



**THE NELSON A.
ROCKEFELLER
INSTITUTE
OF GOVERNMENT**

UNIVERSITY AT ALBANY
State University of New York

The Great Recession and Regional Realignments

2011 Advanced Seminar

The New Era of Austerity & Implications
for Municipals

National Federation of Municipal Analysts

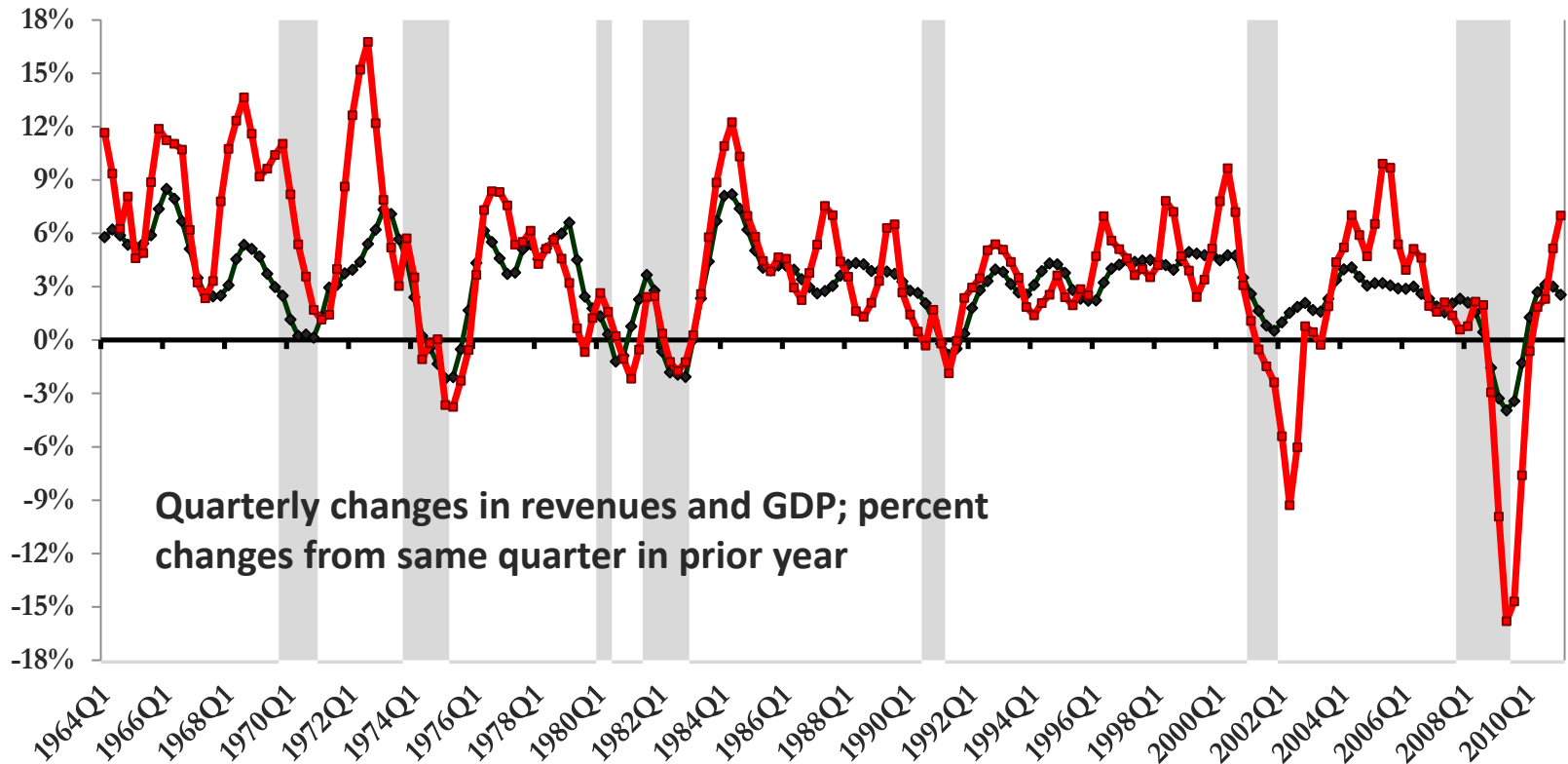
Austin, Texas

Thomas L. Gais

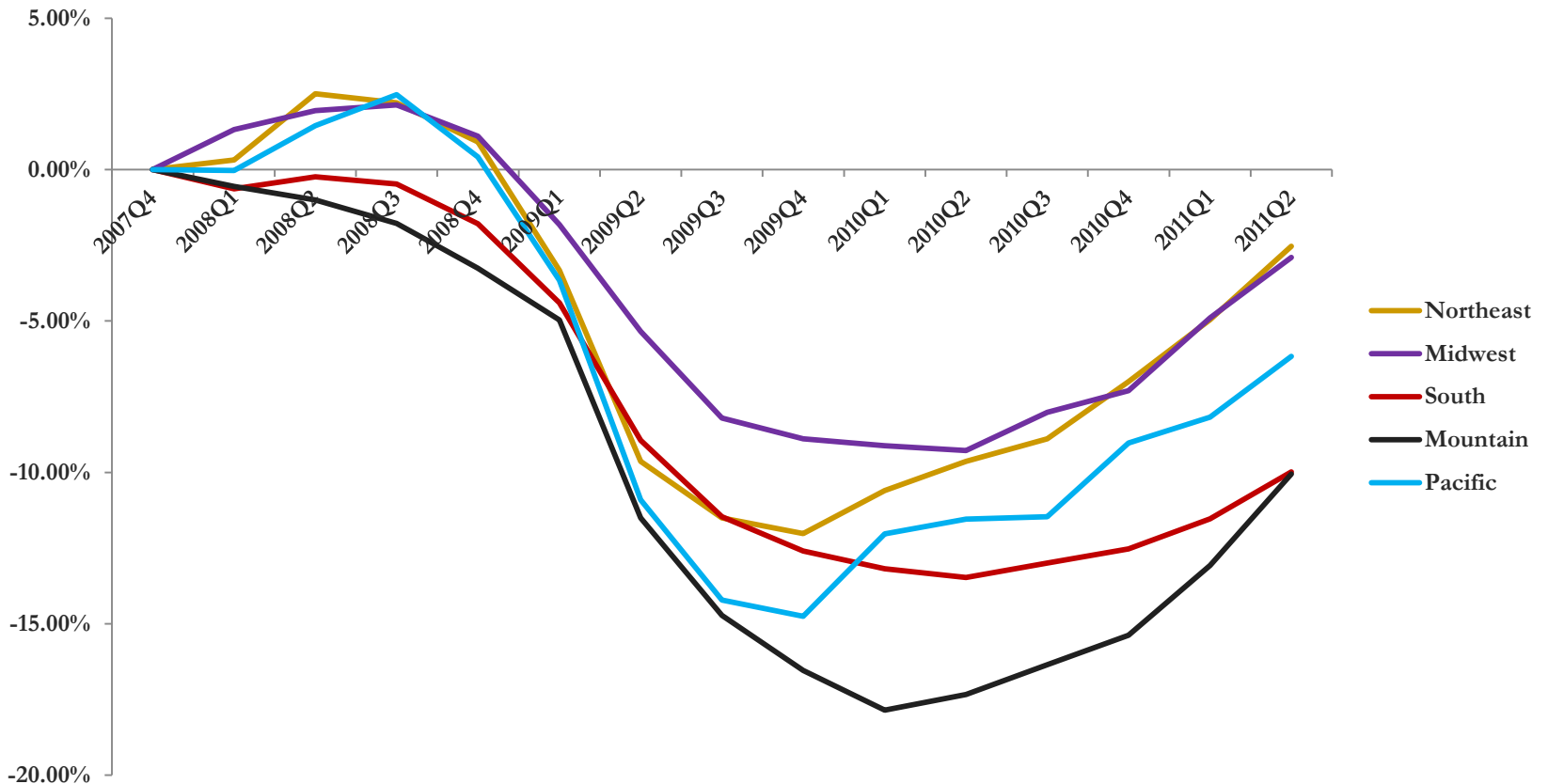
October 20, 2011

Historic drop in state tax revenues

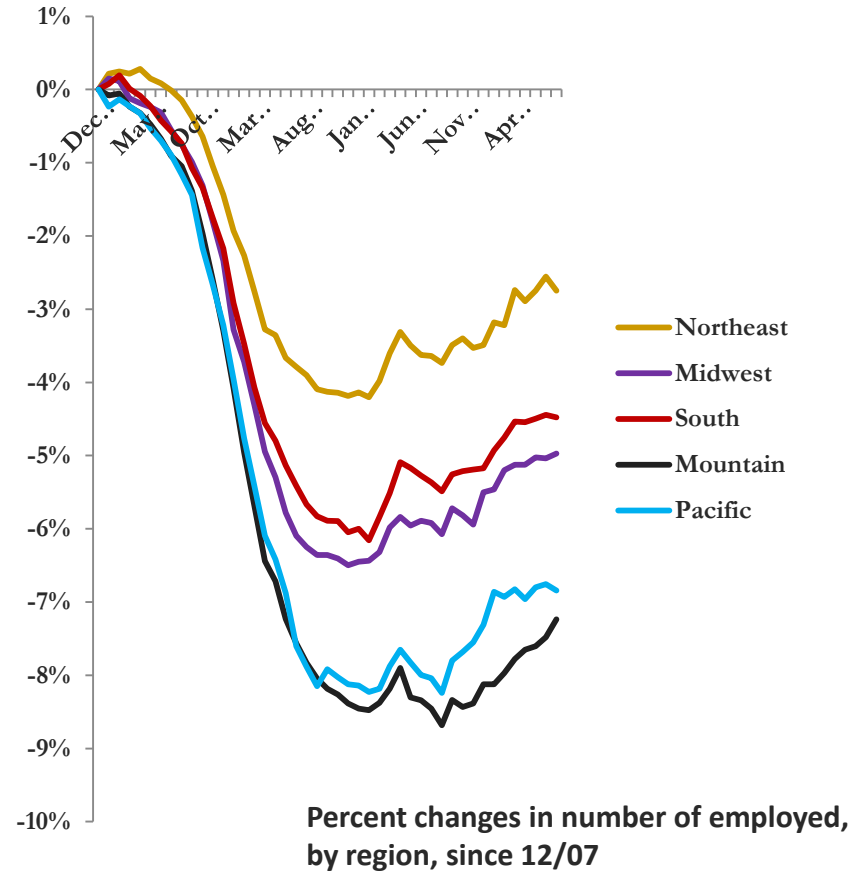
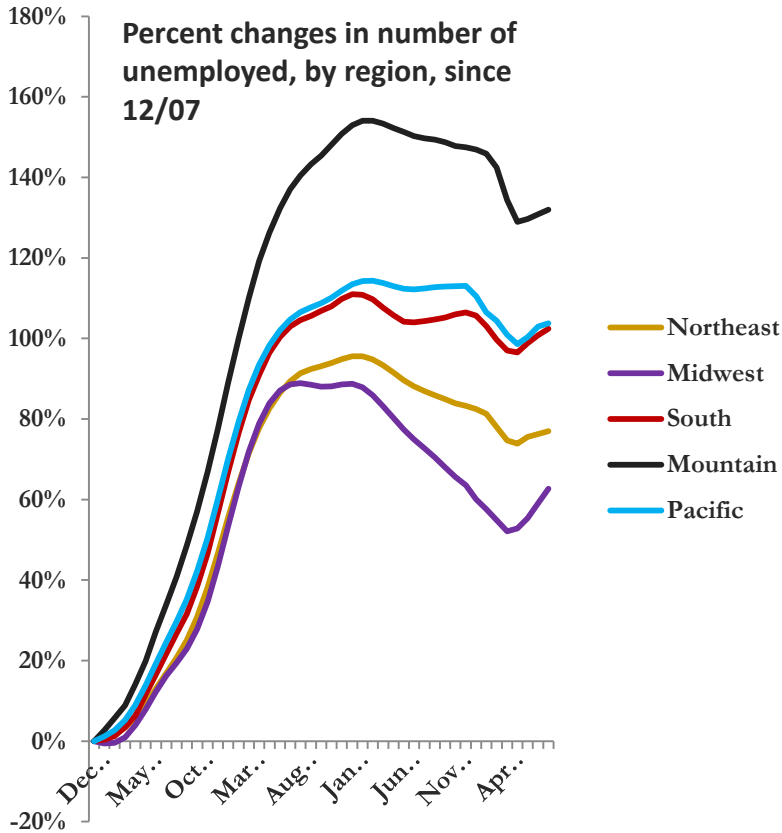
(Red = state taxes; green = GDP; shading = recessions)



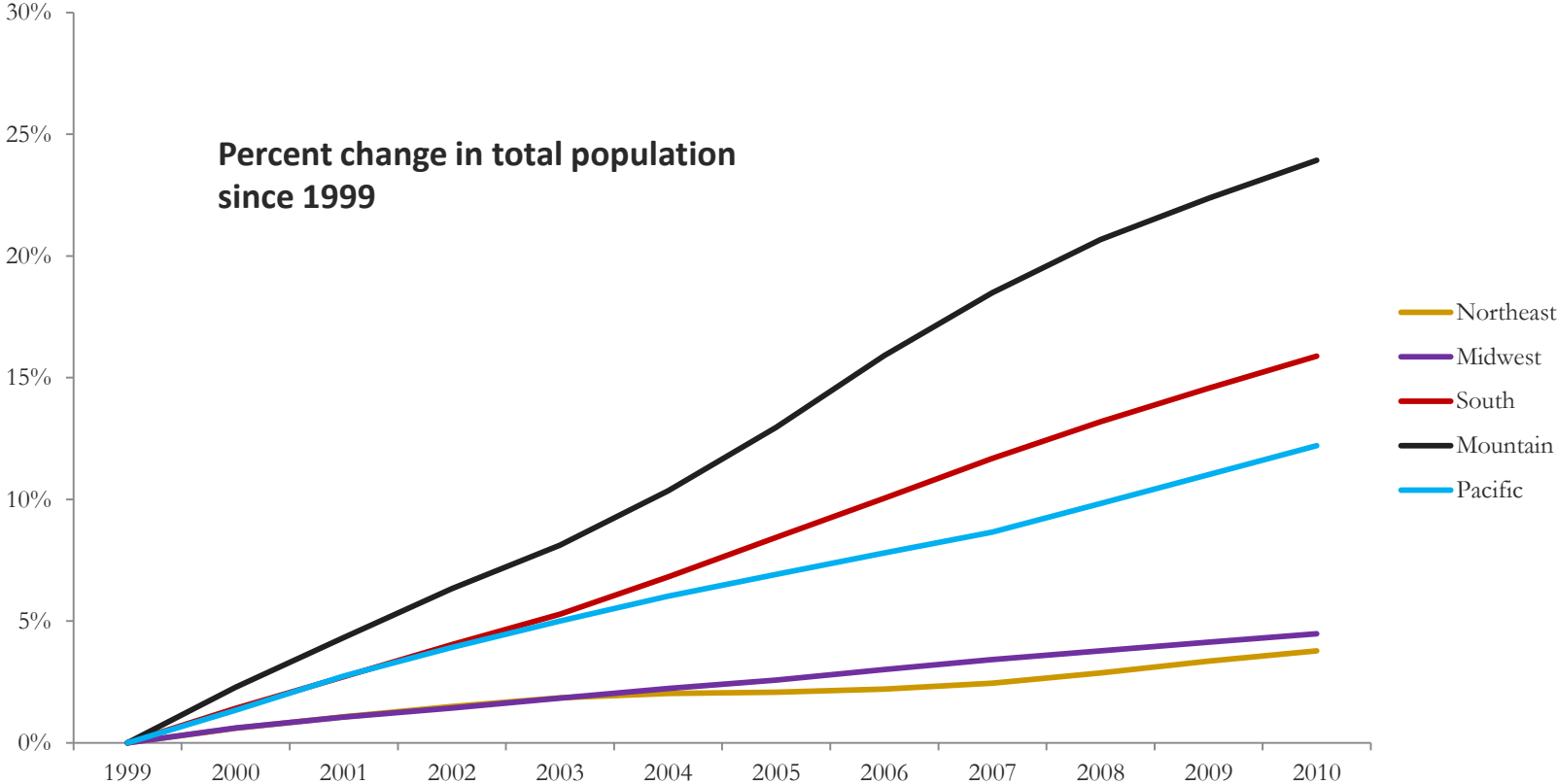
But considerable variation by region: State revenue changes since start of recession (4th Q, 2007)



Number of unemployed/employed, by region since 12/07: Mountain/Pacific/Southern states saw largest increases in unemployment; Mountain/Pacific/Midwestern states saw biggest drops in employment

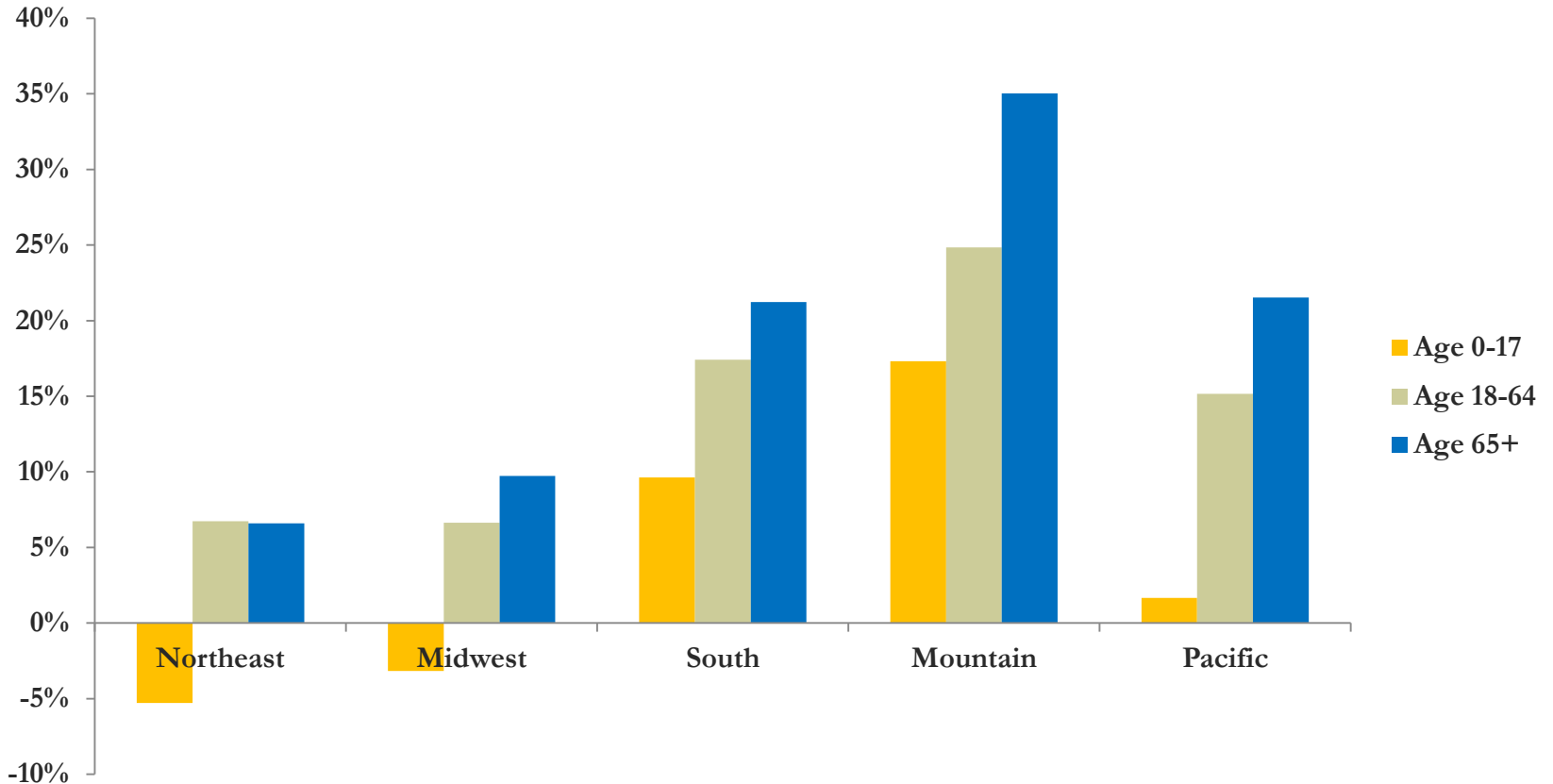


These recent economic changes operate atop secular demographic shifts in the U.S.: population movement to Mountain/Southern/Pacific states in last decade



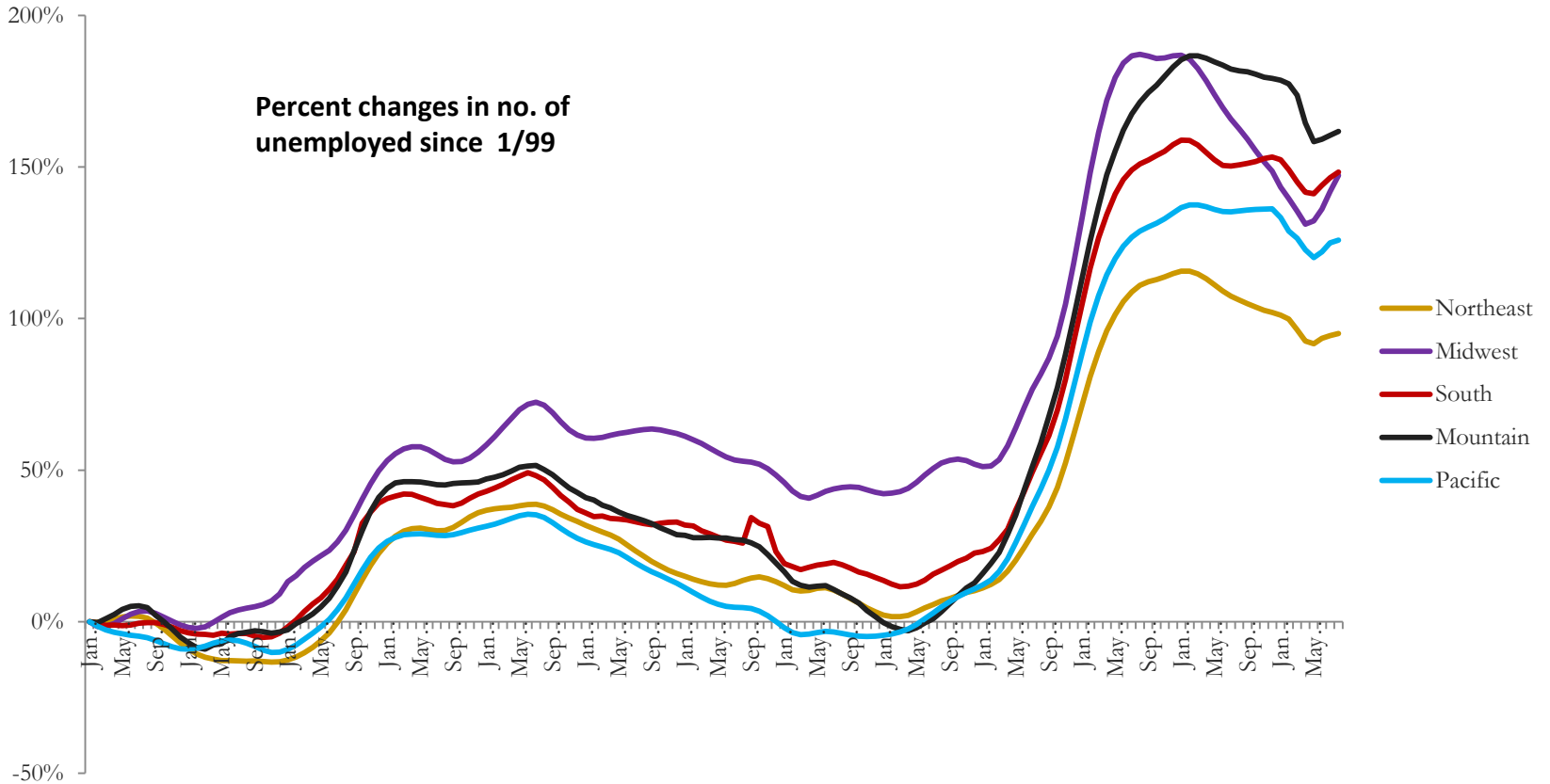
Shifts in age distributions:

Changes in number of persons between 1999 and 2010, by age and region;
more children and elderly in Mountain/Southern states

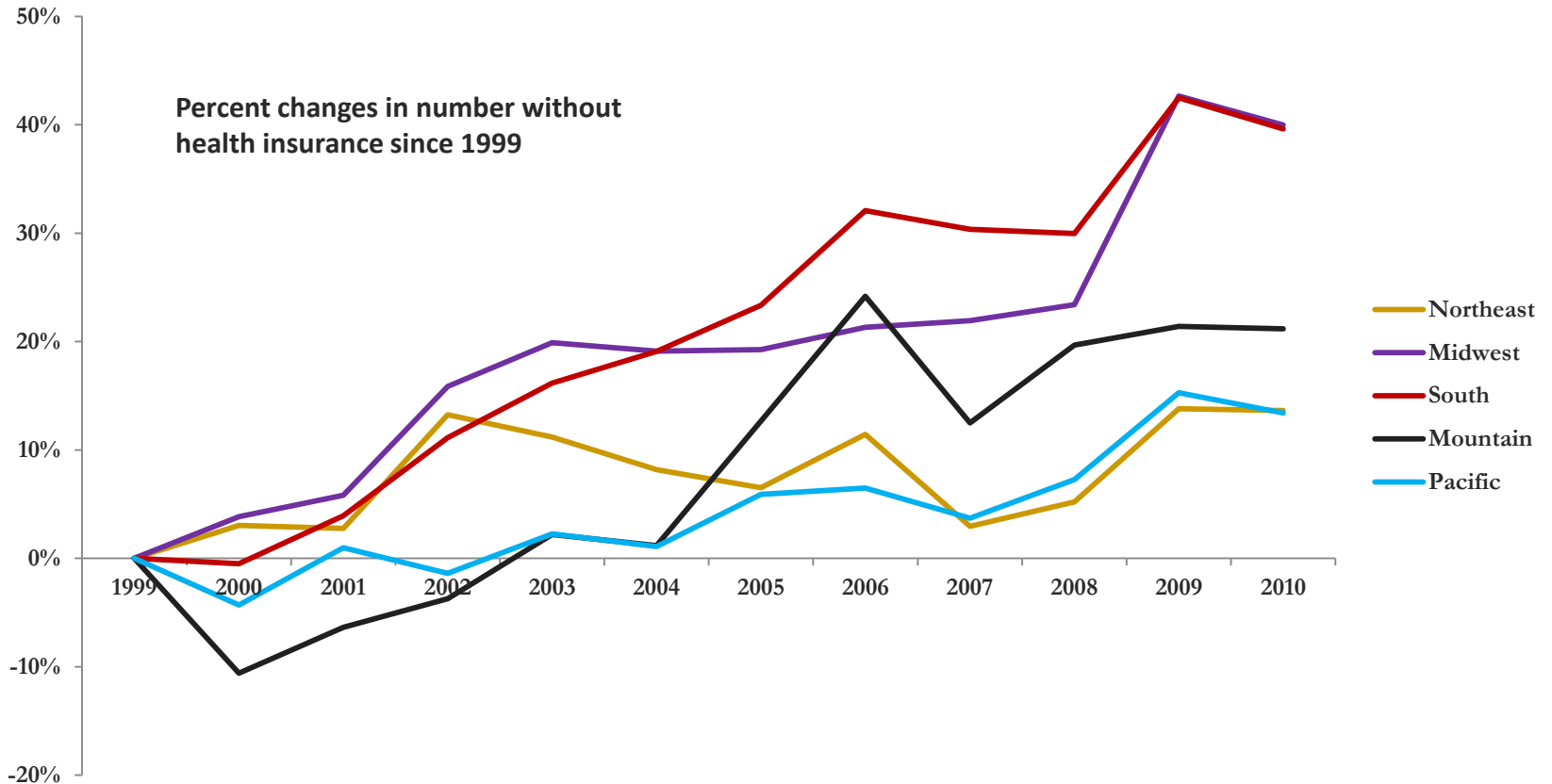


Longer term trends in unemployment:

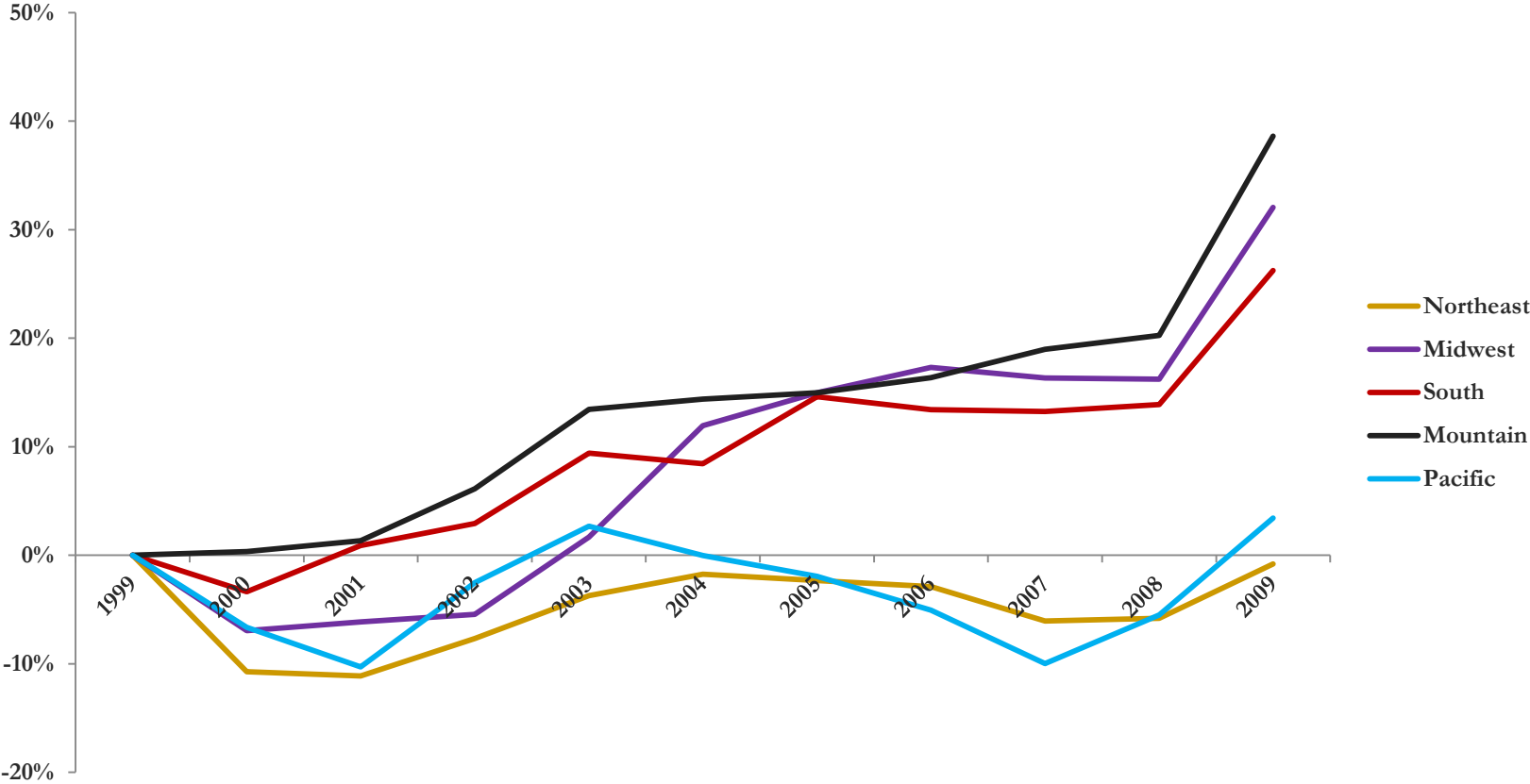
Increases in unemployment are greatest in Mountain/Southern states (except for growth in unemployment in Midwest), 1999-2011



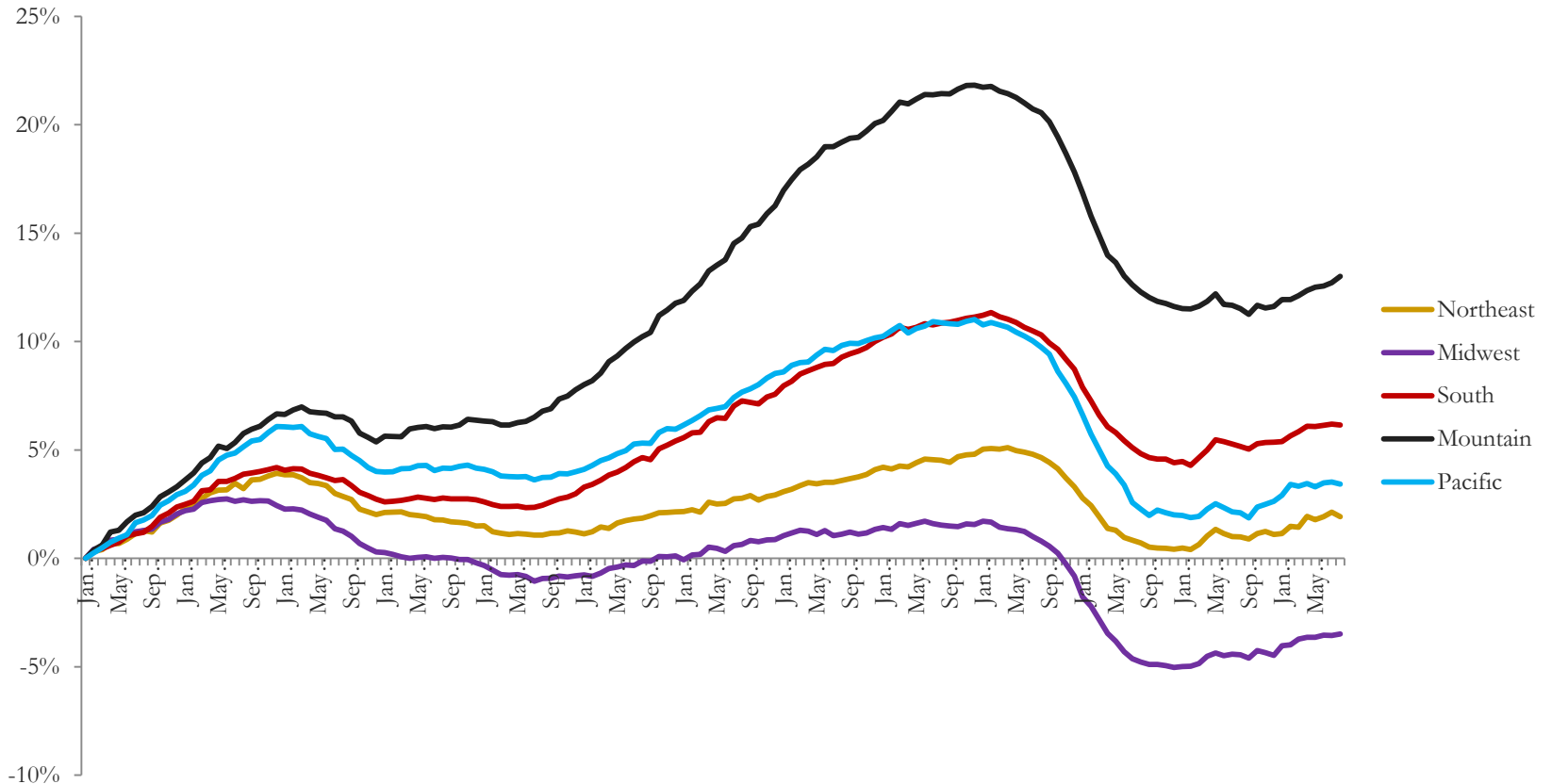
Other indicators of the redistribution of public needs: Changes in number of persons without health insurance; Greatest growth in needs since 1999 in South/Midwest/Mountain states



Also, changes in the number of children in poor households were greatest in Mountain/Midwest/South, 1999-2009

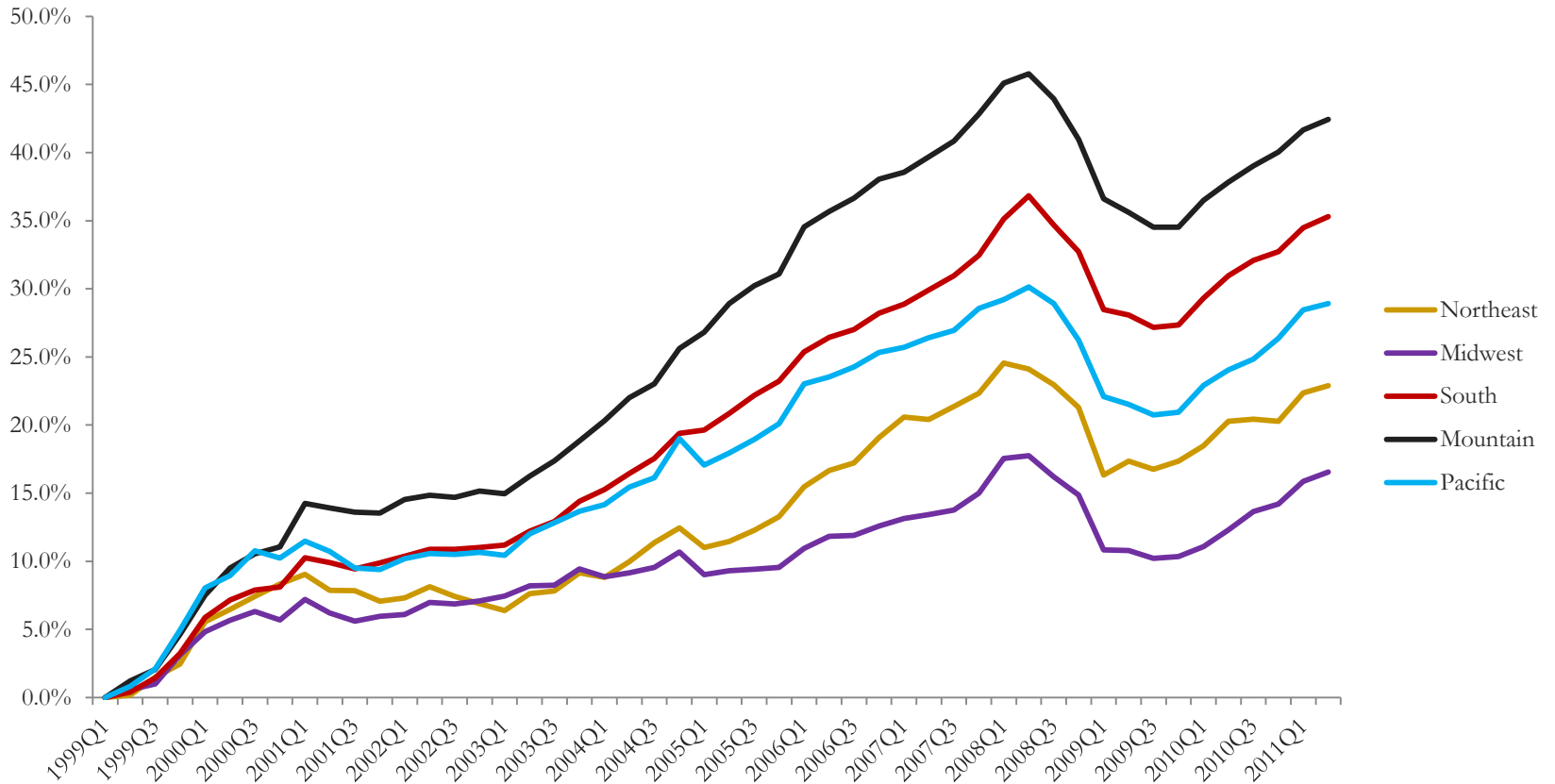


However, also increased resources to meet needs: Growth in number of employed since 1999

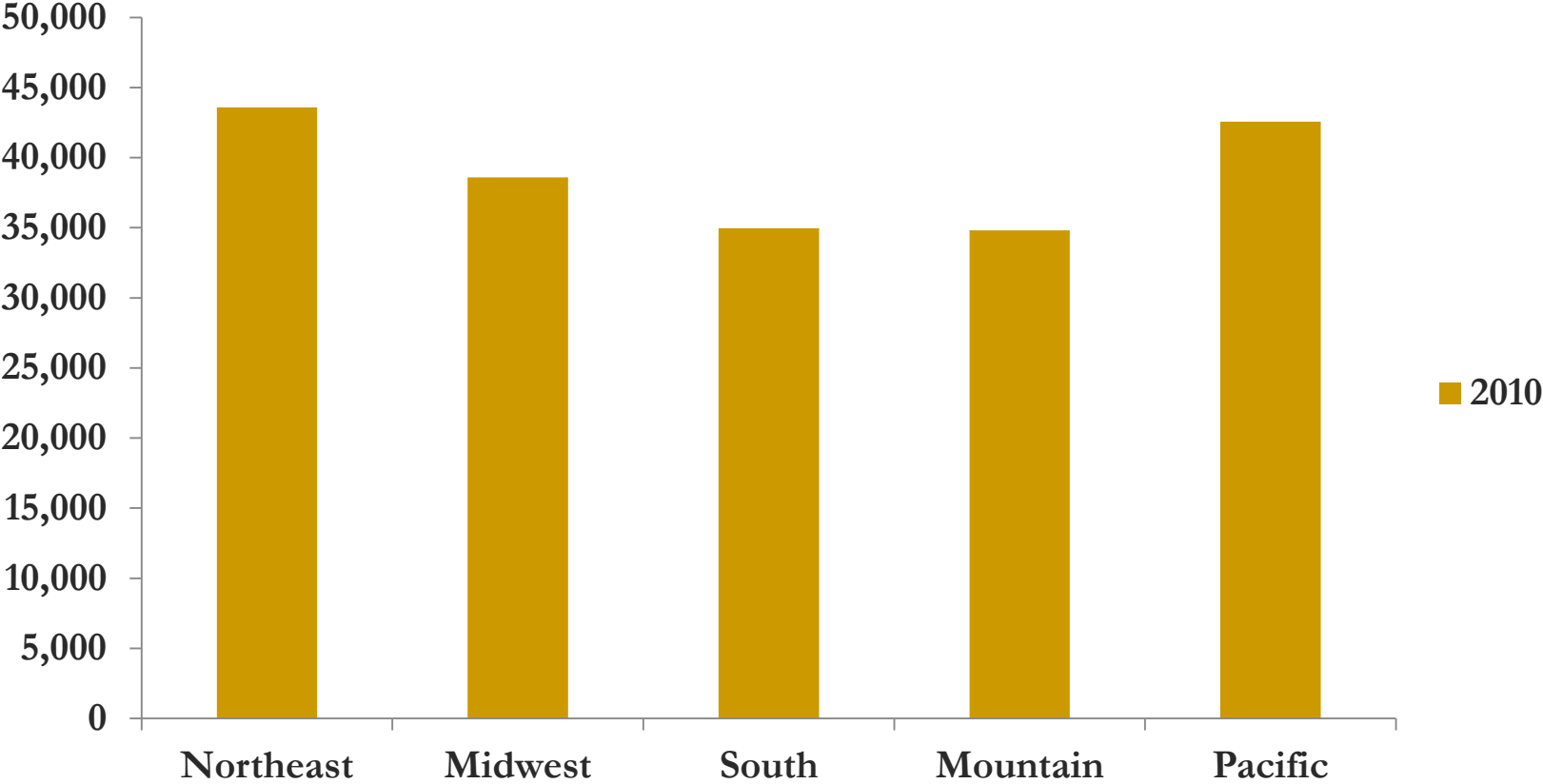


State fiscal capacity has also grown by other measures in Mountain, Southern states:

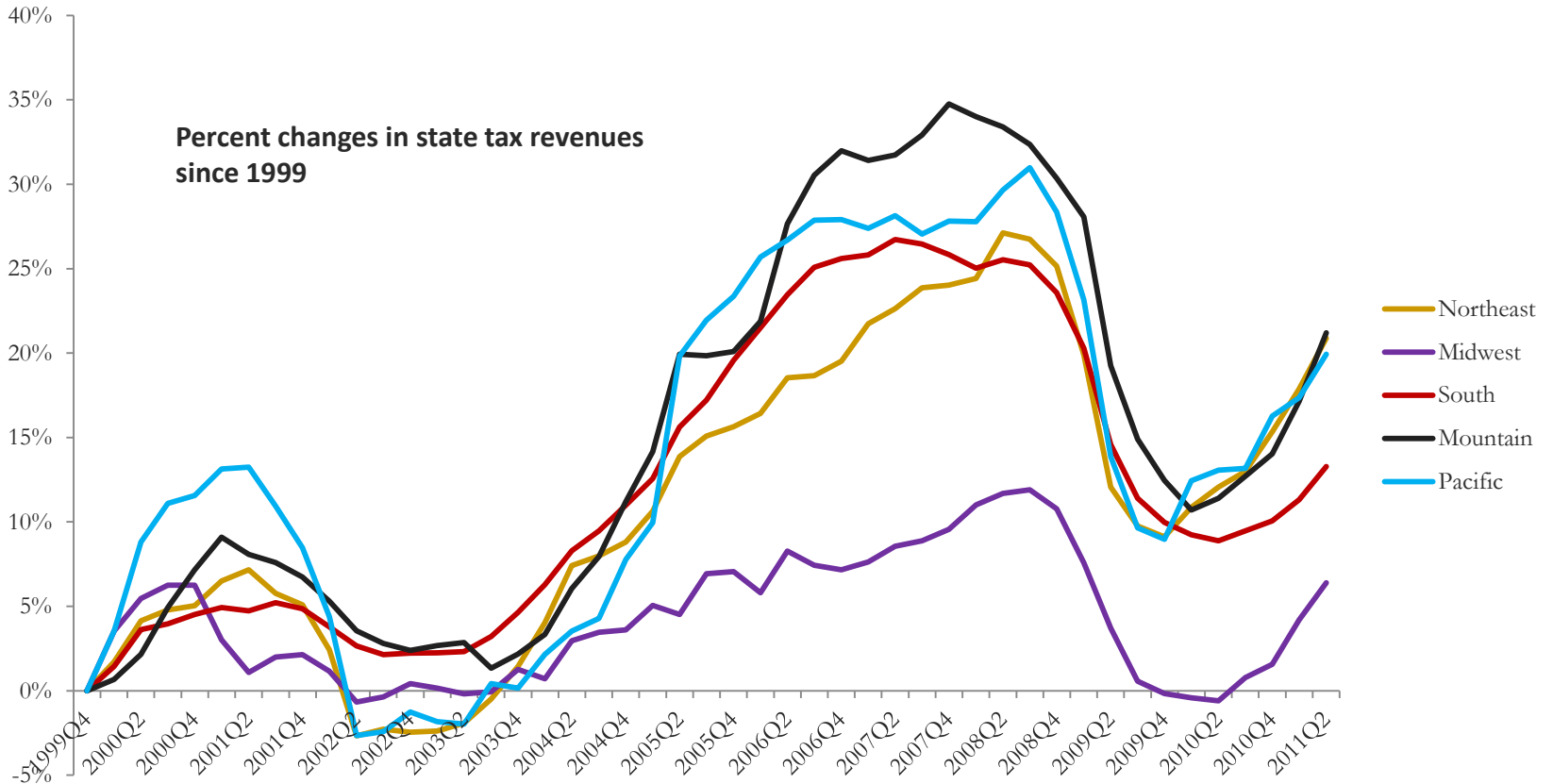
Changes in real personal income by region, 1999-2011



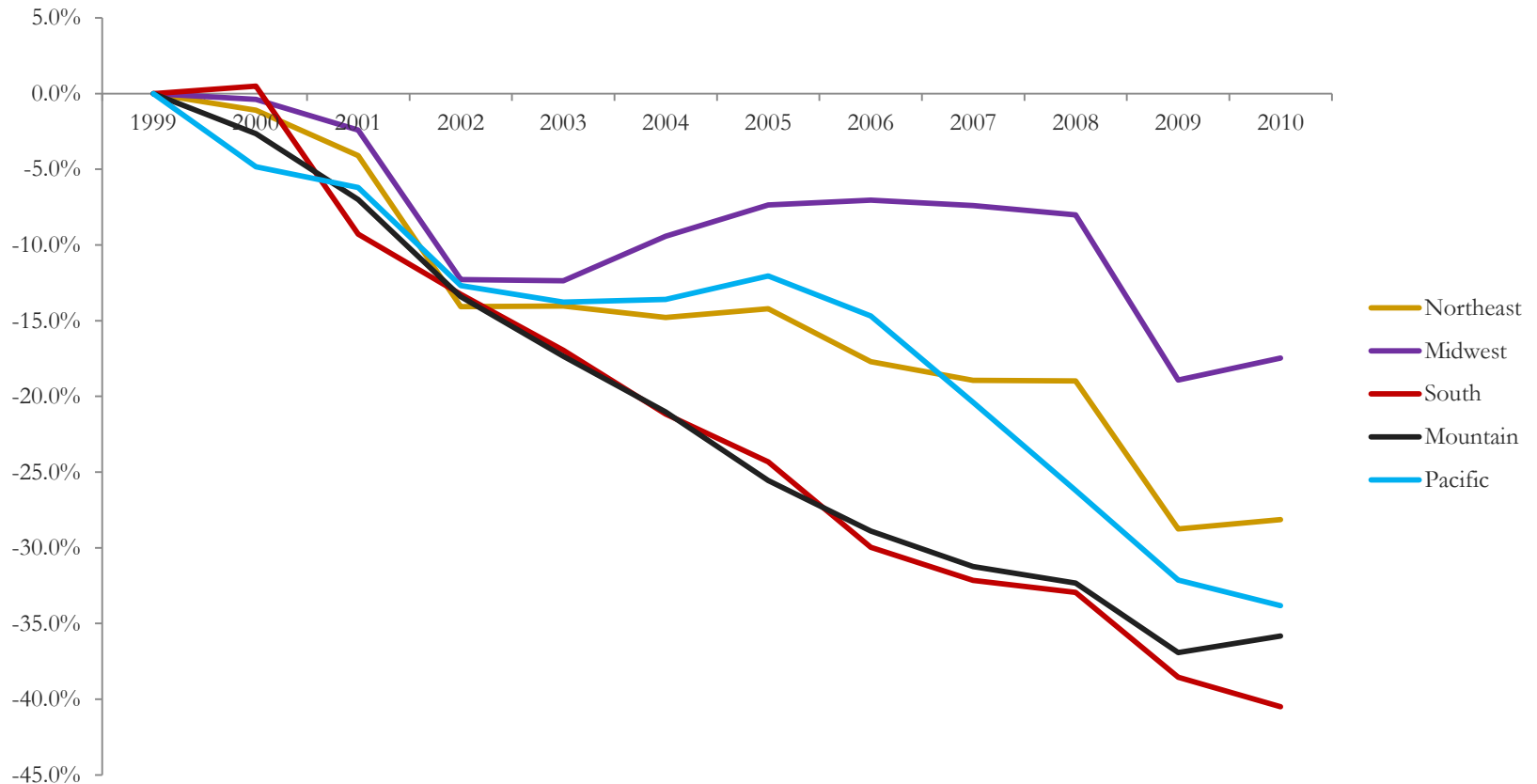
Still, despite their faster growth, Southern and Mountain states have lower per capita personal incomes (a reasonable indicator of fiscal capacity): Median PCPI (2010)



Also, state tax revenues did not grow in Mountain, Southern states in proportion to growth in their populations and fiscal capacities

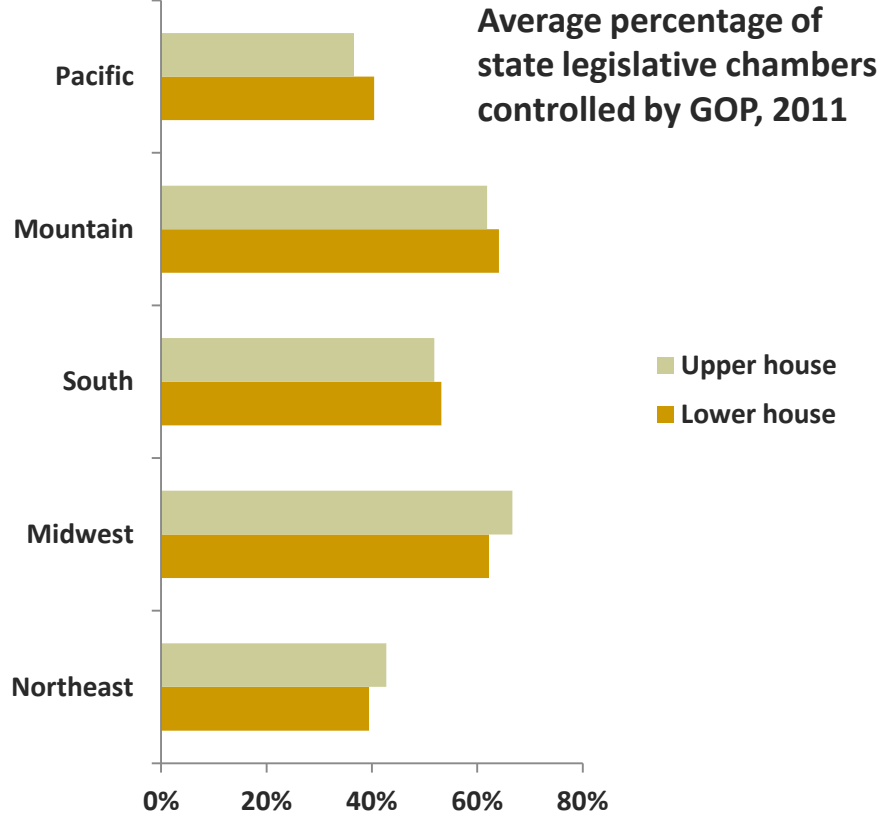
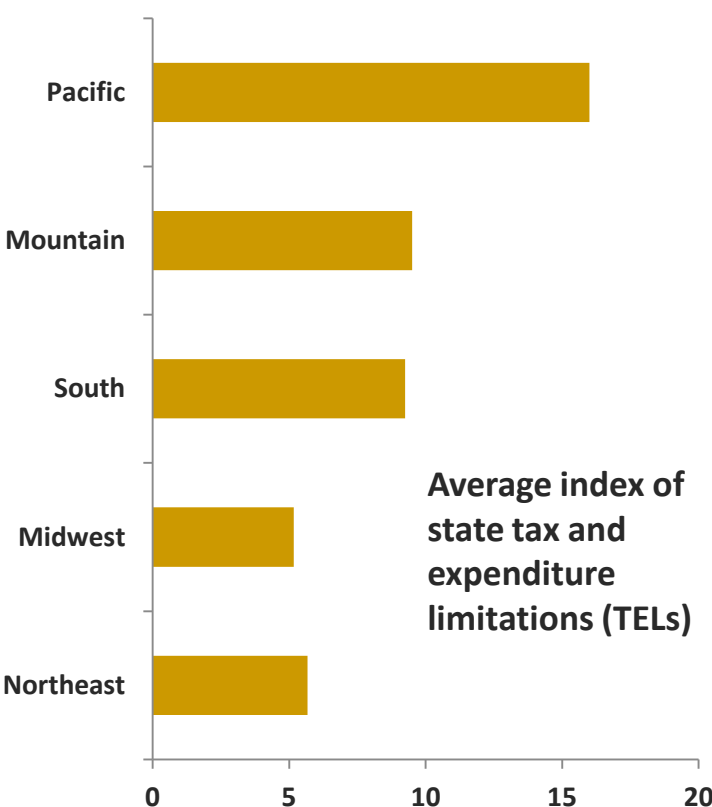


Another indicator of disparate growth in state revenues: Changes in state tax revenues as percent of gross state product since 1999; biggest declines in Mountain/Southern states

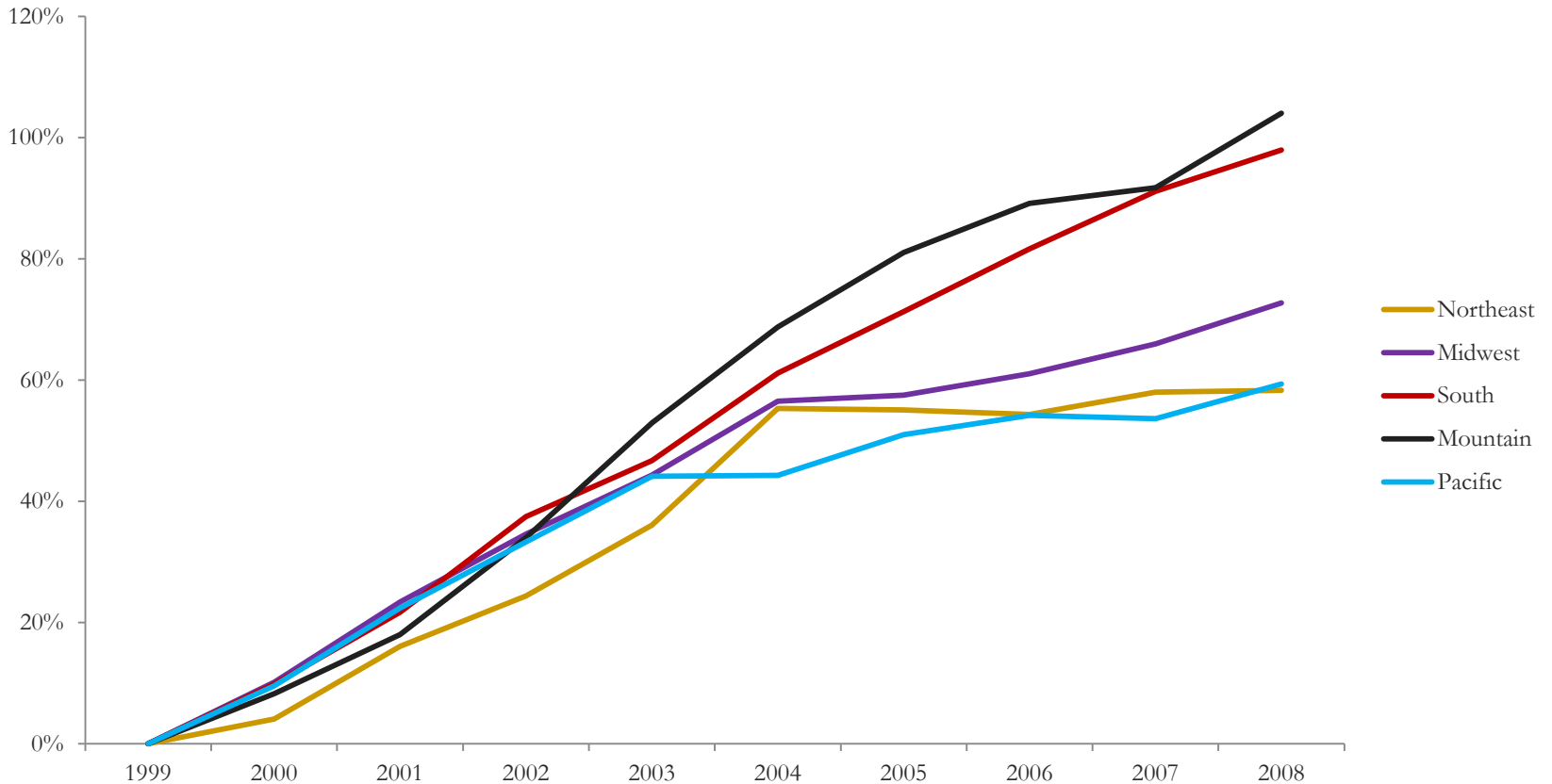


Why differences in state revenues relative to capacity?

Factors related to states' tax levels

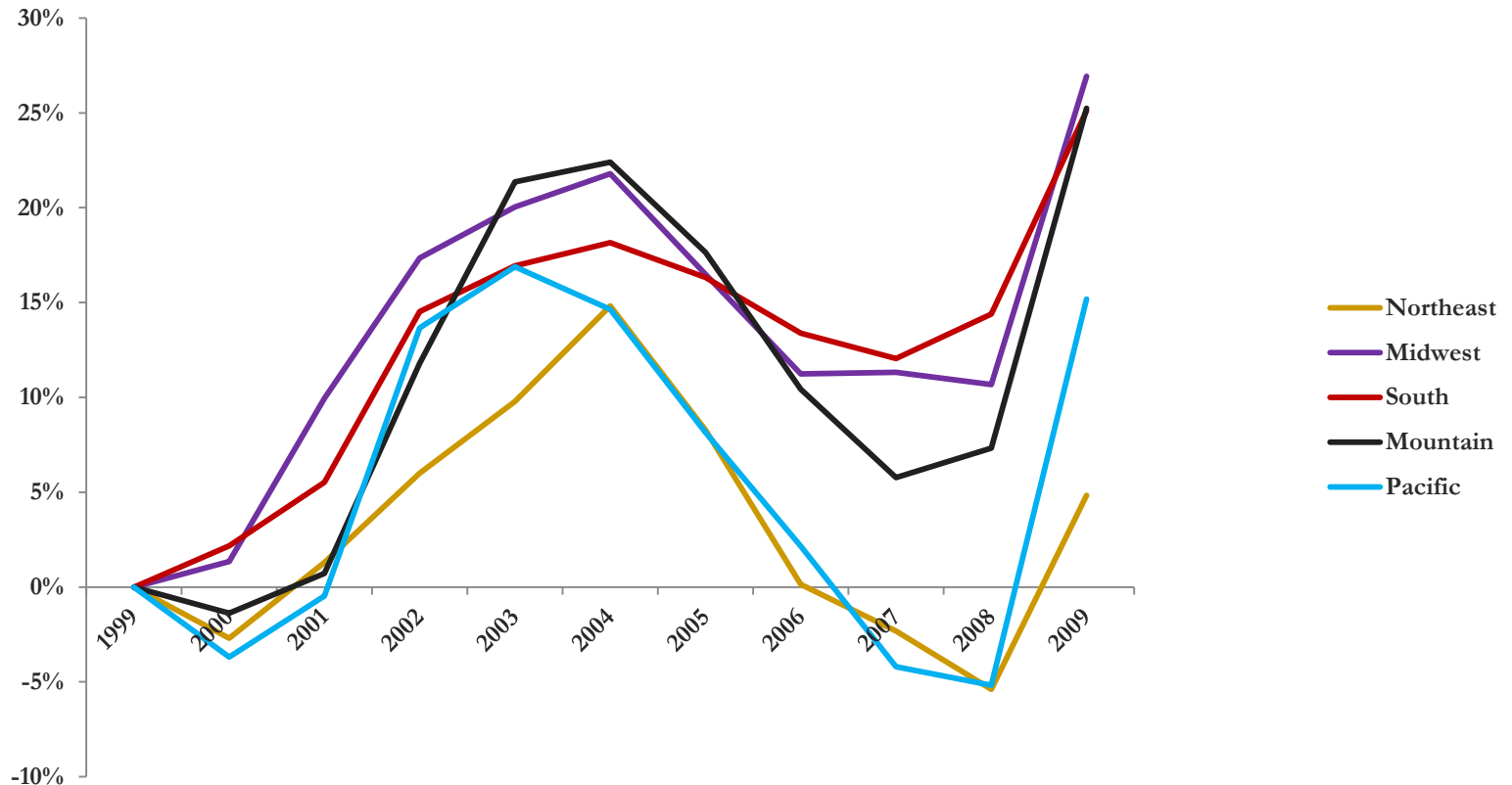


Federal assistance to states has helped states deal with discrepancies between growing needs and state revenues: Changes in federal assistance to states since 1999; Federal assistance has grown faster in Mountain/Southern states



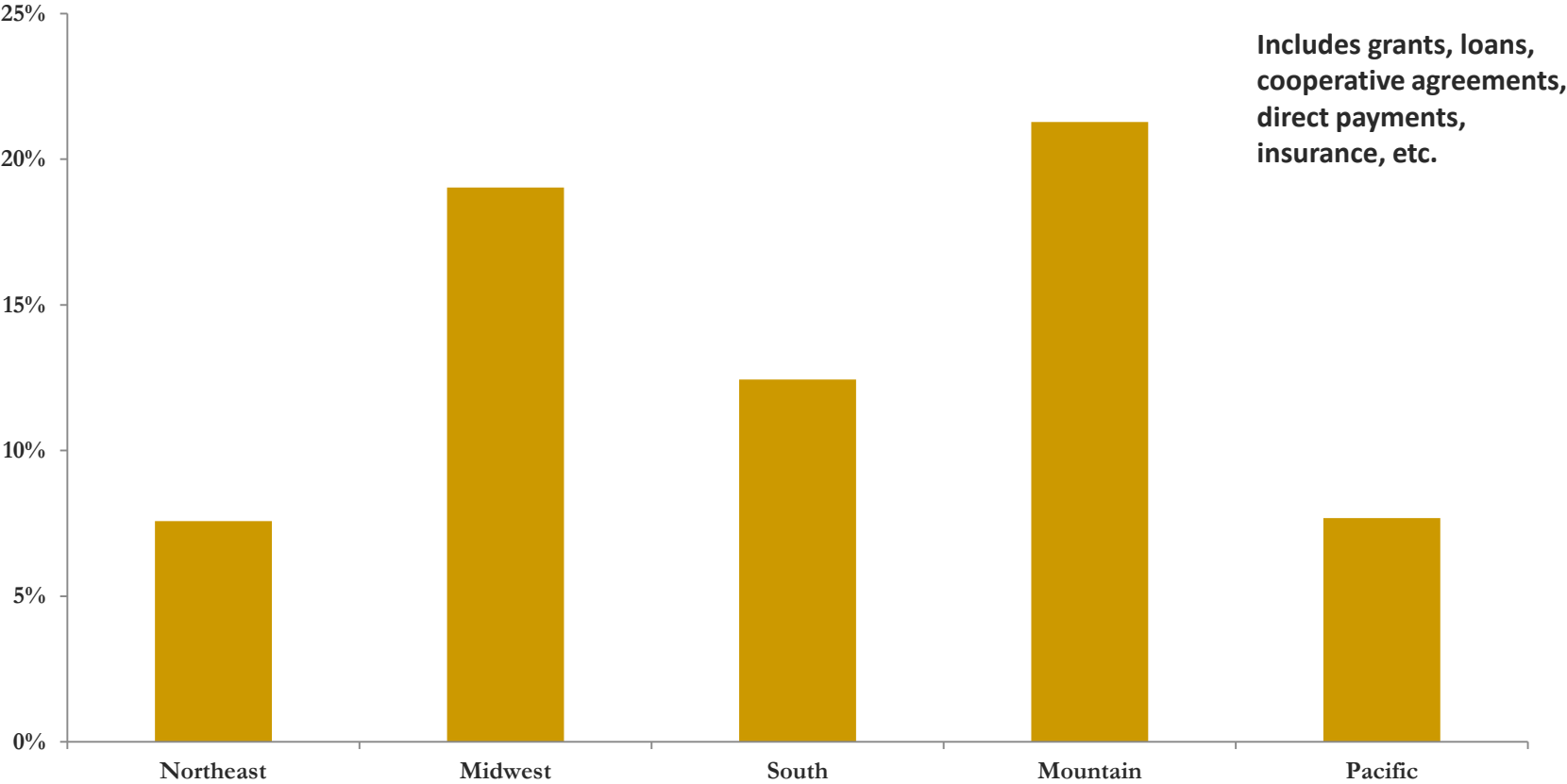
Changes in federal assistance as percent of state general revenues, by region, 1999-2009:

Southern, Mountain, Midwestern states more reliant on federal assistance



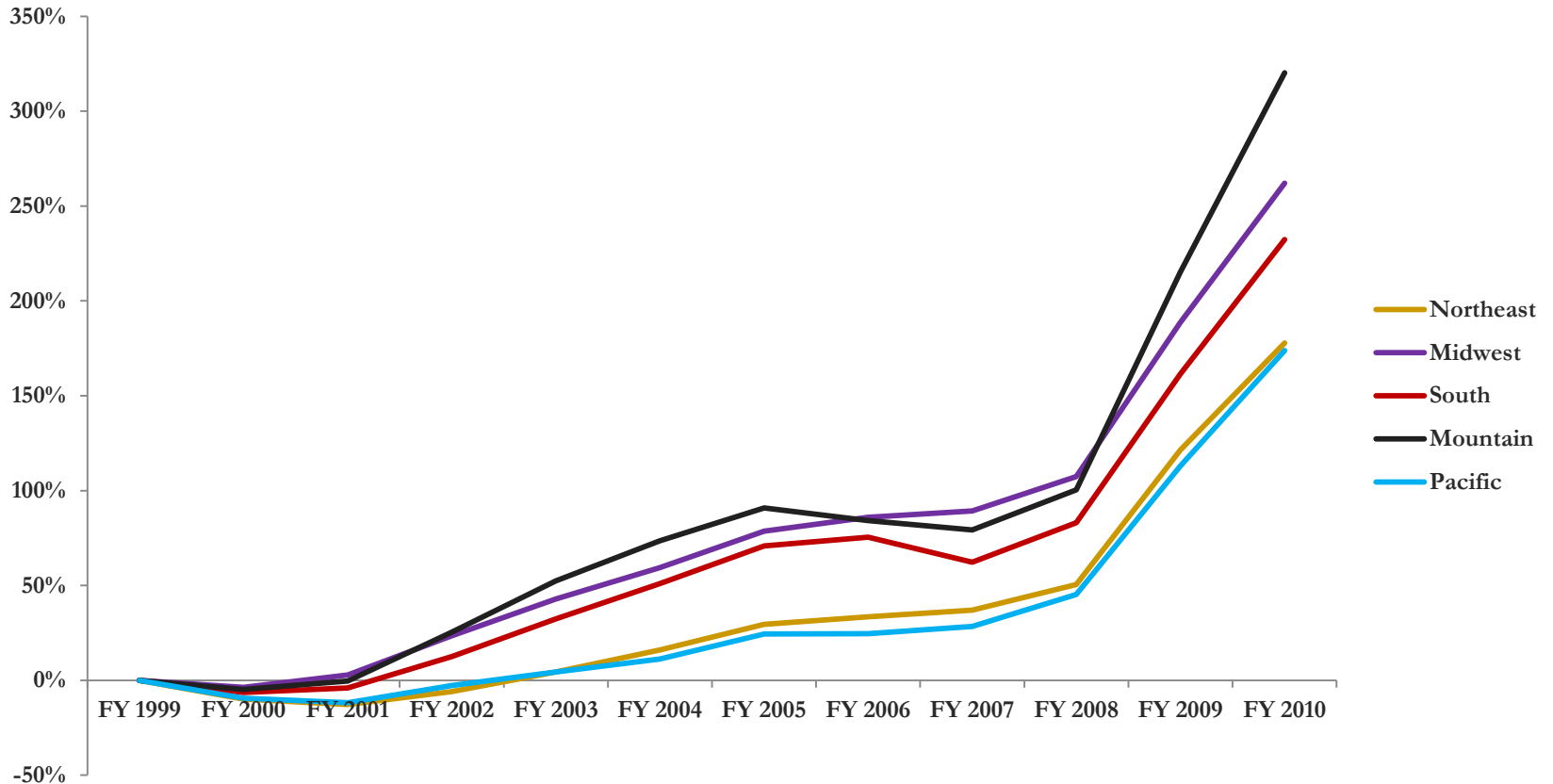
Percentage change in all types of federal assistance to states, by region, 2008-2009:

Federal Assistance Award Data System (FAADS); includes

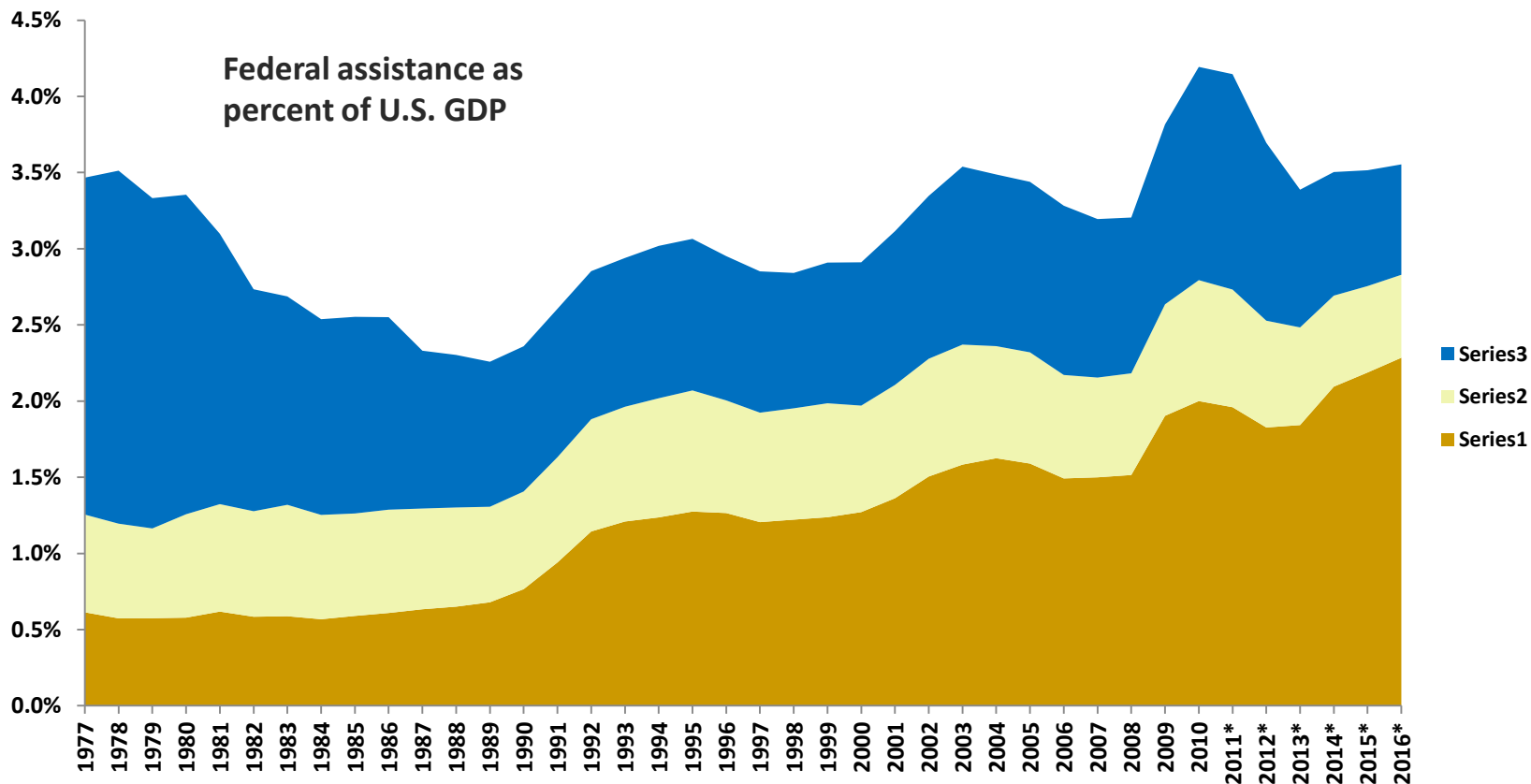


Changes in food stamp/SNAP benefits, 1999-2010 (real dollars):

Low-income households in Mountain, Southern, Midwestern states are increasingly dependent on federal benefits



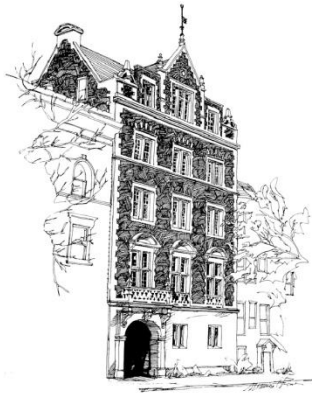
But federal assistance to state/local governments is falling quickly, after big boost under ARRA



Source: U.S. Office of Management and Budget.

Conclusions

- ❖ **Recession has interacted with longer-term trends to hit Southern and Western states especially hard**
 - **Population growth has been greatest in West and South, but that includes needy (poor children, elderly, uninsured) as well as employed individuals**
 - **Fiscal capacity has grown in last decade in South and West, but growth in income and number of persons employed have not translated into proportionate growth in state revenues—as institutions and political cultures inhibit revenue growth**
- ❖ **Southern/Western states have been particularly dependent on federal assistance—but that assistance is being cut back**
- ❖ **Thus, in addition to pension/legacy problems plaguing historically large government states (joined with declining fiscal capacity in some parts of the Midwest), gaps between needs and resources may hit traditionally smaller government states in Mountain West and South (maybe resulting in strained local govts dealing with health/poverty related issues)**



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