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State Savings Prop Up Spending After 2001 Recession

By Elaine Maag and David F. Merriman

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The states experienced rapid and dramatic nominal revenue declines following the 2001 recession, but spending did not follow suit. The chart shows general fund revenues and spending from 2000 to 2006 (not adjusted for inflation) and savings as a percent of prior-year expenditures. Spending over the 2001-2003 period was essentially flat in the face of lower revenues, and a drop in savings made up some of the shortfall.

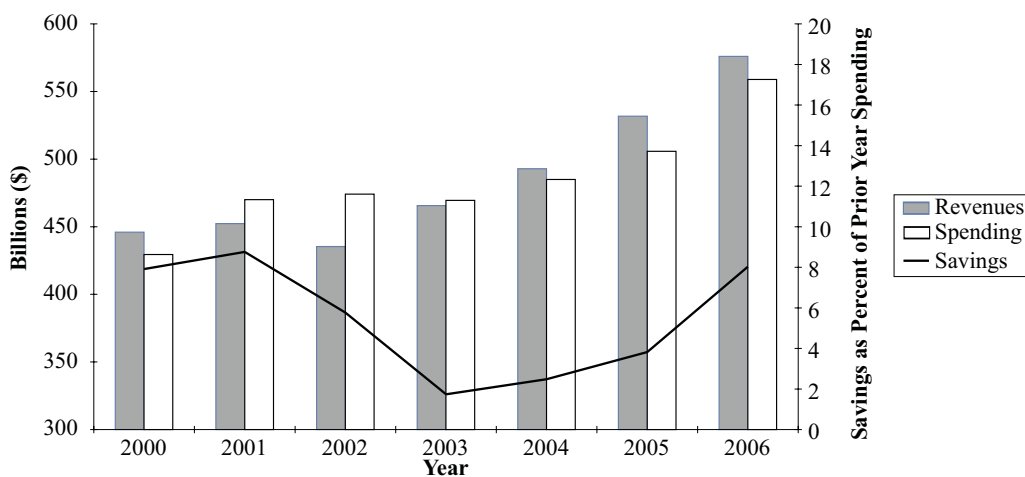
At the start of the recession, states had savings of about 10 percent of prior-year expenditures, more than twice what they had before the 1990s recession. Indi-

vidual states' experiences varied. At the start of fiscal year 2001, 18 states had savings of at least 10 percent of the prior year's general expenditures, and 14 states had savings between 5 percent and 10 percent. Savings were less than 5 percent for the remaining 16 states for which we had data. New Mexico and Texas did not have complete data on savings for the years in question. State revenues remained depressed following the recession. As a result, states spent almost all of their savings. At the start of fiscal 2003, only five states had savings of at least 10 percent.

Although savings did not fully protect all programs from cuts following the recession, savings did prop up per capita spending. We estimate that without their savings, by 2004 states would have reduced real per capita spending by about 21 percent rather than by the observed 5 percent (Maag and Merriman 2007).

Following the recession, revenues and spending grew, and states began to replace savings. As a percent of prior-year expenditures, savings now approach those in 2001. Preliminary data for fiscal 2006 show 20 states with savings of at least 10 percent of prior-year general fund expenditures.

State Revenues, Spending, and Savings 2000-2006



Source: National Association of State Budget Officers.



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