

ECONOMICS MADE EASY



A Journalism Workshop

The Recession and States' General Budgets

Rick Kaglic, Regional Economist

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THE FEDERAL RESERVE BANK OF RICHMOND

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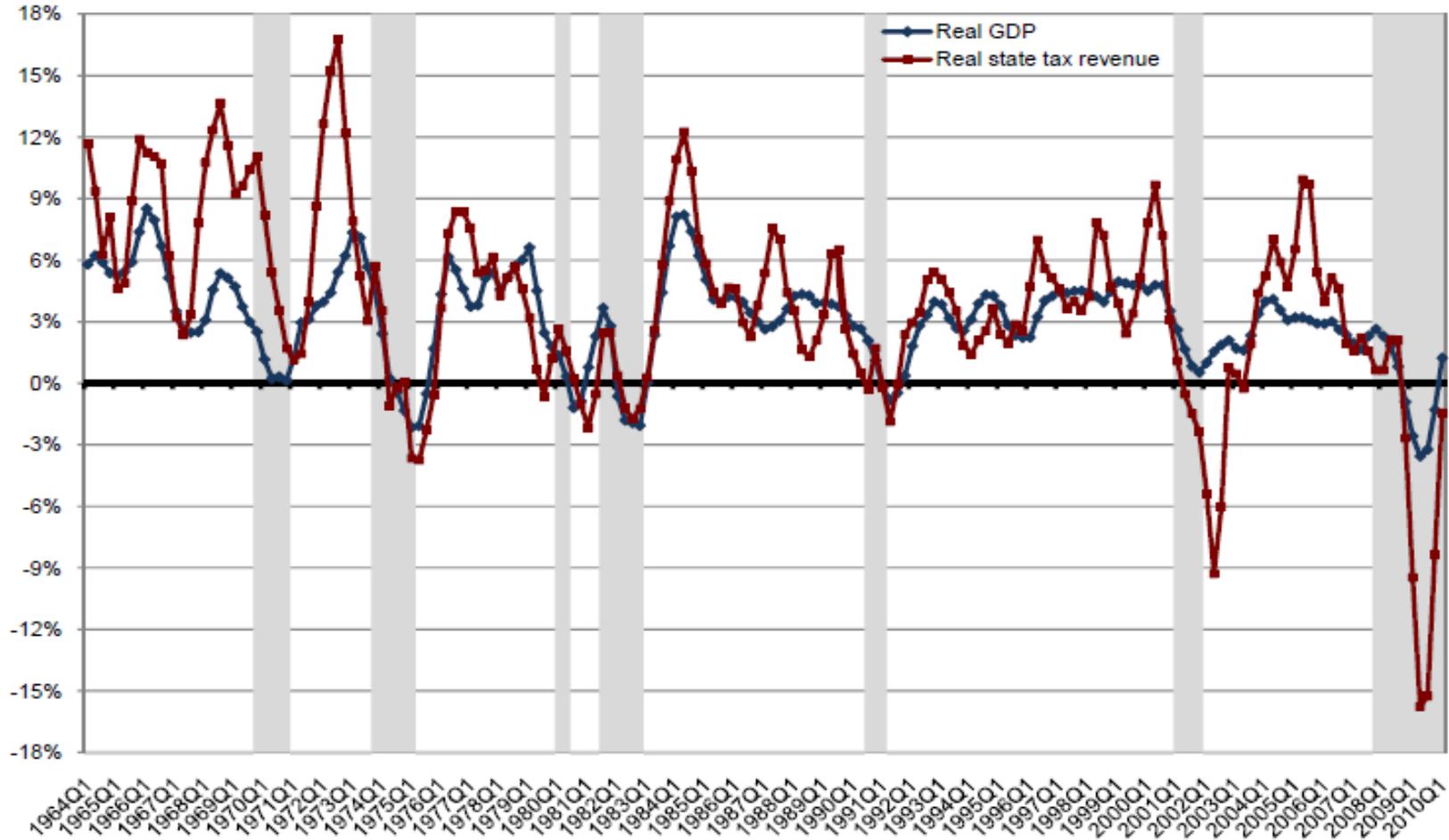


The Recession's Effect on States' General Budgets

- The problem: revenues fall as demand for public services rises
- Two most recent recessions more severe on states' balance sheets
 - Composition of revenue collections
 - Personal income taxes
 - Sales taxes
 - Corporate income taxes
 - Property taxes
- The recession's effect on general fund spending
 - Composition of outlays
 - Unemployment
 - Medicaid
- The upshot: big deficits and debts—How are states dealing with them?
- Implications for governments, economic growth



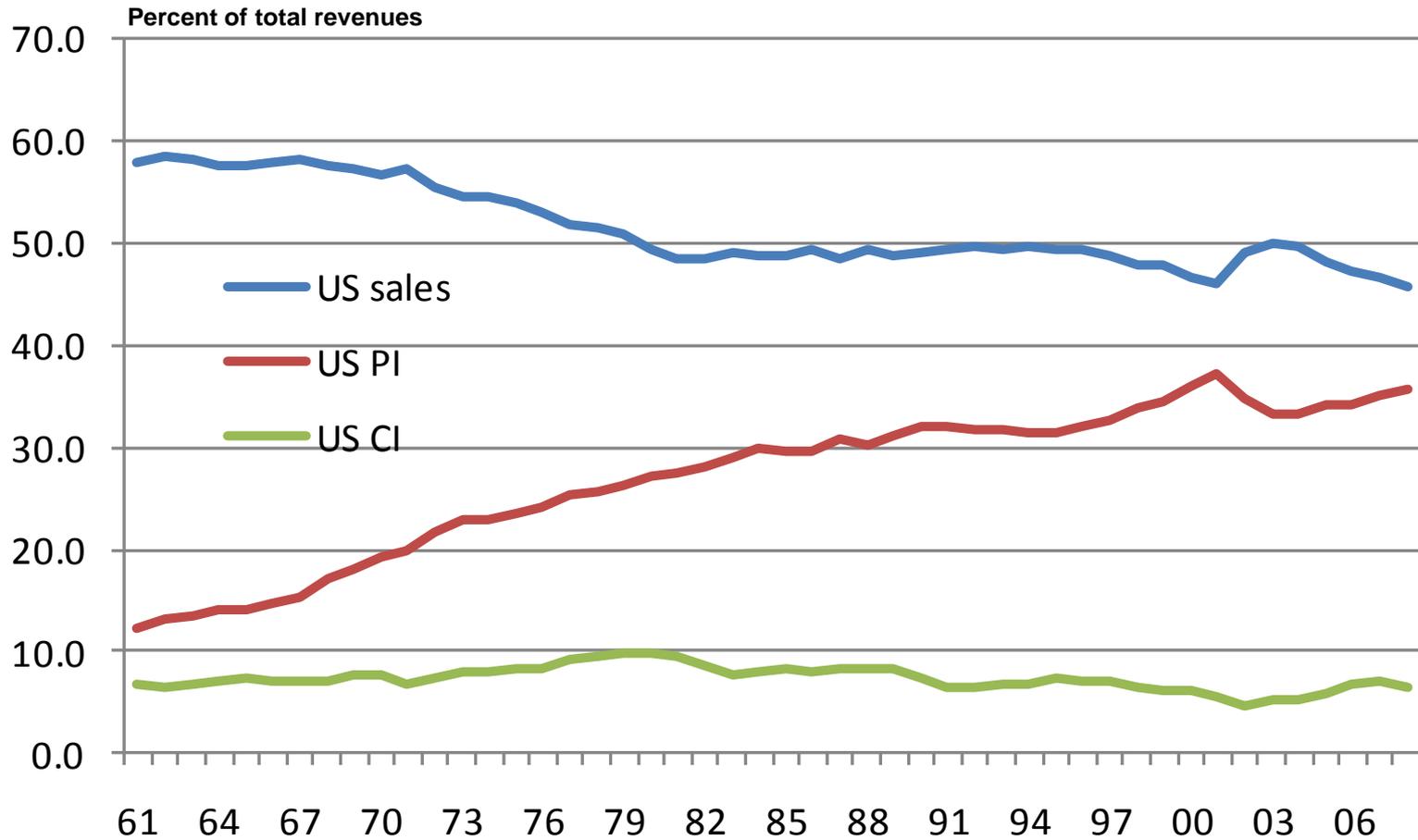
The Recession's Effect on State Revenues



Source: BEA/Census/Haver Analytics



Where Governments Get Taxes



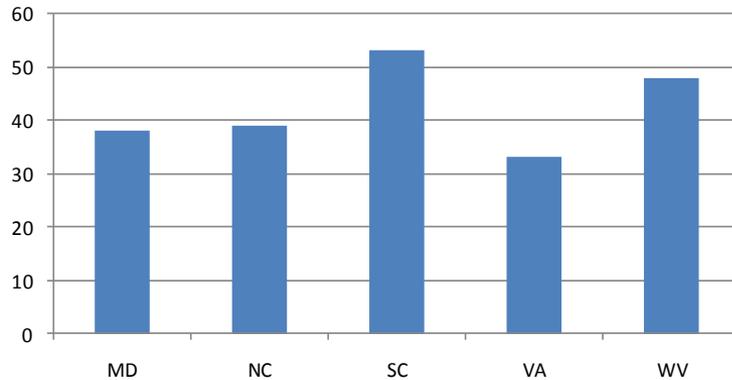
Source: Census/Haver Analytics



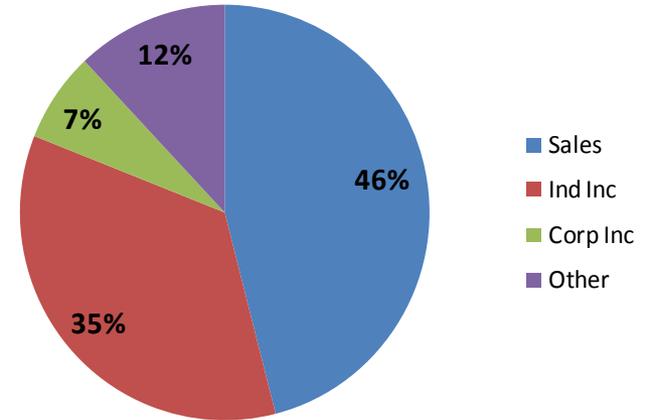
Fifth District State Tax Collections

Percent of total tax collections, 2007

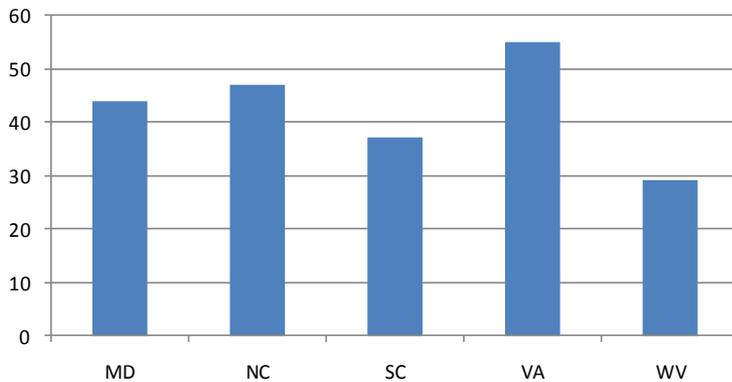
Sales Tax



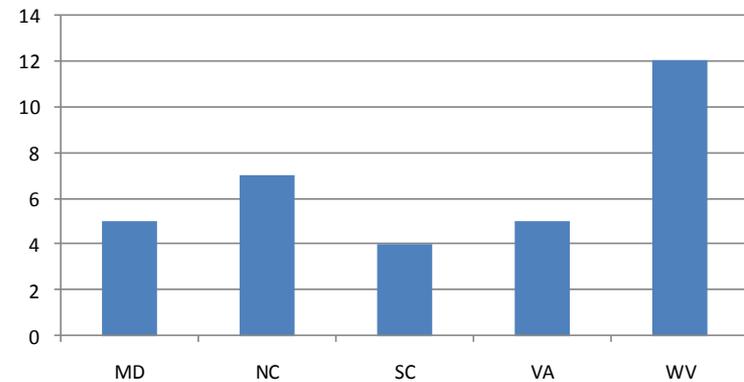
U.S. Averages



Personal Income Tax



Corporate Income Tax



Source: Census/Haver Analytics





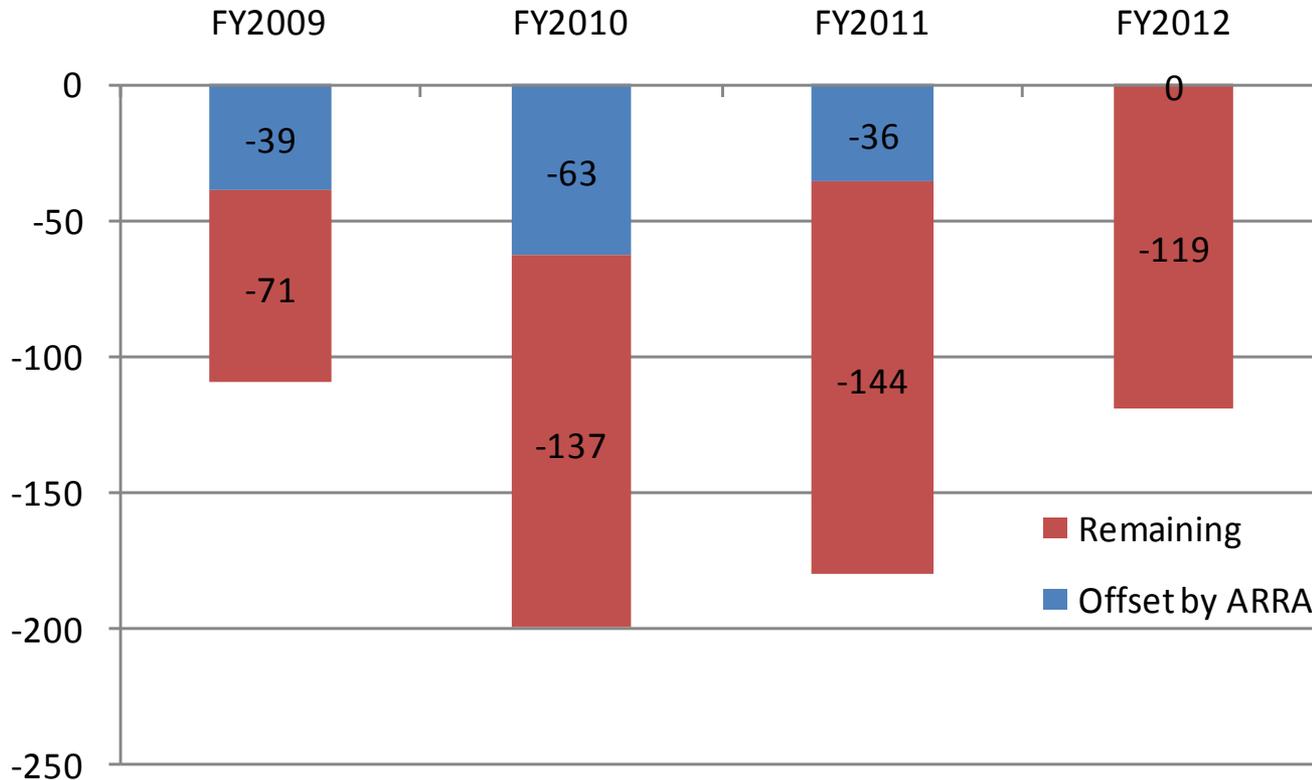
Recent Recessions' Effect on State Revenue

- Revenue declines more severe due to
 - Decline in income tax collections, particularly capital gains
 - Reluctance to raise taxes (political and legal constraints)
 - Ability and willingness to use short-term coping mechanisms
- Postponed the need for states to recognize structural imbalances in revenue collections and expenditure plans
 - Increased reliance on income taxes made fiscal crises in most recent recession more severe
 - Erosion of the sales tax base (cross-border shopping, technological changes, and legislated exemptions among contributors)
 - Corporate tax base erosion



Impact on the General Fund – Deficits

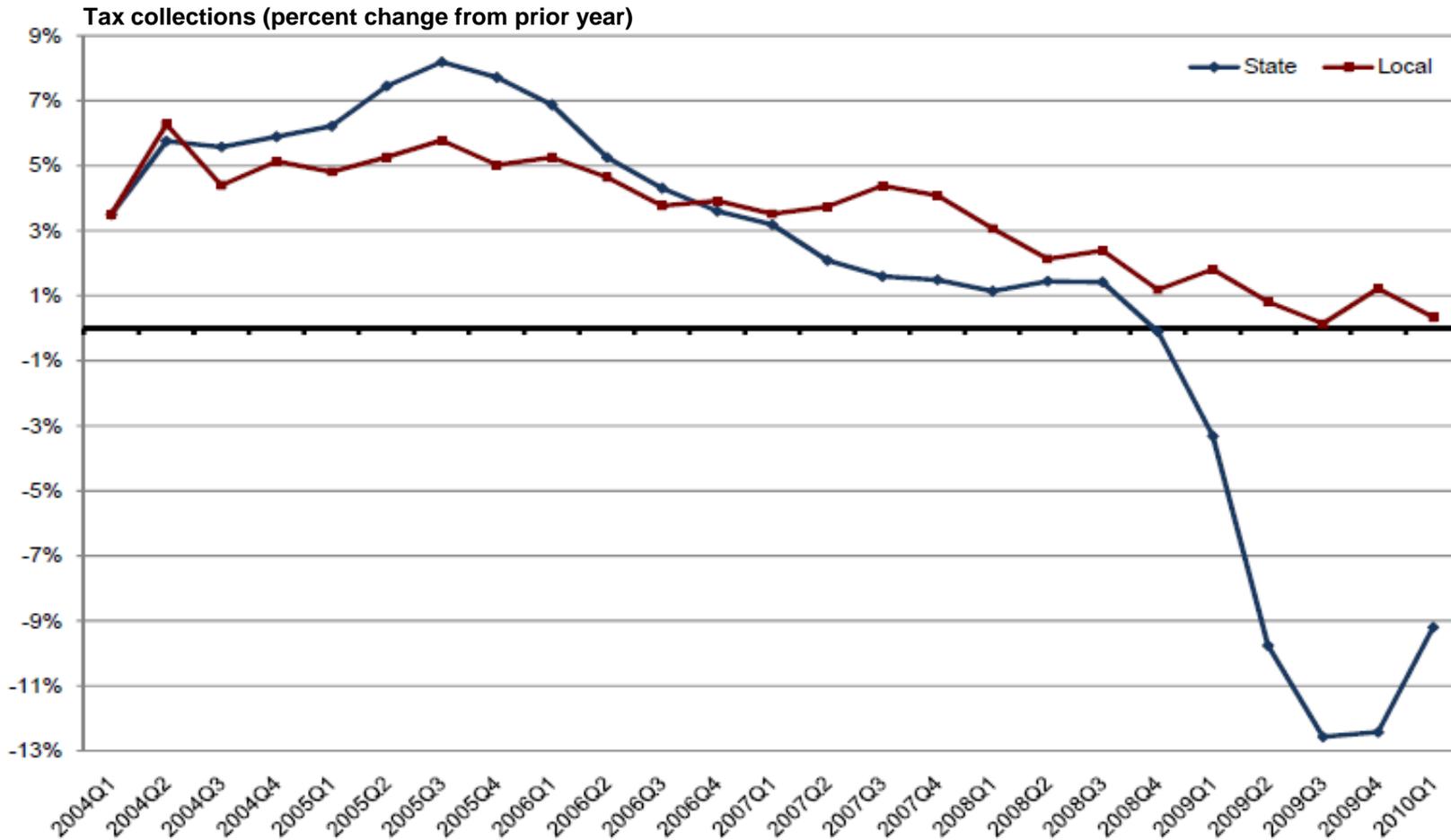
State budget shortfalls (billions of dollars)



Source: Center on Budget and Policy Priorities



Local Fiscal Woes Lag States'



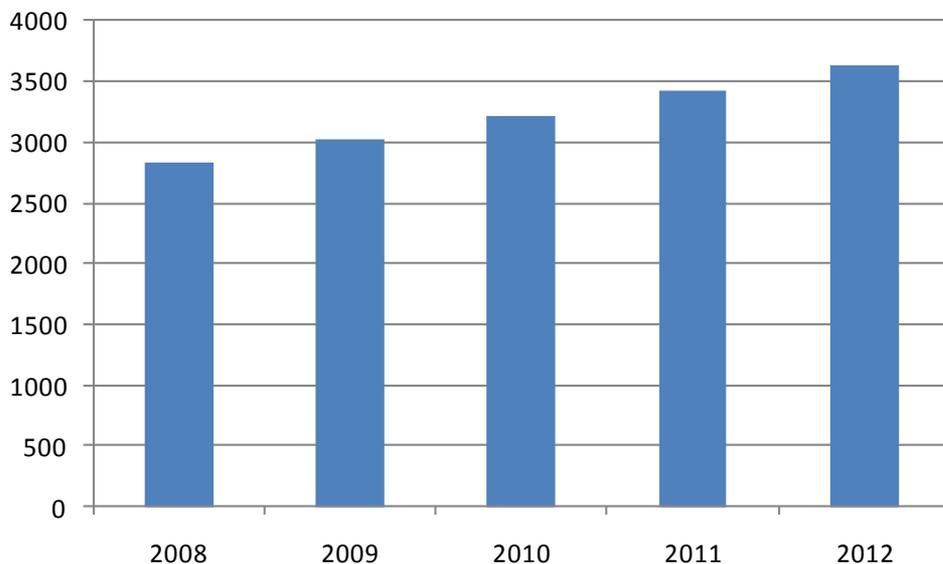
Source: U.S. Census Bureau



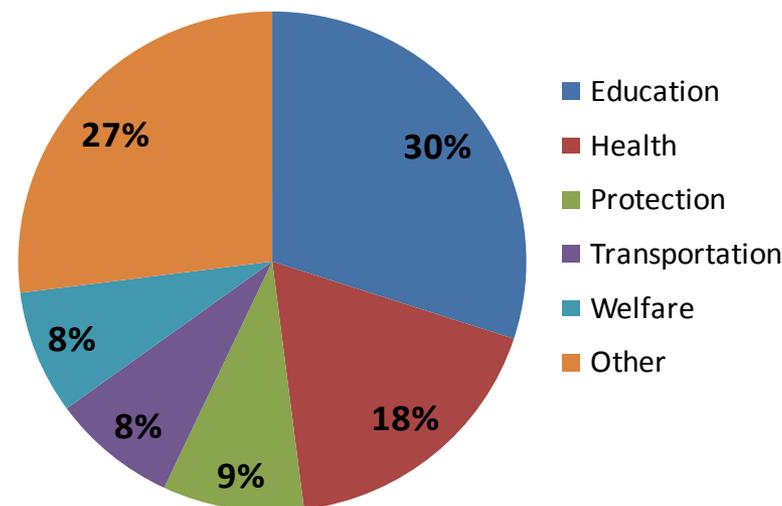


Where Do State/Local Governments Spend?

State and local government spending projections (billions)



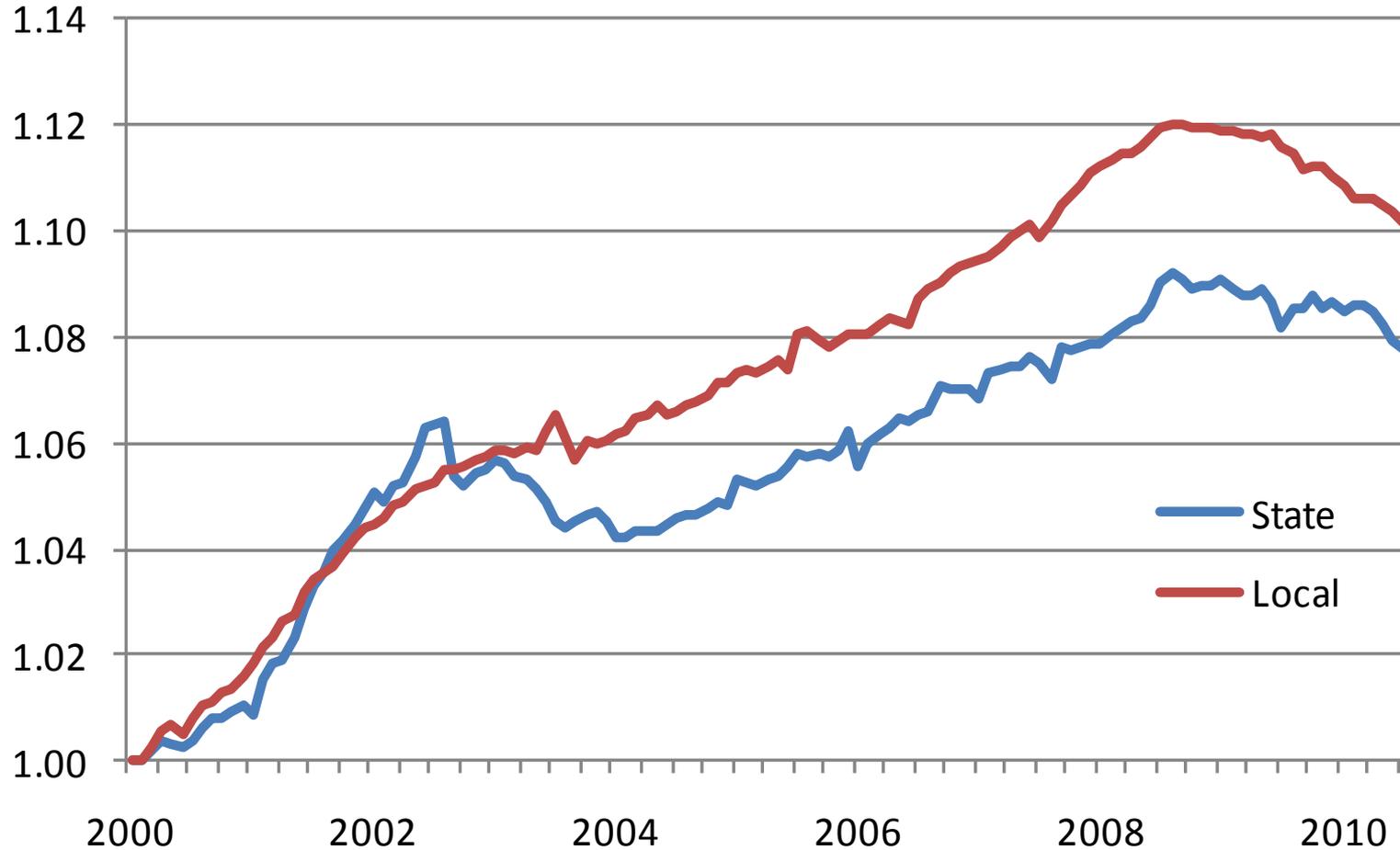
Composition of state and local government spending, 2008 (percent)



Source: Census/Haver Analytics



Budget Cuts: Jobs Were Lost, More to Come

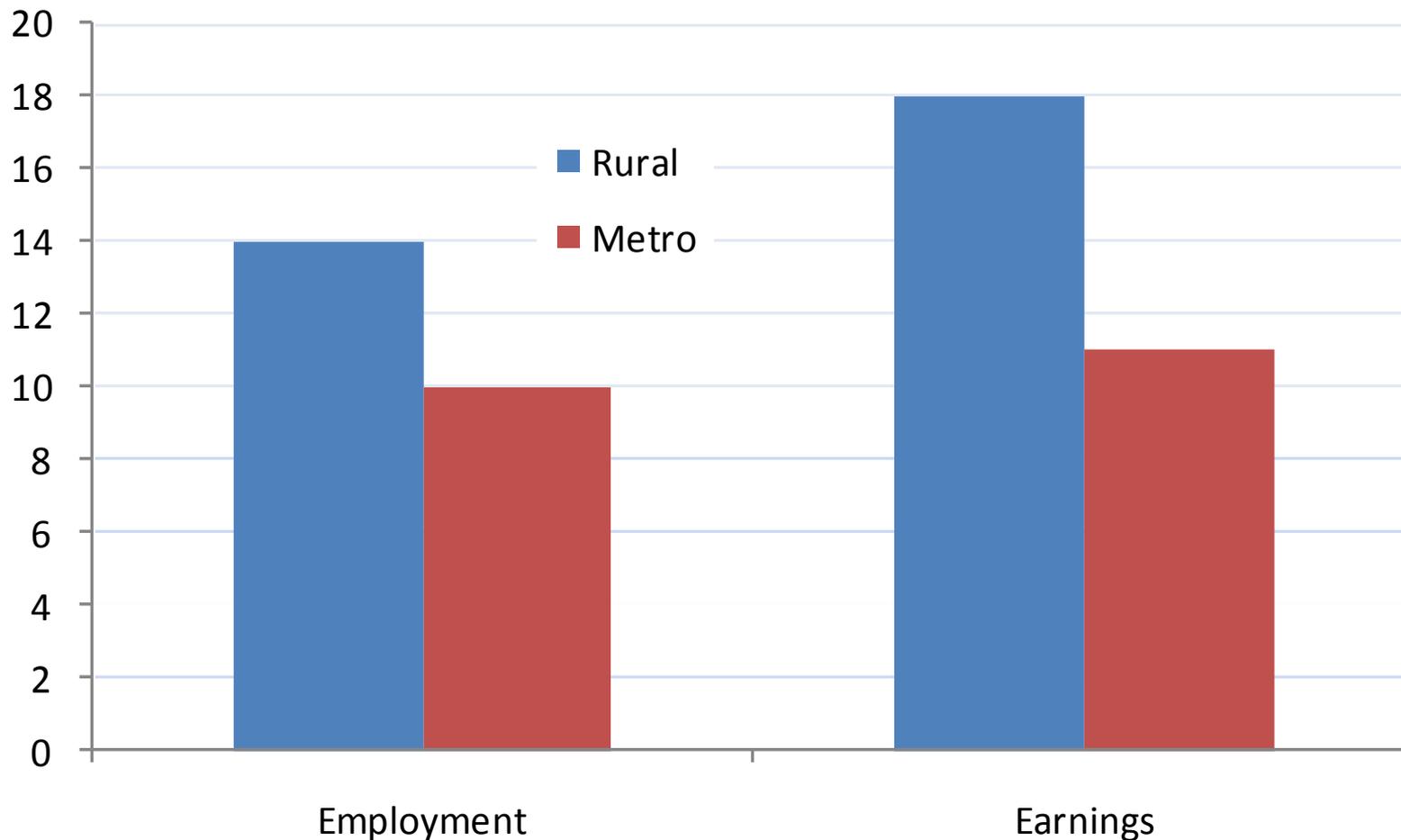


Source: BLS/Haver Analytics





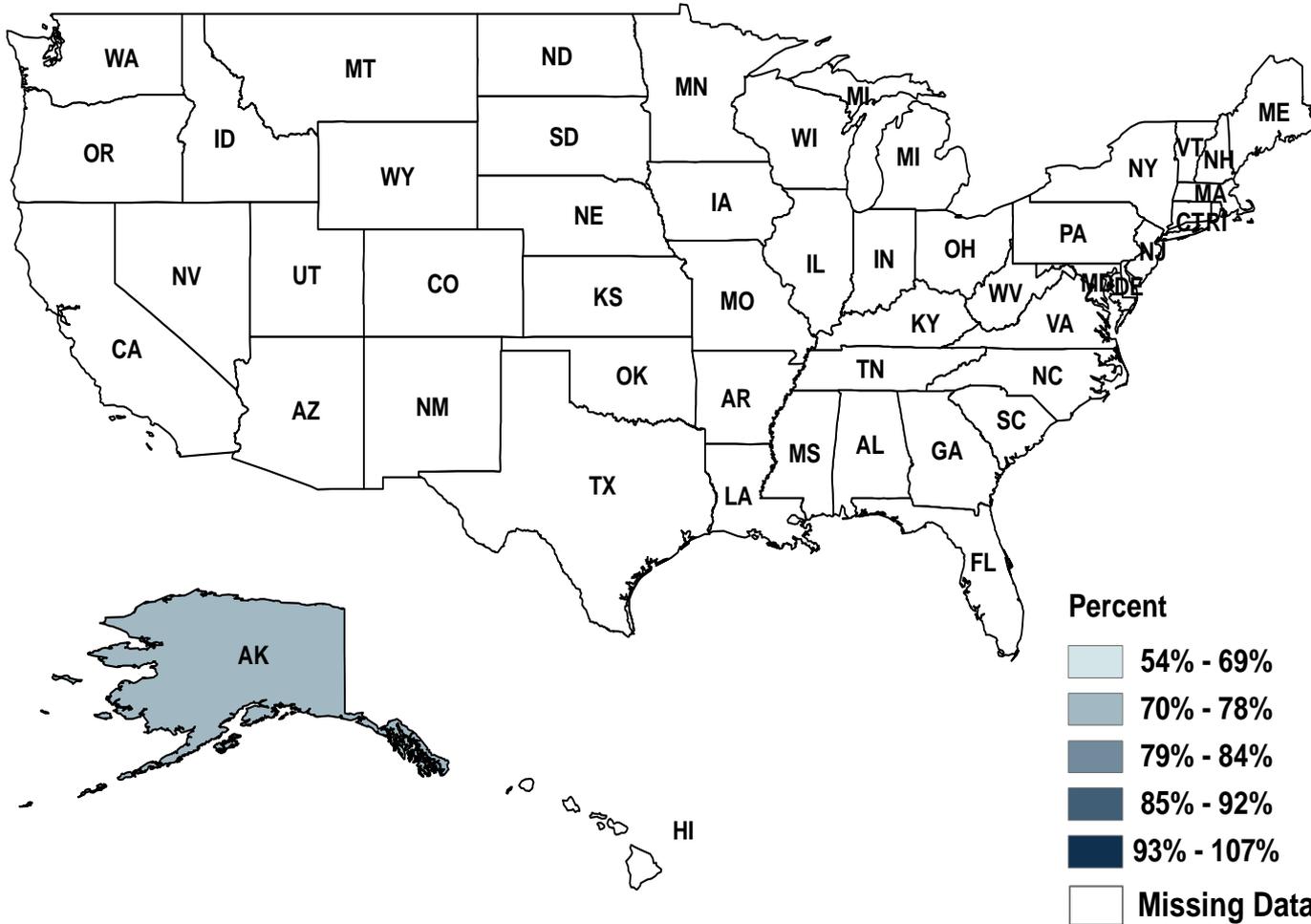
Budget Cuts and the Recovery: Rural vs. Metro



Source: BEA/FRB Kansas City



The Elephant in the Room: Underfunded Pensions



Source: The Pew Center on the States



Key Challenges

- Spending taxpayers' dollars effectively and efficiently to achieve desired results (more cost-benefit analysis)
- Reducing fiscal mismatches over the cycle
 - Stabilization, or “rainy day” funds
 - Balanced budget rules
 - Re-examining tax exemptions
- Maintaining services vital to region
 - Education and health care
 - Economic development
- Dealing with OPEBs
 - Changing retirement formulas



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