

Georgia's Post Great Recession Revenue Recovery

JAMES ALM

Department of Economics
Tulane University
New Orleans, Louisiana
504.862.8344
jalm@tulane.edu

DAVID L. SJOQUIST

Department of Economics
Georgia State University
Atlanta, Georgia 30303
404.413.0246
sjoquist@gsu.edu

The “Great Recession” wreaked havoc on the revenues of state and local governments, including Georgia’s. While the U.S. economy has improved since the end of the Great Recession, state government revenues have in most cases still not completely recovered. In this brief we explore the extent to which state government revenues have recovered from the effects of the Great Recession.

We use data from the U.S. Census Bureau on state government own source revenue¹ (OSR) for the years 2007 through 2012 for state governments (these are most recent year for which these data are available). To measure “revenue recovery,” we form the ratio of real per capita own source revenue (OSR) in 2012 to that in 2007 (the last year before the recession hit). We denote this as the *Recovery Ratio*. Table 1 shows the value of the *Recovery Ratio* for all states.

Figure 1 shows the ratio of state government real per capita own source revenue (OSR) in 2012 to that in 2007 by state sorted from lowest to highest ratio. (We have exclude North Dakota from the table because its state fiscal performance is an extreme positive outlier.) By this measure, only six states have fully recovered from the Great Recession. What is troubling is that Georgia, which is noted by the red diamond in Figure 1, had the third lowest revenue recovery. By 2012, Georgia’s state government revenue was only 82 percent of its 2007 real per capita own source revenue.

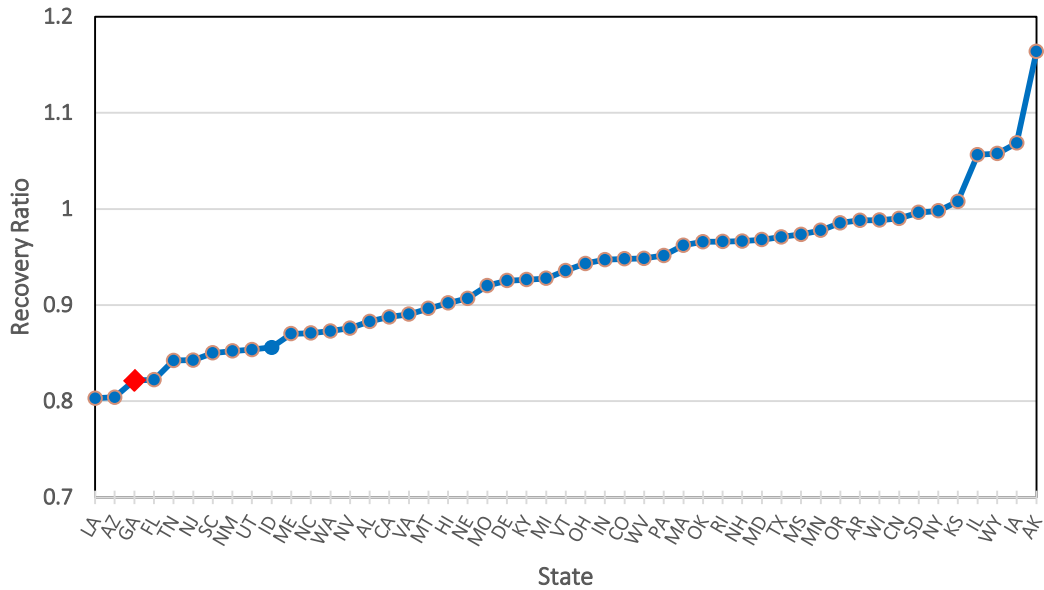
Table 2 contains the recovery ratio for Georgia for specific own source revenue sources. The only revenue source for which 2012 real per capita revenue exceeds that for 2007 is current charges, reflecting the across the board increase in charges enacted in 2010. Real per capita

¹ Own source revenue consists of taxes and fees and charges. In particular own source revenue excludes grants from the federal government.

Table 1. Recovery Ratios by State

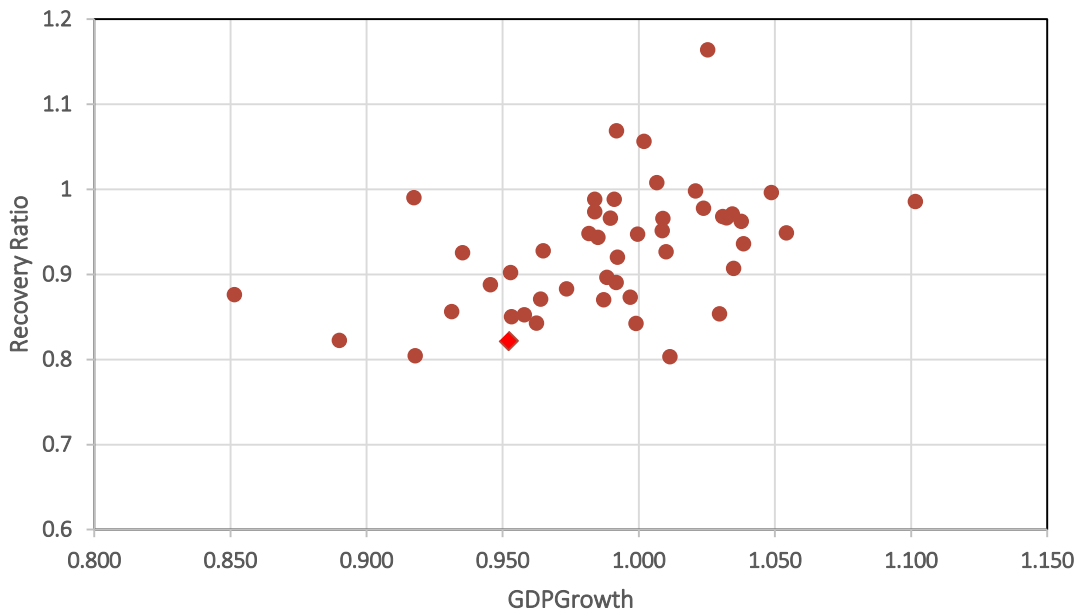
STATE	RECOVERY RATIO	GSP GROWTH	STATE	RECOVERY RATIO	GSP GROWTH
Alabama	0.883	0.973	Montana	0.896	0.988
Alaska	1.164	1.025	Nebraska	0.907	1.035
Arizona	0.804	0.918	Nevada	0.876	0.852
Arkansas	0.988	0.991	New Hampshire	0.967	1.032
California	0.888	0.946	New Jersey	0.843	0.962
Colorado	0.948	0.982	New Mexico	0.852	0.958
Connecticut	0.990	0.917	New York	0.998	1.021
Delaware	0.925	0.935	North Carolina	0.871	0.964
Florida	0.822	0.890	North Dakota	2.047	0.985
Georgia	0.822	0.952	Ohio	0.943	1.009
Hawaii	0.902	0.953	Oklahoma	0.966	1.102
Idaho	0.856	0.931	Oregon	0.985	1.009
Illinois	1.056	1.002	Pennsylvania	0.951	0.990
Indiana	0.947	1.000	Rhode Island	0.966	0.953
Iowa	1.069	0.992	South Carolina	0.850	1.049
Kansas	1.008	1.007	South Dakota	0.996	0.999
Kentucky	0.926	1.010	Tennessee	0.842	1.034
Louisiana	0.803	1.012	Texas	0.971	1.030
Maine	0.870	0.987	Utah	0.854	1.039
Maryland	0.968	1.031	Vermont	0.936	0.992
Massachusetts	0.962	1.038	Virginia	0.890	0.997
Michigan	0.928	0.965	Washington	0.873	1.054
Minnesota	0.978	1.024	West Virginia	0.949	0.984
Mississippi	0.973	0.984	Wisconsin	0.988	0.953
Missouri	0.920	0.992	Wyoming	1.057	0.973

Figure 1. State Revenue Recovery Ratios



Georgia is noted in the red diamond.

Figure 2. State Economic Growth and Recovery Ratios



Georgia is noted in the red diamond.

corporate income tax revenue in 2012 was only 50 percent of that for 2007. The revenue recovery ratio for the other revenue sources did not differ much from that for total own source revenue, ranging from 78 percent to 88 percent.

The most obvious explanation for why revenues have not recovered is that a state’s economy may not have recovered. In Figure 2 we plot the *Recovery Ratio* against the ratio of 2012 state real per capita gross state product to that for 2007, which we denote as *GSP Growth*. Georgia is noted by the red diamond. What is clear is that in general, greater growth in the economy is associated with greater revenue recovery. The correlation coefficient between the *Recovery Ratio* and *GSP Growth* is 0.41.²

Georgia’s economic recovery ratio is 0.95, meaning that in 2012 real per capita gross state product had only reached 95 percent of its 2007 economic output. Georgia’s economic recovery is the 8th lowest. Thus, one of the reasons that Georgia’s own source revenue has not recovered is that its economy has not fully recovered. But its economy has recovered more than other states that have seen higher rates of revenue recovery. Thus, there are other factors that have caused Georgia to have such a low Revenue Recovery.

Beyond economic recovery, another factor that might affect revenue recovery is the composition of state taxes, since taxes differ in their responsiveness to changes in economic activity.

We calculated the share of own source revenue from various revenue sources for 2007, and found that states that rely more heavily on sales taxes have experienced smaller revenue recoveries. The correlation between *Recovery Ratio* and the share of own source revenue from sales taxes is -0.38, that is, states that have a greater reliance on sales taxes had slower recovery. Georgia has the 37th highest relative reliance on sales taxes, suggesting that sales tax reliance is an important factor in explaining Georgia’s lack of revenue recovery.

Table 2. Recovery Ratios for Individual Revenue Sources

REVENUE SOURCE	RECOVERY RATIO
General Sales Tax	77.8 Percent
Excise Taxes	87.3 Percent
Individual Income Tax	80.3 Percent
Corporate Income Tax	50.4 Percent
Other Taxes	88.1 Percent
Current Charges	103.6 Percent
Miscellaneous Revenue	81.1 Percent
Total Own Source Revenue	82.3 Percent

² Note that the correlation is 0.79 if North Dakota is included.

About the Authors



JAMES ALM is Chair of the Department of Economics at Tulane University. Previously, he was Regents Professor in the Department of Economics at the Andrew Young School of Policy Studies, where he served as chair of the department and dean of the school. His research focuses on various issues in public economics, in such areas as tax compliance, the tax treatment of the family, income reporting, tax reform, the line item veto, social security, housing, indexation, and tax and expenditure limitations. He has also worked extensively on fiscal and decentralization reforms overseas. He is currently Editor of *Public Finance Review*.



DAVID L. SJOQUIST is Professor of Economics, holder of the Dan E. Sweat Distinguished Scholar Chair in Educational and Community Policy at the Andrew Young School of Policy Studies. He has published widely on topics related to state and local public finance and urban economics. He holds a Ph.D from the University of Minnesota.

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