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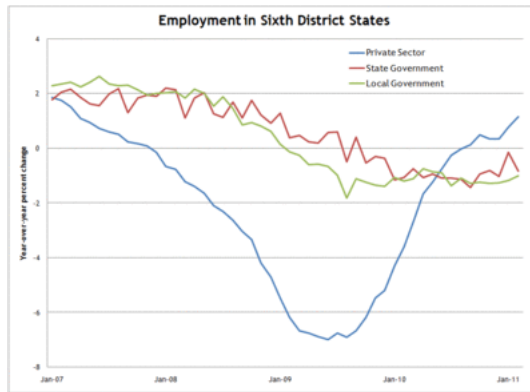
04/07/2011

The Great Rebalancing: State and local government fiscal challenges

Earlier this week, Federal Reserve Bank of Atlanta President [Dennis Lockhart spoke](#) in West Palm Beach, Fla., about the current phase of American economic history, which he termed the "Great Rebalancing." (In his remarks, Lockhart noted that he borrowed this term from a reference to the [economic recovery in Britain](#).) Lockhart sees three rebalancing processes now under way: rebalancing of consumption and savings, regulatory rebalancing, and fiscal rebalancing. With regard to the latter, he noted that

"Spending cuts have begun at all government levels, and some improvement in revenues is now being reported. The extent of cuts is being discussed, quite literally, as we speak."

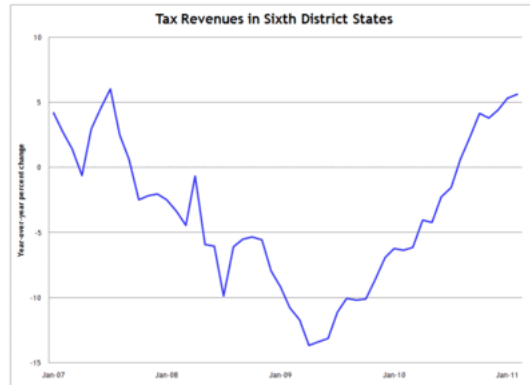
While, as Lockhart noted, it is too early to determine the outcome of overall fiscal rebalancing at the national or state level, we can look at public sector employment at the state and local levels to see where some of this rebalancing currently is taking place. State and local employment data through February show that the number of public sector workers (excluding federal employment) has been on the decline for some time, while private sector employment is increasing.



Sources: Bureau of Labor Statistics, FRB Atlanta

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With regard to improvements in revenues, the data are more clear. Looking at the states in the Southeast, revenues are indeed on the upswing.



Sources: State Departments of Revenue, FRB Atlanta

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A [recent report by the Nelson A. Rockefeller Institute of Government](#), written by Lucy Dadayan, senior policy analyst, and Donald Boyd, senior fellow, confirms that

"After the deepest recession since the Great Depression, most states are now on the gradual road to tax revenue recovery."

President Lockhart's view that fiscal rebalancing lies mostly ahead of us is confirmed by the Rockefeller Institute authors, as they caution that

"Broad state fiscal conditions remain fragile. The longer-term outlook is still ominous due to record revenue declines during the Great Recession, spending trendlines still pointing upward, and unemployment rates remaining nearly double their prerecession levels, to name a few. While some economic indicators signal improvement in overall conditions, fiscal recovery for the states typically lags a national turnaround and is likely to take several years."



By [Mike Chriszt](#), an assistant vice president in the Atlanta Fed's research department

April 7, 2011 in [Economic Growth and Development](#), [Fiscal Policy](#), [Recession](#), [Sales Tax](#), [Southeast](#) | [Permalink](#)


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