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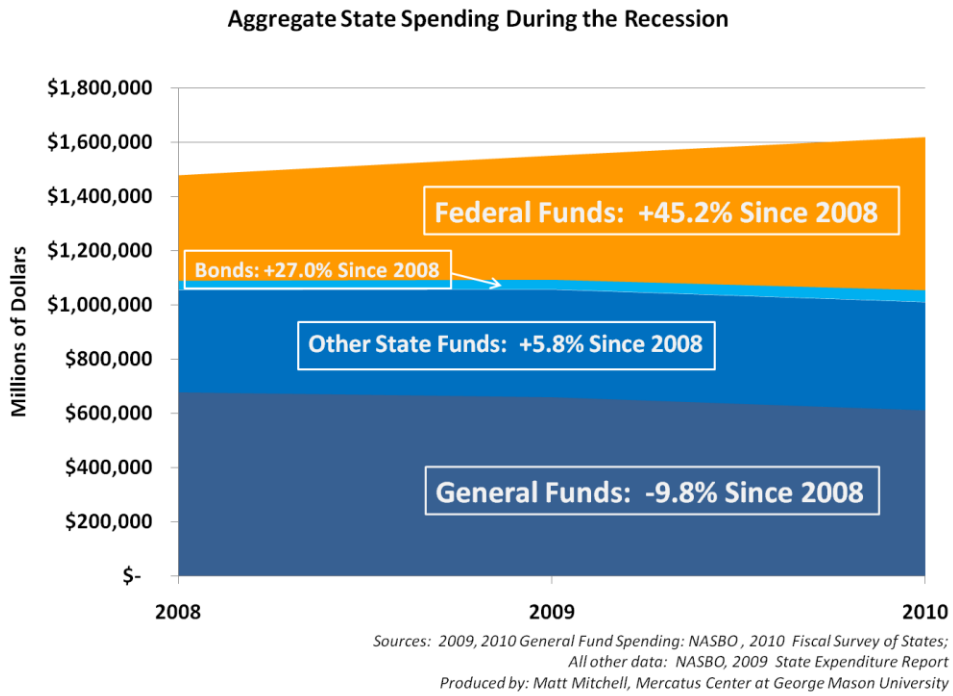

This week, Mercatus Center Research Fellow Matthew Mitchell breaks down the flux in state spending since the start of the recession. The above chart plots state spending from 2008 to 2010, broken down by major funding source– while general fund spending has notably declined since the start of the recession, this decrease has been more than offset by increases in state spending funded by all other sources.

In all, states have actually *increased* their total spending by about 10 percent since 2008. The lion's share of this increase is accounted for by the over *45 percent increase* in federal funding during this period.

Since the Great Recession began, state budgets been squeezed between diminished tax revenue and increased demand for social services such as Medicaid. As has widely been reported, aggregate state general fund spending has fallen by 9.8 percent since 2008. However, state general funds actually constitute less than *half* of total state spending. States also rely on other state funds, borrowed funds, and federal funds. As the above chart demonstrates, spending in each of these categories has increased over the last two years.

Due to these funding trends, this year's budget will be particularly difficult to balance – many of the increased federal funds to states are scheduled to end. Furthermore, Mercatus Research suggests that these funding trends will have longer-term consequences as well. According to Professors Sobel and Crowley, for every dollar the federal government sends to the states, states' own future taxes increase by between 33 and 42 cents. Extrapolating from this fact, the increases in federal funding to states during the recession may be responsible for up to $73.7 billion dollars in future increased state taxes.

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