THE FEDERAL RESERVE BANK of ST. LOUIS

NEWS RELEASE

The Federal Reserve Bank of St. Louis
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AS THE FEDERAL GOVERNMENT TIGHTENS ITS BELT, CAN STATE GOVERNMENTS FIND SOME SLACK?

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ST. LOUIS — As Congress appears poised to hand off responsibility for many federal welfare programs to state and local governments, the question arises: Are state and local governments ready?

Kevin L. Kliesen, an economist at the Federal Reserve Bank of St. Louis, considers that readiness in "A Fiscal Devolution: Can State and Local Governments Measure Up?" the lead article in the October issue of ***The Regional Economist***, the St. Louis Fed's quarterly review of business and economic issues in the Eighth Federal Reserve District.

"The recent battle between Congress and the Clinton administration over the budget indicates there are still major disagreements about priorities," says Kliesen, "but the reordering of federal budgetary expenditures will be an important element that states will have to factor into their fiscal planning."

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Kliesen notes that although both states and municipalities have done well recently in curbing their spending rates, since 1987 states have relied less on their own general fund revenues and more on revenues from the federal government — a potential long-term problem. A notable example is state spending on Medicaid, which, he emphasizes, "has mushroomed at the expense of other spending," such as education.

Now, with a tentative agreement by the Clinton administration and Congress to balance the federal budget within seven years, Kliesen says there is even greater urgency for state governments to plan for less help from Washington.

Other articles in this issue of ***The Regional Economist*** are:

• "How Statistics Can Mislead," by Adam M. Zaretsky, who uses the "family cap" in New Jersey's welfare program to illustrate how omitting or glossing over crucial information can blur statistical findings, which can lead to misinterpretation; and

• "Will the Mutual Fund Boom Be a Bust for Banks?" by Michelle Clark Neely, who examines the growing popularity of mutual funds sales through District banks.

The Federal Reserve Bank of St. Louis has branches in Little Rock, Louisville and Memphis. It serves the Eighth Federal Reserve District, which includes all of Arkansas, eastern Missouri, southern Indiana, southern Illinois, western Kentucky, western Tennessee and northern Mississippi. In addition to serving as a bank for depository

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institutions and the U.S. government, each Reserve Bank supervises state-chartered member banks and bank holding companies, monitors economic conditions in the District and participates in formulating monetary policy.

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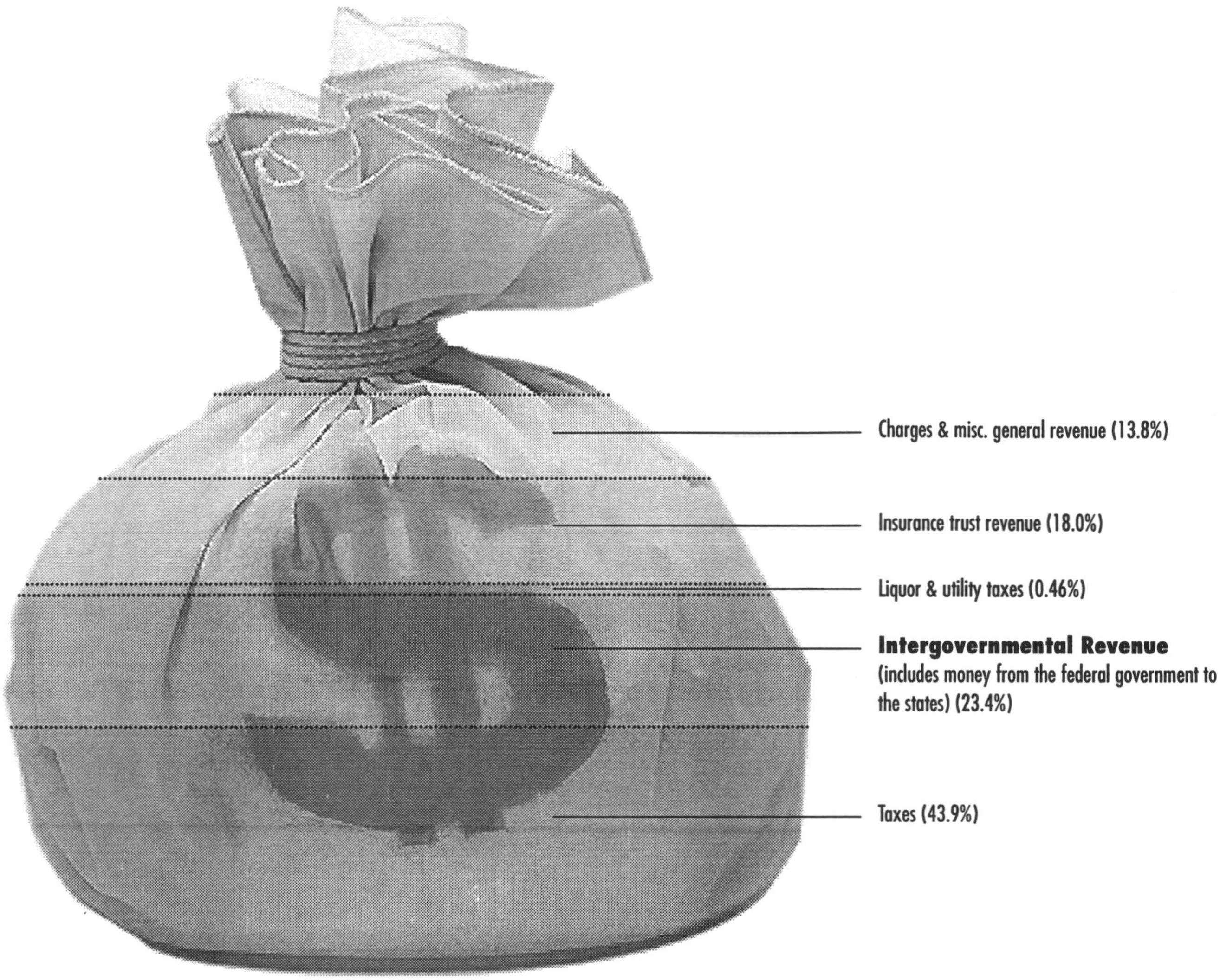
Where State Governments' Revenues Come From
(1993)

$804.5 billion



In the last several years, states have relied less on general fund revenues and more on revenues from the federal government. For example, intergovernmental revenue in 1985 made up about 20 percent of the states' revenues. In 1993 the number was 23.4 percent, and now it's approaching 25 percent.

NOTE: Totals may not add because of rounding.
SOURCE: U.S. Department of Commerce, Bureau of the Census.