1959 when it soared to 22.4 percent of the total population. The current rate of 11.7 percent remains almost half the poverty level reached in 1959. In fact, a review of the data indicates that there has been a steady decrease in the number of people considered poor despite the onset of serious economic contractions in the ensuing decades.

As indicated in Figure 1, the onset of an economic recession immediately causes an upward spike in both the number and percentage of Americans considered poor. For instance, during the 1960 recession, the number of people in poverty stood at 39.8 million and the poverty rate was 22.2 percent. Both these numbers declined in the ensuing years as the economy picked up, and then during the 1970 recession, they both increased to 25.4 million and 12.6 percent. Similarly, during the 1981/82 economic recession, the number increased to 34.4 million and 15 percent before tapering off as the economy improved.

In exploring the different aspects of poverty, a number of areas require review. In this regard, the study broke down the poverty characteristics by family status, race, age, nativity and region of the country. These different aspects in conjunction offer a more complete reading of the poverty level in the United States in 2001, alongside a comparison of the scenario from the prior year (2000).

**Number of Poor and Poverty Rate: 1959-2001**

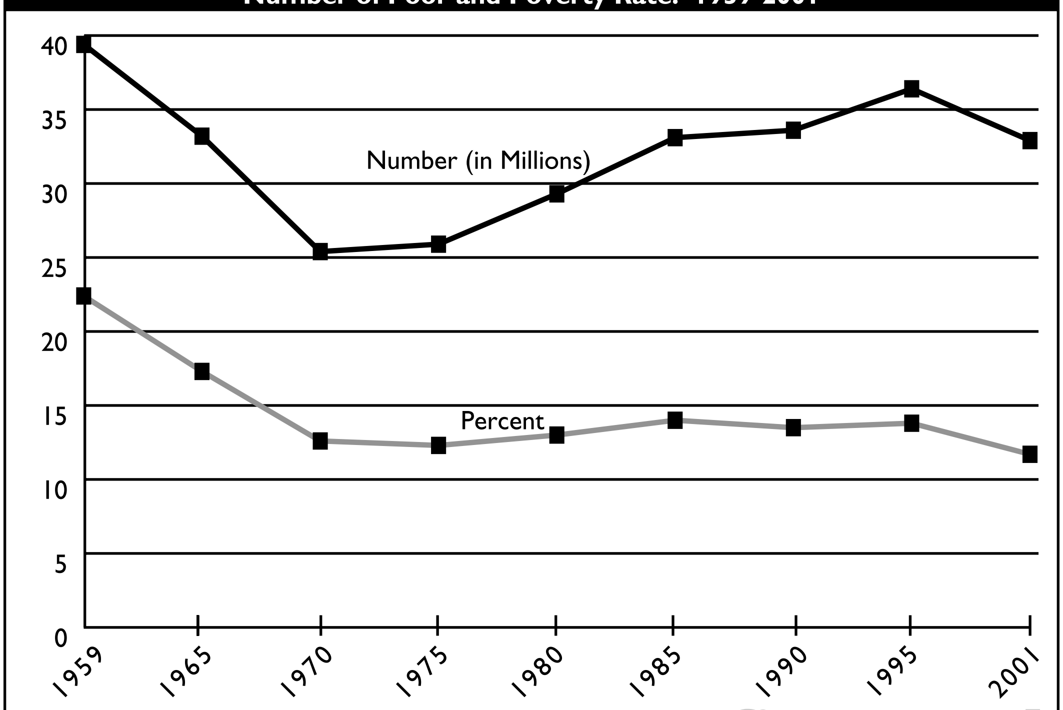


figure 1

Source: U.S. Census Bureau

### >> Family Status

| Characteristic: Family Status (In Thousands) | 2001 | | 2000 | | Difference | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| People (Total) | 32,907 | 11.7 | 31,581 | 11.3 | 1,325 | 0.4 |
| In Families | 23,215 | 9.9 | 22,347 | 9.6 | 868 | 0.3 |
| In Unrelated Subfamilies | 466 | 39.8 | 581 | 41.2 | -116 | -1.4 |
| Unrelated Individual | 9,226 | 19.9 | 8,653 | 19.0 | 573 | 0.9 |
| • Male | 3,833 | 17.3 | 3,426 | 15.7 | 407 | 1.6 |
| • Female | 5,393 | 22.3 | 5,227 | 22.0 | 165 | 0.3 |

Based on this characteristic, the most striking feature between 2000 and 2001 is the increase in both the number and the percentage of people in poverty; an increase from 31,581 (11.3 percent) in 2000 to 32,907 (11.7 percent) in 2001.

### >> Race

| Characteristic : Race* (In Thousands) | 2001 | | 2000 | | Difference | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| White | 22,739 | 9.9 | 21,645 | 9.5 | 1,094 | 0.4 |
| • Non-Hispanic | 15,271 | 7.8 | 14,366 | 7.4 | 905 | 0.4 |
| Black | 8,136 | 22.7 | 7,982 | 22.5 | 154 | 0.1 |
| Asian and Pacific Islander | 1,275 | 10.2 | 1,258 | 9.9 | 17 | 0.3 |
| Hispanic** | 7,997 | 21.4 | 7,747 | 21.5 | 250 | -0.1 |

* = Data for American Indians and Alaska Natives are not shown separately in this table because of the small sample of that population.
** = Hispanics may be of any race.

According to this feature, there were nominal increases in all racial categories except among Hispanics. Between 2000 and 2001, the percentage of whites in poverty rose from 9.5 percent to 9.9 percent, blacks rose from 22.5 percent to 22.7 percent while Asian and Pacific Islanders rose more significantly from 9.9 percent to 10.2 percent. In contrast, the percentage of Hispanics in poverty declined from 21.5 percent to 21.4 percent during this same period. Even though the poverty rate for non-Hispanic whites was lower than that for other ethnic groups, 46.4 percent of the total poor were Non-Hispanic whites.

### >> Age

| Characteristic : Age (In Thousands) | 2001 | | 2000 | | Difference | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| Under 18 Years | 11,733 | 16.3 | 11,587 | 16.2 | 146 | 0.1 |
| 18 to 64 Years | 17,760 | 10.1 | 16,671 | 9.6 | 1,089 | 0.5 |
| 65 Years and Over | 3,414 | 10.1 | 3,323 | 9.9 | 91 | 0.2 |

In terms of age, there were increases in all three major age groups between 2000 and 2001. For the latest year, the poverty rate for children under 18 years of age was 16.3 percent (11.7 million), higher than the poverty rates for the two adult age groups which stood at 10.1 percent.

## >> Nativity

| Characteristic : Nativity (In Thousands) | 2001 | | 2000 | | Difference | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| Native | 27,698 | 11.1 | 26,680 | 10.8 | 1,018 | 0.3 |
| Foreign Born | 5,209 | 16.1 | 4,901 | 15.4 | 307 | 0.6 |
| • Naturalized Citizen | 1,186 | 9.9 | 1,060 | 9.0 | 126 | 0.9 |
| • Not a Citizen | 4,023 | 19.7 | 3,841 | 19.2 | 181 | 0.5 |

Once again, there were increases in the number of poor and the poverty rate among both native and foreign-born Americans. The native population's poverty rate increased from 10.8 percent to 11.1 percent while the foreign-born cohort increased from 15.4 percent to 16.1 percent.

## >> Region of the Country

| Characteristic : Region (In Thousands) | 2001 | | 2000 | | Difference | |
|---|---|---|---|---|---|---|
| | Number | Percent | Number | Percent | Number | Percent |
| Northeast | 5,687 | 10.7 | 5,474 | 10.3 | 212 | 0.4 |
| Midwest | 5,966 | 9.4 | 5,916 | 9.3 | 50 | - |
| South | 13,515 | 13.5 | 12,705 | 12.8 | 810 | 0.7 |
| West | 7,739 | 12.1 | 7,485 | 11.8 | 254 | 0.2 |

Based on this criterion, the South had the highest poverty rate in the country in 2001, with 13.5 percent of its population deemed poor. Even though between 1995 and 1999, the poverty rates for the South and the West were statistically indistinguishable from each other, this trend changed in the most recent review period with the South demonstrating a higher number. It should be noted that the South has a disproportionately higher share of the nation's poor: 41.1 percent of the poor lived in the South in 2001, compared with 35.7 percent of all people.

Another item of great relevance is the percentage of people living in poverty in the Southern states for the past three years. Reviewing trends across states serves to highlight a number of important factors. Table 3 presents poverty data (averages) for the SLC states for three years (1999 through 2001).

| Percent of People Living in Poverty by SLC State, 1999 through 2001 | | | |
|---|---|---|---|
| SLC State | 3-Year Average (1999-2001) | Average (2000-2001) | Average (1999-2000) |
| Alabama | 14.8 | 14.6 | 14.3 |
| Arkansas | 12.9 | 13.2 | 11.9 |
| Florida | 12.0 | 11.9 | 11.7 |
| Georgia | 12.6 | 12.5 | 12.5 |
| Kentucky | 12.4 | 12.6 | 12.3 |
| Louisiana | 17.5 | 16.7 | 18.2 |
| Maryland | 7.3 | 7.3 | 7.3 |
| Mississippi | 16.8 | 17.1 | 15.6 |
| Missouri | 10.2 | 9.4 | 10.4 |
| North Carolina | 12.9 | 12.5 | 13.1 |
| Oklahoma | 14.3 | 15.0 | 13.9 |
| South Carolina | 12.7 | 13.1 | 11.4 |
| Tennessee | 13.2 | 13.8 | 12.7 |
| Texas | 15.2 | 15.2 | 15.4 |
| Virginia | 8.0 | 8.1 | 8.1 |
| West Virginia | 15.6 | 15.6 | 15.2 |
| SLC Average | 13.0 | 13.0 | 12.8 |
| United States | 11.6 | 11.5 | 11.6 |

table 3

Source: U.S. Census Bureau

As demonstrated in Table 3 and noted earlier, poverty rates in the South remain higher than other parts of the country as an average for the 3-year period 1999 through 2001. Specifically, for this period, 13 percent of the people in the Southern states were considered poor, while for the United States as a whole during the corresponding period the number was 11.6 percent. In terms of specific state performances, Maryland (7.3 percent) and Virginia (8 percent) displayed the lowest percentage levels among the SLC states, while Louisiana (17.5 percent) and Mississippi (16.8 percent) were the states occupying the top two slots. In addition, only three states (Maryland, Missouri and Virginia) had percentage levels lower than the national average, while seven states scored higher than the regional average.

## Exploding State Medicaid Budgets

As noted previously, state budgets continue to be buffeted by dwindling revenues and growing expenditures.[17] Because Medicaid represents such a large proportion of most state budgets and because Medicaid costs continue to increase at a much faster pace than most of the other expenditure items, a number of states have been forced to pare down their Medicaid expenditures in an effort to balance their budgets. Unfortunately, since Medicaid, the joint federal-state program that is expected to cover more than 47 million people this year, plays such a critical role in the lives of low-income people, the cutbacks end up affecting the more vulnerable segments of the population. According to the Congressional Budget Office, of the 47 million people expected to be served by Medicaid this year, 24 million are children, 11 million are adults and more than 13 million are elderly and disabled individuals.

The federal government and the states share responsibility for financing Medicaid even though Medicaid is the largest source of federal funds to the states, accounting for 43 percent of all federal grants-in-aid. While the federal government matches state spending for Medicaid services under a federal matching rate, formerly known as the federal medical assistance percentage (FMAP), there is a great deal of variation between states. On average, the federal government pays for at least 57 percent of states' Medicaid expenditures (the range is 50 percent to 77 percent) on a formula based on state per capita incomes.

Consequently, because of the matching formula, state spending on Medicaid attracts increased federal dollars to the state. Federal Medicaid matching payments are estimated to be $147 billion in fiscal year 2002, while state spending is forecasted to be about $100 billion.

With some states experiencing three consecutive years of budget shortfalls, state Medicaid budgets have come under increasing pressure. Responsible for compounding this bleak fiscal situation are the significant increases in caseload or enrollment numbers and steep increases in the prices of prescription drugs. These twin forces have acted as pincers to squeeze state Medicaid budgets, a trend that eventually affects overall budgets. For the second year in a row in fiscal year 2002, Medicaid spending rose by more than 10 percent. Specifically, while total Medicaid spending in fiscal year 2002 increased by 13 percent (federal, state and local funds), the state share of Medicaid spending expanded by 11 percent (non-federal). In fact, state Medicaid budgets have grown at increasing levels each year since the mid-1990s even though the level it reached in fiscal year 2002 was the highest it has been in almost a decade. Figure 2 presents some of these trends.

As documented in Figure 2, there has been a steady increase in the average annual growth rate of total Medicaid spending since the mid-1990s. After dropping from 27.1 percent in 1990-92, to 9.7 percent in 1992-95, and then 3.2 percent in 1995-97, the average annual growth rate has begun a steady upward growth path. From 5.4 percent in 1997-99 to 9 percent in 1990-2001 and finally, to 12.8 percent in 2002, the rising cost of a number of component items has resulted in the rise of overall Medicaid spending.

Table 4 provides information on Medicaid enrollment in 14 of the 16 SLC states for June 1997 and December 2001. (Data for Tennessee and West Virginia were not included in this October 2002 Kaiser Commission on Medicaid and the Uninsured survey and consequently are not included in Table 4.)

**Average Annual Growth Rates of Total Medicaid Spending**

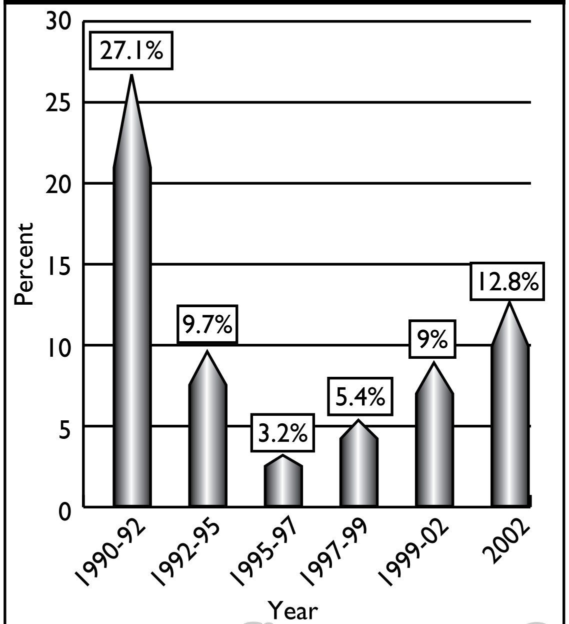


figure 2

Source: For 1990-1999, Urban Institute estimates prepared for the Kaiser Commission on Medicaid and the Uninsured, 2000. For 2000-2002, Health Management Associate surveys for the Kaiser Commission on Medicaid and the Uninsured, 2002.

| Medicaid Composition in 14 SLC States, June 1997 and December 2001 (Enrollment in Thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| SLC State | June 1997 | | | December 2001 | | | Percentage Difference in Total Enrollment (June 1997 to December 2001 |
| | Total Enrollment | Aged & Disabled | Families, Children, Pregnant Women | Total Enrollment | Aged & Disabled | Families, Children, Pregnant Women | |
| Alabama | 497.4 | 215.4 | 282.0 | 598.4 | 244.6 | 353.8 | 20.3% |
| Arkansas | 273.3 | 134.6 | 138.7 | 399.1 | 138.0 | 261.0 | 46.0% |
| Florida | 1,454.9 | 527.7 | 927.3 | 1,831.7 | 629.2 | 1,202.6 | 25.9% |
| Georgia | 946.6 | 277.6 | 669.0 | 1,063.1 | 294.2 | 769.0 | 12.3% |
| Kentucky | 526.8 | 225.0 | 301.8 | 632.8 | 250.0 | 382.7 | 20.1% |
| Louisiana | 541.7 | 230.4 | 311.2 | 768.2 | 240.6 | 527.5 | 41.8% |
| Maryland | 438.9 | 138.3 | 300.5 | 541.9 | 142.7 | 399.2 | 23.5% |
| Mississippi* | 409.3 | 185.0 | 224.0 | 566.9 | 204.7 | 361.6 | 38.5% |
| Missouri | 569.7 | 165.7 | 404.0 | 847.1 | 193.6 | 653.5 | 48.7% |
| North Carolina | 828.5 | 305.5 | 523.0 | 991.5 | 348.2 | 643.2 | 19.7% |
| Oklahoma** | 282.5 | 102.9 | 176.3 | 465.4 | 117.5 | 346.2 | 64.7% |
| South Carolina | 393.6 | 161.9 | 231.6 | 652.1 | 174.3 | 477.8 | 65.7% |
| Texas | 1,944.1 | 497.0 | 1,447.1 | 1,972.9 | 501.2 | 1,471.7 | 1.5% |
| Virginia | 522.1 | 185.5 | 336.6 | 492.5 | 193.8 | 298.7 | -5.7% |

table 4

Source: Medical Enrollment in 50 States: December 2001 Data Update, Kaiser Commission on Medicaid and the Uninsured, October 2002.

Notes: * Mississippi has a very small "other" or "unknown" category not included in either group.
** Oklahoma has a very small Medically Needy enrollment that has not been included in either group.

As demonstrated in Table 4, a number of SLC states saw a sharp upsurge in their total Medicaid enrollment numbers. In fact, except for Virginia, where there was actually a decline, and Texas, which saw a very nominal increase between the two review periods, all the other Southern states experienced significant double-digit increases. South Carolina and Oklahoma depicted the highest increases in their Medicaid enrollment numbers, with expansions of 65 percent and 66 percent respectively, between June 1997 and December 2001. Furthermore, except for Georgia and North Carolina, which saw increases of 12 percent and just under 20 percent, respectively, all the remaining states experienced growth levels exceeding 20 percent. Given that the severity of the economic contraction has lingered through 2002, it is fair to predict that the current enrollment numbers would reflect a continuation of this trend of steadily increasing Medicaid rolls.

In addition to trends associated with increasing enrollment numbers, it also is relevant to explore, as noted by the individual Southern states, some of the factors contributing to Medicaid expenditure growth in fiscal year 2002 and some of the Medicaid cost containment actions taken by the states in both fiscal years 2002 and 2003. According to recent national results, states attribute increased pharmacy costs and increased enrollment as the primary reasons for their exploding Medicaid budgets. Specifically, 44 states listed that spending on prescription drugs as one of the three most important reasons for their Medicaid costs to increase while 25 of those states cited prescription drugs as the most significant factor for the higher Medicaid costs. In addition, 39 states noted that increased enrollment was one of the three greatest sources of Medicaid spending growth. Inevitably, the economic contraction sweeping the country caused more people to be eligible for Medicaid coverage, though the aggressive expansion in eligibility and outreach with such programs as the State Children's Health Insurance Program (SCHIP) enacted previously contributed to the growth in enrollment numbers.

| Factors Contributing to Expenditure Growth in 2002–SLC State Responses | | | |
|---|---|---|---|
| SLC State | Primary Factor | Secondary Factor | Other |
| Alabama | Enrollment | Pharmacy | Utilization |
| Arkansas | Mental Health | Pharmacy | Enrollment |
| Florida | Pharmacy | Long Term Care | UPL for Inpatient Hospital Services |
| Georgia | Pharmacy | Enrollment | Utilization |
| Kentucky | Eligibles | Pharmacy | Cost-based Payment Methodologies |
| Louisiana | Pharmacy | Hospital | Waiver Program |
| Maryland | Enrollment | Nursing Home | Pharmacy |
| Mississippi | Enrollment | Pharmacy | FMAP |
| Missouri | Pharmacy | Enrollment | – |
| North Carolina | Enrollment | Utilization | Technology |
| Oklahoma | Rate Increases | Enrollment | Pharmacy |
| South Carolina | Enrollment | Utilization | – |
| Tennessee | Pharmacy | Enrollment | Hospital |
| Texas | Enrollment | Cost | FMAP Changes |
| Virginia | IGT for Nursing Facilities | Pharmacy | Other |
| West Virginia | Pharmacy | Nursing Home | Enrollment |

table 5

Source: The Kaiser Commission on Medicaid and the Uninsured
Notes: UPL refers to Upper Payment Limits; FMAP refers to changes made to the method used to calculate the federal Medicaid match rate; IGT refers to Intergovernmental Transfers

Table 5 documents trends for the SLC states in terms of the major factors contributing to increases in Medicaid spending in 2002. Reflecting national trends, a number of states cited enrollment (including enrollment growth and expansion of eligibility) and pharmacy (including increases in total prescription drug costs, increases in drug utilization, drug inflation and price growth) as the two primary reasons for the explosion in Medicaid spending. Specifically, seven of the 16 SLC states (Alabama, Kentucky, Maryland, Mississippi, North Carolina, South Carolina, Texas) listed enrollment as the major contributory factor behind expenditure growth. Similarly, an additional six states (Florida, Georgia, Louisiana, Missouri, Tennessee, West Virginia) listed increased pharmacy costs as their primary reason for the increase in Medicaid expenditures in 2002. The three remaining states listed mental health (Arkansas), rate increases (Oklahoma) and increased costs for nursing facilities (Virginia) as their primary reasons.

Even in terms of their secondary reasons for the expansion in Medicaid expenditures, the same two categories loomed large for the SLC states. Specifically, five states (Alabama, Arkansas, Kentucky, Mississippi and Virginia) indicated that pharmacy costs were the second most important reason for their ballooning Medicaid expenses, while four states (Georgia, Missouri, Oklahoma, Tennessee) stated that increased enrollment accounted for the extra spending. Finally, in terms of other factors that have contributed to increases in their Medicaid budgets, two states (Arkansas and West Virginia) noted that increased enrollment accounted for this increase, while an additional two states (Maryland and Oklahoma) maintained that increased pharmacy costs accounted for the overall increase.

Recent examples from two SLC states further reinforce the growing Medicaid crisis. In Louisiana, Governor Mike Foster has ordered cuts that could be as high as $168 million in the largest areas of Medicaid spending: hospitals, nursing homes and prescription drugs.[18] The proposed reductions include capping the number of prescription drugs a Medicaid recipient can get and providing less money for charity hospitals for free patient care. The biggest budget reduction in Louisiana would require ending the state policy allowing Medicaid recipients to fill unlimited numbers of prescriptions. While the national average is nine prescriptions annually, Louisiana is currently at 14 prescriptions and the budget reductions would bring it down to six (as Florida has done). This would generate $62 million in savings on the prescription drug program alone.

Another SLC state grappling with Medicaid woes is West Virginia. In a special session of the legislature that met in mid-September 2002, legislators pumped $40 million of financial life-support into the state's Medicaid program. This will preserve the program until the beginning of the 2003 legislative session, when lawmakers will have to decide on "where to make major, permanent cuts" in the program.[19] It is expected that alongside the cuts, lawmakers will have to resort to raising the state's 17-cent per pack cigarette tax (perhaps to the 20- to 25-cent range), an action they have avoided for nearly 25 years.

In addition to the increasing cost of prescription drugs crimping state Medicaid budgets, a recent study conducted by the Rand Corporation and published in the Journal of the American Medical Association (JAMA) reveals that American workers are spending less money on prescription drugs when their employer-sponsored health insurance plans raise co-payments for these medications.[20] As in the case of Medicaid, many employers have doubled the cost of prescription drug co-payments in recent years from $5 to $10 for generic drugs and from $15 to $30 for name-brand medications. Consequently, the study noted that increasing co-payments from $5 to $10 per prescription resulted in employees reducing spending by 22 percent, from $725 to $563 a year. While generic drugs account for about half the prescriptions filled in the United States, up from about 20 percent in the mid-1980s, they still only account for about 8 percent of the $132 billion Americans spent on prescription drugs last year. Hence, the results of this latest study further demonstrates that the rising cost of prescription drugs is not a phenomenon restricted to Medicaid but a trend that is affecting the entire economy.

While listing the factors that the SLC states consider as critical in expanding their Medicaid budgets significantly in the last year remains valuable, it is equally important to consider the specific actions initiated by these states in fiscal year 2002 as a result of the cost increases. Nationally, 45 states implemented cost-cutting measures to ward off sustained increases in their fiscal year 2002 Medicaid spending. Table 6 provides a breakdown of these reasons in the SLC states. (Please note that there are no cost-cutting measures listed for Alabama).

| Cost Containment Actions Taken in the SLC States in Fiscal Year 2002 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| SLC State | Provider Payments | Pharmacy Controls[a] | Benefit Reductions | Eligibility Cuts | Co-pays[b] | Managed Care Expansions | DM/CM[c] | Fraud & Abuse | LTC[d] |
| Alabama | | | | | | | | | |
| Arkansas | X | X | | | | | X | | |
| Florida | X | X | | | | | X | | |
| Georgia | | X | X | X | | | X | X | |
| Kentucky | X | X | | | | X | | | X |
| Louisiana | | X | | | | X | X | | |
| Maryland | X | | | | | | | | |
| Mississippi | X | X | X | X | X | | | | X |
| Missouri | | X | | | | | X | X | |
| North Carolina | X | X | | | | | | | |
| Oklahoma | X | X | | | | | | X | |
| South Carolina | X | X | X | | | | | | |
| Tennessee | | | | | | X | | | |
| Texas | | X | | | | | | X | |
| Virginia | | | | | | X | | X | |
| West Virginia | | X | | | | | X | X | |
| Totals | 8 | 12 | 3 | 2 | 1 | 4 | 6 | 6 | 2 |

table 6

Source: The Kaiser Commission on Medicaid and the Uninsured

Notes:
- a = Pharmacy controls include states that began or increased beneficiary co-payments for prescription drugs.
- b = Co-pays category includes states that began or increased beneficiary co-payments for health care services other than prescription drugs.
- c = Disease Management or Case Management
- d = Long -Term Care Charges

As evident in Table 6, curbing pharmacy costs (12) and cutbacks in provider payments (eight) were the most popular measures resorted to by the SLC states in fiscal year 2002. As noted, a majority of the states enacted pharmacy controls as a mechanism to apply a brake to their skyrocketing Medicaid budgets. A frequently adopted strategy was the introduction or increase in the beneficiary co-payments for prescription drugs. Some of the other steps were the prior authorization of selected brand-name products, implementation and expansion of existing preferred drugs, reduction in the percentage discount off the average wholesale price of drugs, and the requirement to use generic drugs alongside the reduction in payments for drug products through the use of generic drugs and supplemental rebates.

In terms of fiscal year 2003, the current fiscal period for most of the Southern states, state officials expect further increases in Medicaid spending fueled by higher prescription drug costs, rising enrollment numbers alongside increases in overall costs due to medical inflation and long term care charges. In fact, these were some of the primary drivers of cost increases in fiscal year 2002 as well. Table 7 lists some of the cost containment measures the SLC states expect to initiate in the current fiscal year. (Please note that Alabama, South Carolina, and Tennessee did not list cost-cutting measures for fiscal year 2003.)

| Cost Containment Actions Taken in the SLC States in Fiscal Year 2003 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| SLC State | Provider Payments | Pharmacy Controls [a] | Benefit Reductions | Eligibility Cuts | Co-pays [b] | Managed Care Expansions | DM/CM [c] | Fraud & Abuse | LTC [d] |
| Alabama | | | | | | | | | |
| Arkansas | | | | | | | X | | |
| Florida | | X | X | | | X | | X | |
| Georgia | | X | | X | | | X | X | X |
| Kentucky | X | X | | | X | | | X | |
| Louisiana | | X | | | | X | X | | |
| Maryland | X | X | | | | | | | |
| Mississippi | X | X | X | | X | | X | X | X |
| Missouri | X | X | X | X | | | | | |
| North Carolina | | X | X | X | | X | X | | X |
| Oklahoma | | X | | | | | | | |
| South Carolina | | | | | | | | | |
| Tennessee | | | | | | | | | |
| Texas | X | X | X | | X | | | X | |
| Virginia | X | X | | | | | X | | |
| West Virginia | X | X | X | X | X | | X | X | X |
| Totals | 7 | 12 | 6 | 4 | 4 | 3 | 7 | 6 | 4 |

table 7

Source: The Kaiser Commission on Medicaid and the Uninsured

Notes: a = Pharmacy controls include states that began or increased beneficiary co-payments for prescription drugs

b = Co-pays category includes states that began or increased beneficiary co-payments for health care services other than prescription drugs

c = Disease Management or Case Management

d = Long -Term Care Charges

As demonstrated in Table 7, once again, controls on pharmacy spending appear as the most popular cost-cutting strategy, with 12 states indicating this. Furthermore, seven states indicated that they would introduce cutbacks in payments to providers and in payments for disease management and case management services. In terms of cutbacks in the latter area, given that a number of states had resorted to providing more appropriate and timely preventive care in such areas as asthma, diabetes, congestive heart failure, hypertension and chronic obstructive pulmonary disease in the expectation that early preventive care would lower costs in the long run. Yet, some of these preventive programs will suffer as a result of the cutbacks. Reductions in benefits and further attempts to weed out fraud and abuse were mechanisms that six states indicated that they would resort to in the current fiscal year. Benefit reduction attempts would include such steps as restrictions on home health, podiatry, chiropractic services, eyeglasses, psychological counseling and translator services.

### Increasing Unemployment Rates

The unemployment rate, regardless of whether it is at the national, state or local level, remains one of the most significant and closely watched economic indicators.[21] Policymakers carefully monitor the unemployment rate so as to initiate the appropriate policy responses and minimize the negative effects of a high unemployment rate on their respective economies. Consequently, legislators, businesses and investors, among others, routinely seek details on the monthly unemployment figures, released by the U.S. Department of Labor's Bureau of Labor Statistics, to gauge the state of their economies. While the unemployment rate is the percentage of people in the labor force without jobs but looking for work, economists contend that a certain level of unemployment is inevitable. Yet, economies achieve a higher level of productivity when all of their resources and production inputs, especially labor, are deployed and utilized at an optimal level. In the current context, with the nation's unemployment rate rising to levels not experienced in many years, the emphasis on creating more jobs has become a major priority for policymakers at all levels of government.

Economists teach that there is a natural rate of unemployment, or Non-Accelerating Inflation Rate of Unemployment (NAIRU), a rate at which if unemployment falls below and output grows above its long-term potential rate, inflation starts to increase. This is due to bottlenecks in production, capacity limits and tight labor markets causing workers to require higher wages and firms to increase price as demand and costs increase. Even though most economists agree that inflation might eventually increase if the economy grows above its potential rate, there is less agreement on the actual NAIRU. Conventional wisdom in the field maintains that the long-term potential growth rate of the U.S. economy is about 2.5 percent and that the NAIRU hovers in the 5.5 percent to 6 percent range. Yet, the performance of the U.S. economy for a good portion of the 1990s defied some of these conventional economic truisms as the economy grew at more than 2.5 percent, the national unemployment rate hovered at about 4 percent and the rate of inflation was less than 3 percent. Consequently, experts have been forced to deal with this strange confluence of good economic reports by querying whether the performance of the economy in the 1990s was due to luck; favorable supply shocks; structural changes in labor and capital markets, including the diminishing of trade unions; competitive pricing conditions; the continuing openness of the U.S. economy to world trade and competition; or whether it was due to significant productivity enhancements brought on by stunning technological advancements.

After the National Bureau of Economic Research (NBER) made its announcement late last year that the U.S. economy was officially in recession in March 2001, the expectation was that the recession would be a mild one and that, in due course, the economy would recoil into action and begin creating an abundance of jobs. Even though the economy began growing toward the latter part of 2001, the nation continues to suffer through a broad jobs slump. However, the spate of layoffs across the country has taken place in an extremely evenhanded way, and the pain of joblessness has been spread more evenly across industries, regions and educational qualifications than almost any downturn on record.

Given that few companies have hired significant numbers of new employees, and the worrisome economic signs of late have caused some to announce new and additional layoffs, the impression that last year's recession continues to linger remains widespread. In fact, despite indications that the economy is still forging ahead and predictions from most experts that it will improve next year, a vast majority of Americans continue to believe that the economy is either deteriorating or extremely weak, a perception fueled primarily by the moribund job market. The anemic growth of the jobs outlook both last year and this year has made the "jobless recovery" of the early 1990s, which once seemed like a wrenching exception to previous economic patterns, appear instead as if it could be the new norm. Even though the U.S. economy has become substantially more solid and developed more depth in multiple ways over the last two decades, with downturns being shallower and surfacing less often, the resulting hangovers they cause appear to endure much longer.

Barring further unexpected setbacks, and there are a number of such potential shocks, the employment situation across the country does seem likely to improve, particularly over the longer term. If past historical data is any indication, and if the economy follows approximately the same recovery schedule as it did a decade ago, experts agree that companies will begin adding more than 100,000 jobs a month by early next year.[22] Yet, an important exception to the previous recovery is that the fallout from the overinvestment in technology and the stock market bubble could make this rebound less robust. However, given that the labor market is expected to tighten over the next decade with the advance guard of baby boomers retiring and fewer young adults replacing them in the labor force, a decent boom on the jobs market can be cautiously expected.

The current national unemployment rate, while likely to inch upwards again for a multiplicity of reasons, dropped to 5.6 percent in September, its second consecutive decline. Nevertheless, the economy continues to grow at a modest pace even though policymakers and experts remain at odds on an appropriate level to stimulate an adequate number of jobs. Even among the president's key advisers there is disagreement on how fast the economy has to grow to reduce the unemployment rate. Treasury Secretary Paul H. O'Neill maintains that the economy could grow at an annual rate of 3 percent to 3.5 percent and create more jobs; R. Glenn Hubbard, the chairman of the president's Council of Economic Advisers, indicates that 3 percent would be insufficient.[23] The latter notes that "We'd probably have to have growth in the next few quarters of above 4 percent to have really rapid payroll growth and I don't think anyone's forecasting that."[24] Yet, Mr. Hubbard was quick to add that he believed that the economy was on track to improve and that the labor market appeared healthier than it did in the aftermath of other recessions. In an encouraging sign, in recent weeks companies have asked employees to work longer hours, as often happens shortly before new hiring begins.

The current employment malaise brought on by last year's recession has highlighted two important features of the contemporary American economy. One, the spate of layoffs that occurred over the last year and a half and that continue even today have been unusually democratic. Perhaps because the collapse of the technology bubble of the late 1990s has hurt white-collar workers even more than their blue-collar counterparts, the unemployment rate for college graduates has risen as much since early last year as it has for high school dropouts. Even in terms of ethnicity, joblessness among whites has increased by about the same amount, in proportional terms, as it has between blacks and Hispanics.[25] Two, certain fundamental changes in the American economy have bubbled to the surface in the last decade or so. During this time span, American companies have used new technologies and strategies to become more efficient compared to performance levels in the 1970s and 1980s. While these changes blossomed during the boom years of the 1990s and benefitted the country, they will continue to do so in the long term, allowing both incomes and corporate profits to rise. However, during the current employment slump, the productivity increases have enfeebled the job market as companies were able to enhance their output without hiring new workers. Furthermore, to an extent, the sluggish recovery on the jobs front, albeit less severe but more long-lasting and widespread than in the 1970s and 1980s, hints at the shrinking manufacturing sector in overall U.S. economic calculations. In contrast to the booms at the start of past recoveries, when industries hired tens of thousands of production workers to fill new orders, the sector has continued its long-term decline in recent years, as it did a decade ago.

Moving on from the technical discussion of the nation's unemployment scenario to actual unemployment rates in the states, particularly the SLC states, provides a realistic backdrop to the tightening fiscal conditions in the states. Table 8 presents unemployment rates in the SLC states for the month of September in each of the last seven years (1995 through 2002) and enables conclusions to be drawn about the developing economic situation in these states.

| Unemployment Rates (Percent) in the SLC States, September 1995 to September 2002 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| SLC State | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Alabama | 6.3 | 4.8 | 5.1 | 4.1 | 4.9 | 4.6 | 5.5 | 5.7 |
| Arkansas | 4.5 | 5.2 | 5.2 | 5.6 | 3.9 | 3.7 | 5.2 | 5.0 |
| Florida | 5.8 | 5.4 | 4.7 | 4.2 | 4.0 | 3.6 | 5.0 | 5.1 |
| Georgia | 5.1 | 4.8 | 4.4 | 4.1 | 4.1 | 3.6 | 4.0 | 4.7 |
| Kentucky | 5.3 | 5.4 | 5.2 | 4.5 | 4.1 | 4.1 | 5.6 | 5.2 |
| Louisiana | 6.4 | 6.6 | 5.9 | 5.7 | 4.9 | 5.6 | 6.0 | 5.9 |
| Maryland | 5.2 | 4.8 | 5.2 | 4.3 | 3.3 | 4.0 | 4.2 | 4.0 |
| Mississippi | 6.6 | 5.7 | 6.0 | 5.3 | 5.1 | 5.3 | 5.8 | 5.9 |
| Missouri | 4.4 | 4.2 | 4.2 | 3.9 | 2.9 | 3.7 | 4.8 | 4.8 |
| North Carolina | 4.0 | 3.9 | 3.6 | 3.4 | 2.9 | 3.8 | 5.8 | 6.1 |
| Oklahoma | 4.4 | 3.8 | 4.1 | 4.6 | 3.1 | 3.0 | 4.0 | 4.2 |
| South Carolina | 5.2 | 6.3 | 4.1 | 3.8 | 4.7 | 3.6 | 5.7 | 5.3 |
| Tennessee | 5.2 | 4.8 | 5.4 | 4.1 | 3.7 | 4.1 | 4.6 | 4.8 |
| Texas | 6.0 | 5.4 | 5.3 | 4.9 | 4.6 | 4.1 | 5.1 | 6.1 |
| Virginia | 4.5 | 4.5 | 3.8 | 2.9 | 3.0 | 2.2 | 3.9 | 3.9 |
| West Virginia | 7.2 | 6.7 | 6.7 | 6.6 | 5.9 | 5.5 | 4.7 | 6.1 |
| SLC Average | 5.4 | 5.1 | 4.9 | 4.5 | 4.1 | 4.0 | 5.0 | 5.2 |
| U.S. Average | 5.6 | 5.2 | 4.9 | 4.5 | 4.2 | 4.0 | 5.0 | 5.6 |

table 8

Source: U.S. Department of Labor

Table 8 clearly demonstrates the steady decline in the nation's unemployment rate between September 1995 and September 2000 (from 5.6 percent in 1995 to 4 percent in 2000) and its ascent in 2001 to 5 percent and then to 5.6 percent in 2002. This trend accurately tracks the growth path taken by the American economy which grew steadily during this time period before first contracting in 2001, and then expanding at a much slower pace subsequently. Even in terms of the SLC state average for the same period, it appears that the average unemployment rate reflected the trends depicted by the national rate. After reaching 5.4 percent in 1995, the average unemployment rate in the SLC states began declining steadily in the next five years to 4 percent in 2000, before beginning its upward surge to 5 percent in 2001 and on to 5.2 percent in 2002. Of note, given that a number of states in the region included some of the fastest growing states in the country, there were several years during the 1995 to 2002 period when the SLC state average was lower than that of the national average. In fact, the SLC state unemployment rate average was never higher than the national average and was lower in 1995 (5.4 percent versus 5.6 percent), 1996 (5.1 percent versus 5.2 percent) and 1999 (4.1 percent versus 4.2 percent). While the rates were the same in both September 2000 and September 2001 (4 percent and 5 percent, respectively), in September 2002, the average unemployment rate in the Southern states was once again lower than the national average (5.2 percent versus 5.6 percent).

During more recent times (2001 and 2002) when the economy began its contraction, the unemployment rates in the Southern region began rising too. For instance, after increasing to 5 percent in 2001, the rate increased further to 5.2 percent in 2002. In September 2001, while Louisiana had the highest unemployment rate among the SLC states (6 percent), Virginia's 3.9 percent was the lowest. Yet, a number of states continued to perform better than the national average in terms of their unemployment rates in September 2001, with only seven states posting an unemployment rate higher than the national average during this time period. In September 2002, the situation was even better and only six states posted unemployment rates higher than the national average. The SLC states most hard hit on the unemployment front in September 2002 were North Carolina, Texas and West Virginia, whose unemployment rates all stood at 6.1 percent during this period. Once again, Virginia's 3.9 percent, closely followed by Maryland's 4 percent, represented the opposite side of the spectrum. As noted by the U.S. Department of Labor, given that between September 2001 and September 2002, 39 states reported employment gains in government and that a significant portion of federal government employees live in the states of Maryland and Virginia, the strong showing of these two states on the employment front may be explained.

## Conclusion

After a decade of sustained economic growth, unsurpassed in the economic history of the country, the U.S. economy is currently recovering from the negative effects of the recession that swept the country last year. While technically the economy has emerged from the recession, the pace of economic growth and, in particular, the pace at which the economy has been generating jobs has been extremely sluggish. Further compounding this problem is the fact that consumer confidence continues to languish–plunging to a nine-year low in October 2002–and, given that a great deal of economic momentum is created by consumer spending, the pounding the economy has taken in recent months has been severe. Finally, the spate of corporate scandals stretching to almost all industries of the economy, the gross misconduct of business leaders, the rash of corporate bankruptcies, the downward trajectory of the stock market, and the sea of red ink that has spread to almost all levels of government including federal, state and local, all have acted in unison to create a very disharmonious fiscal picture. The specter of war with Iraq and the numerous uncertainties related to the war on terrorism serve as additional destabilizing forces, both to the economy and on the price of oil.

Leaving aside the technical discussions of the grim fiscal news that confronts every level of government in the nation, a number of specific developments act in a pincer-like manner to pressure segments of the population residing in the different jurisdictions. These developments include rising poverty levels, exploding Medicaid enrollment numbers and increasing unemployment numbers. Each of these categories, an inevitable development of the fiscal crunch currently foisted upon every level of government in the country, remains a serious reality with which state governments, and other levels of government, have to contend.

In terms of some of the specifics, the percentage of Americans considered poor, and the number of poor, rose in 2001 compared to 2000. Specifically, the number of poor rose from 31.6 million in 2000 to 32.9 million in 2001, or a percentage increase from 11.3 percent to 11.7 percent. This increase in poverty was the first such increase since the 1991/92 economic recession and coincided with the recession that swept the country beginning in March 2001. Regionally, the poverty rate in the South increased from 12.8 percent in 2000 to 13.5 percent in 2001 though poverty rates in the other three regions of the country remained unchanged.

In another important category, state Medicaid budgets have come under increasing pressure because of their rapidly deteriorating budgets, with some states experiencing three consecutive years of budget shortfalls. For the second year in a row in fiscal year 2002, Medicaid spending rose by more than 10 percent. Specifically, while total Medicaid spending in fiscal year 2002 increased by 13 percent (federal, state and local funds), the state share of Medicaid spending expanded by 11 percent (non-federal). Responsible for compounding this bleak fiscal situation are the significant increases in caseload or enrollment numbers and steep increases in the prices of prescription drugs.

Finally, another area which reflects the dire economic picture currently confronting the states is the steady rise in the nation's unemployment rate in the past two years. After declining between September 1995 and September 2000 (from 5.6 percent in 1995 to 4 percent in 2000), the nation's unemployment rate began its gradual ascent in 2001 to 5 percent in 2001, and then to 5.6 percent in 2002. (The national unemployment rate was 5.7 percent in October 2002.) A similar trend is evident with the SLC states too; after reaching 5.4 percent in 1995, the average unemployment rate in the region began declining steadily in the next five years to 4 percent in 2000, before climbing to 5 percent in 2001 and 5.2 percent in 2002.

Policymakers at the state level have to deal with these and emerging fiscal conundrums with little or no assistance from the federal government given the range of pressing issues currently confronting the latter, including national security, war in the Middle East, terrorism, dwindling federal revenues, yawning chasms in the federal budget, threats to the financial security of the Social Security and Medicare trust funds. Yet, the sense of gloom that permeates the financial and economic climate currently has to be tempered with the modicum of positive news including the fact that the economy is likely to expand at a rate of at least 3 percent this year, the fact that inflation remains quite subdued and finally, the fact that the record low interest rates have propelled consumers to purchase homes and re-finance their mortgages.

In addition, the efficiency and productivity gains of the late 1990s remain intact and the economy can build on those pillars to reach higher productivity levels and higher incomes in the future. Furthermore, Federal Reserve Board Chairman Alan Greenspan firmly believes that American productivity will continue to post impressive gains in the upcoming years and cites the increase in non-farm business output per hour over the past year as one of the largest advances, if not the largest, recorded over the past thirty years.[26] While Chairman Greenspan has been a fervent proponent of the theory that the American economy has entered an era of stronger productivity growth, he emphasizes that high productivity growth in the past year "merely extends recent experience." Specifically, Chairman Greenspan notes that over the past seven years, output per hour has been growing at an annual rate of more than 2.5 percent, on average, compared with a rate of roughly 1.5 percent during the preceding two decades.[27] Hence, it is important to factor the long-term implications of these productivity gains into our future prospects and not focus solely on the tepid economic recovery that is currently underway.

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This Regional Resource was prepared for the Economic Development, Transportation and Cultural Affairs Committee of the Southern Legislative Conference (SLC) by Sujit M. CanagaRetna, SLC Regional Representative.

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