Policy Analysis

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State Spending Splurge: The Real Story Behind the Fiscal Crisis in State Government

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Executive Summary

For most of the last decade, while the federal government wallowed in red ink, America's state governments were being widely praised as both paragons of fiscal responsibility and innovative laboratories of democracy. Thanks to the surging national economy, the 1980s were years when most states were able to please special-interest groups and taxpayers: while vastly expanding their budgets for existing agencies and launching popular and expensive state-funded programs in new policy areas, state lawmakers still managed to meet the bottom-line requirement of a balanced budget each year.[1]

It is only now in the 1990s that the tab for that spending spree is finally coming due. With as many as 35 states facing substantial budget deficits in 1991 or 1992,[2] the budget outlook in state capitals may be more gloomy today than at any time since the depression.[3] Aggregate state budget reserves have dwindled to an anemic 1.5 percent of expenditures--their lowest level in memory and less than one-third of the 5 percent reserve level considered fiscally prudent. The *New York Times* recently summarized the current plight of state governments as "a fiscal calamity."[4]

The budget deterioration is most acute in the states east of the Mississippi River, particularly in the northeastern region, but recently it has surfaced in southern and some western states as well. California, Connecticut, Florida, Massachusetts, Michigan, New Jersey, New York, Rhode Island, Texas, and Virginia each must erase deficit spending of $1 billion or more this year. New York governor Mario Cuomo and California governor Pete Wilson face the biggest challenges: both must close a staggering two-year budget shortfall of $6 billion to $10 billion. "We're broke to the marrow of our bones," conceded Cuomo when he introduced his budget early in 1991.[5]

The root cause of the budget crisis has been almost universally misdiagnosed by state lawmakers, economic analysts, and the media. Most blame the crisis on a variety of economic, political, and fiscal factors all beyond the states' direct control. Those factors include (1) a national economic recession that has drained the states of revenues, (2) citizen resistance in the 1980s to new state taxes, (3) steep declines in federal aid during the 1980s, (4) new spending mandated by Washington, and (5) court-imposed spending requirements for education and corrections.

Although each of those factors may be partially responsible for the record red ink in the states, they are of minor significance compared with the primary culprit: a decade of runaway state government expenditures. According to official Bureau of the Census data, state spending between 1982 and 1989 grew at an annual rate of 8.5 percent, or roughly twice the inflation rate.[6] Double-digit annual percentage expenditure growth became the norm for state-funded programs, such as education, health care, welfare, and corrections. The number of state public employees grew by more than one-half million in the 1980s and now has reached an all-time high of roughly 150 employees per 10,000

residents.[7]

Even in the midst of the current budget crisis the spending binge continues. In 1990 the states increased spending on primary education by 10 percent, on higher education by 9.5 percent, on corrections by 17 percent, and on Medicaid by 18 percent.[8]

If anything, the aggregate state spending trends tell only a portion of the story. They do not explain the differing fiscal fortunes of the states. They do not explain, for example, why Massachusetts and New York are nearly insolvent today while Montana and Oregon are enjoying healthy surpluses.

Close examination of the fiscal behavior of the individual states during the 1980s reveals that the villain is again uncontrolled expenditures. With few exceptions the states with the most severe deficits today are those that saw their economies and tax revenues grow rapidly over the past decade but allowed spending to grow even faster. For the nation as a whole, state spending increased by a total of 104 percent between 1980 and 1989. However, in some states the increase was dramatically greater than that: in California, which has a $6 billion deficit in 1991, it increased 119 percent; in Connecticut, which has a deficit estimated at from $600 million to $1 billion, it increased 174 percent; in Florida, which has a deficit of from $700 million to $1 billion, it increased 169 percent; in Massachusetts, which has a $1.1 billion deficit, it increased 134 percent; and in Virginia, which has a $1.7 billion deficit, it increased 119 percent. In the nearly bankrupt states of the northeastern region as a whole, state spending increased 129 percent.

The Democrats in state government are no more responsible for the spending binge than are the Republicans. On balance the fiscal condition of states run by GOP governors and state legislatures is only marginally healthier than that of states controlled by the Democrats. The spending build-up clearly has been a bipartisan effort.

Although the amount of state taxes paid per person almost doubled, from $658 to $1,150, between 1980 and 1989, governors and legislators are demanding more revenues to cover their deficits. In 1990 they enacted $11 billion in new taxes, making it the single worst year for state tax-payers ever, according to the National Association of State Budget Officers.[9] Now, with state deficits continuing to mount, almost two-thirds of the legislatures are again pressing taxpayers for more funds in 1991 and 1992. Only a handful of new-breed, fiscally conservative governors--including Lawton Chiles of Florida, John Engler of Michigan, William Weld of Massachusetts, and Douglas Wilder of Virginia--have resisted the relentless crusade for new taxes and instead are cutting spending.[10]

Notwithstanding the efforts of such governors, a distressingly familiar fiscal pattern has taken shape in the halls of state governments over the course of the past decade. Tax receipts and spending rose sharply during the economic expansion, and now mountainous deficits have arrived during the current recession. That situation has prompted resistance to spending restraint and persistent calls for tax increases by powerful special-interest groups--teachers' unions, government employees, government contractors, hospitals, welfare providers, and the like--to balance the budget without service disruptions. Meanwhile, state taxpayers continue to get squeezed.

In short, the fiscal policies of state governments in the 1990s have come to closely resemble those of Washington. William Weld's observation that the Massachusetts legislature lost its capacity to "just say no" to special interests could easily describe the culture of spending that now prevails in almost all of the state capitals, to say nothing of Washington. State lawmakers should recognize from the experience of the federal government that they are sliding down a slippery slope leading to fiscal disaster, not fiscal balance.

America's Tax-and-Spend State Legislatures

The surge in red ink that has brought many state governments to the brink of bankruptcy would have been unimaginable just two years ago. Riding on a crest of prosperity, the states enjoyed sizable surpluses in the 1980s even as they pumped up spending. Since those boom years, aggregate state budget reserves have plummeted from 4.8 percent of expenditures in 1989 to 3.3 percent in 1990 to a paltry 1.5 percent in 1991.[11] Many states today are in the precarious fiscal situation of having almost no cash reserves to deal with even a mild budget contingency. New York and Massachusetts have already had their bond ratings lowered several times, which raises their cost of borrowing funds, and other states with dwindling financial reserves now face the same prospect.

Although 49 states have balanced-budget requirements, in 1990 almost two-thirds of the states found back-door methods to evade those measures and spent more money than they collected in tax receipts.[12] Figure 1 shows the level of red ink in state capitals for this year, as reported in February 1991 by the National Conference of State Legislatures.[13] Without corrective actions by state legislatures in the summer of 1991, the NCSL predicts that most states will ring up deficits in the range of 2 to 5 percent of expenditures by the end of the year.

Aggregate State Spending in the 1980s

The genesis of state budget deficits is no mystery. For most states the 1980s were years of vast government program expansion. Bureau of the Census data reveal that between 1980 and 1989 the states doubled their combined expenditures from $258 billion to $525 billion in current dollars. That doubling represented a nominal increase of 8.5 percent per year and a rise of 3.5 percent per year above inflation (Figure 2). State spending accelerated most rapidly once the 1981-82 economic recession ended. The real annual increase in state spending between 1984 and 1989, for instance, was more than twice the inflation rate.

Much of the increase in state expenditures has occurred in four areas: education, health care, welfare, and corrections. Meanwhile, capital expenditures--for roads, bridges, environmental facilities, and other infrastructure--have declined slightly as a percentage of state budgets.[14] The 1980s were also a period in which many revenue-rich states ventured into new areas of publicly provided services. They created new programs in such areas as day care, economic development, tourism, cultural and arts programs, mental health, and job training. During the "Massachusetts Miracle" years of the mid-1980s, for example, the state paid a subsidy of over $8,500 per student attending the state arts school; it was the only state to reimburse patients for all 32 optional Medicare services--including chiropractic treatment--and it purchased a $35,000 modern art sculpture to place in front of the state prison.[15]

One consequence of the build-up in state spending has been a substantial bureaucratization of state government. Even though polls indicate that most Americans do not believe they are receiving significantly better services from the states than they have in the past, the number of state employees as a percentage of the population has roughly doubled since 1960 (Figure 3). In 1988, the most recent year for which the Bureau of the Census has published data, state employment reached a new peak of 147 full-time workers for every 10,000 residents.[16]

State Spending by Region

How much of the current fiscal deterioration of the states can be traced to the expansion of state government in the 1980s? One useful way of shedding light on that issue is to examine the states' budgets by region. The current fiscal crisis has clear regional characteristics. Budget shortfalls first emerged in the New England states in early 1989; then they moved into the Southeast in 1990; and now they are just starting to affect many midwestern states. Meanwhile, the northwestern states have remained generally immune to the deficit plague.

A region-by-region analysis of the fiscal plight of the states persuasively demonstrates that uncontrolled expenditures are a primary source of the budget crisis. As indicated in the three panels in Figure 4, a stable pattern emerged in the 1980s: the states in the regions that experienced the fastest economic expansion allowed the highest state spending growth rates, and today they are the states with the largest budget deficits. Janet Stotsky, a visiting scholar at the Federal Reserve Bank of Philadelphia, has analyzed the regional data and explains the pattern in the 1980s as follows:

After recovering from a severe recession in 1981-82, much of the nation, especially on the East and West coasts, experienced robust economic expansion. Many coastal states used the opportunity to increase spending rapidly for a wide range of programs. But other regions, such as the Midwest, did not prosper to the same degree. Unable to engage in the same spending splurge, they were left with healthier budget situations as the economy slowed.[17]

The Biggest Spending States

Even within regions, some states have fared better than others because of the particular fiscal and economic circumstances of each state. For example, California now has one of the deepest deficits, while its northern neighbor, Oregon, has a huge budget reserve. Similarly, West Virginia has a healthy budget surplus while three of its bordering states--Maryland, Pennsylvania, and Virginia--are awash in red ink. Although numerous factors may account for interstate differences--such as the profitability of industries within the state, the structure of a state's tax code, the amount of federal money a state receives, and population shifts among states--the evidence indicates that one primary factor is the divergent spending paths traveled by the states in the 1980s. In most cases, as shown in Table 1, the states that allowed their budgets to expand fastest in the 1980s are now confronting the most worrisome deficits.

To bring the fiscal picture into sharper focus, Table 2 compares states in two categories: the 10 states with the highest spending increases in the 1980s versus the 10 states with the lowest spending increases. With only two notable exceptions, the 10 "big spender states" now tend to have very large budget shortfalls, whereas the 10 "frugal states" have balanced budgets, surpluses, or only minor deficits. The two exceptions are Michigan, a low-spending state in the 1980s that now has a very large deficit, and Nevada, a big spender with a healthy surplus.

Even if we use per capita data to control for population size (Table 3), the same relationship emerges: the states with the fastest growth in per capita expenditures in the 1980s today tend to have the largest deficits, and the states with the slowest per capita spending growth have balanced budgets or surpluses.

Table 1
State Spending Patterns in the 1980s and Budget Reserves in 1991

State	Spending,1980($ Billion)	Spending,1989($ Billion)	Change1980-89(%)	Change1989-91(%)	Reserve, 1991a
Ala.	4	7.4	85	10	-2
Ariz.	2.6	7.2	177	20	-4
Ark.	2.1	3.8	81	7	-0
Calif.	32.8	72.6	121	17	-4
Colo.	2.8	5.9	110	14	-0
Conn.	3.3	9	173	14	-9
Del.	0.9	1.9	112	16	6
Fla.	7.4	20	170	19	-7
Ga.	4.9	10.8	120	22	-6
Hawaii	1.7	3.2	88	27	0
Idaho	1	1.9	88	28	5
Ill.	12.4	20.3	64	15	-3
Ind.	4.9	9.7	98	20	-2
Iowa	3.4	5.9	74	16	-3
Kans.	2.3	4.2	83	15	0
Ky.	4.6	7.4	61	30	0
La.	4.9	8.7	78	12	8
Maine	1.3	2.8	115	10	-7
Md.	5.4	10.1	87	16	-7
Mass.	7.3	17.3	137	8	-7
Mich.	12.6	20.9	66	9	-13
Minn.	5.4	10.6	96	21	-1
Miss.	2.7	4.5	104	11	-5
Mo.	4	7.7	94	17	-5
Mont.	1	1.9	88	16	15

Nebr.	1.4	2.6	86	51	0
Nev.	1.1	2.5	128	17	13
N.H.	0.9	1.9	111	10	-7
N.J.	8.3	20.8	145	5	-6
N.M.	1.7	4	128	11	0
N.Y.	25	54	116	5	-4
N.C.	5.7	12.4	118	25	-5
N.D.	0.9	1.7	89	-9	10
Ohio	11.4	23	102	15	-3
Okla.	3.2	6.2	94	17	0
Ore.	3.5	5.7	63	22	8
Pa.	12.6	23	90	12	-8
R.I.	1.4	2.8	102	10	-13
S.C.	3.3	7	112	16	-3
S.D.	0.7	1.3	86	17	0
Tenn.	3.9	7.7	100	11	-4
Tex.	11.5	24.2	110	27	-1
Utah	1.8	3.5	95	11	1
Vt.	0.7	1.4	104	4	-7
Va.	5.4	11.7	119	14	-13
Wash.	5.7	11.7	102	19	0
W.Va.	2.7	3.8	41	32	0
Wis.	6.1	10.5	73	16	0
Wyo.	0.8	1.6	98	-6	0

Sources: U.S. Bureau of the Census, State Government Finances in 1989 and earlier volumes; National Association of State Budget Officers, Fiscal Survey of the States, September 1990; National Conference of State Legislatures, State Budget Update, February 1991.

Note: Alaska is omitted because of the unique impact of oil on that state's economy and tax system.

a Percentage of expenditures.

In sum, although state officials repeatedly insist that their states' fiscal plight is a result of factors beyond their control--including federal spending policies and the downturn in the national economy--the truth is that most states are themselves to blame for their current budgetary distress. With only a few exceptions, the states with large budget deficits can trace the roots of their fiscal problems to a decade of extravagant spending.

Are the States Undertaxed?

A recent analysis by the National Conference of State Legislatures suggests that 20 to 35 states may raise taxes in 1991 or 1992 to meet budget shortfalls.[18] Their actions will come on the heels of a record $11 billion in new state taxes implemented in 1990. The following were among those increases.

Table 2
Relationship among Spending, Taxes, and Budget Deficit or Surplus

State	Increase in Spending, 1980-89(%)	Increase in Taxes, 1980-89(%)	Surplus or Deficit, 1991a
10 Biggest Spending States			
Ariz.	177	138	-3.6
Conn.	173	161	-9.2
Fla.	170	169	-6.9
N.J.	145	148	-5.6
Mass.	137	115	-7.0
N.M.	128	111	0.0
Nev.	128	128	13.2
Calif.	121	126	-3.6
Ga.	120	129	-6.3
Va.	120	131	-12.8
10 Most Frugal States			
W.Va.	41	51	0.0
Ky.	61	93	0.0
Ore.	63	67	7.6
Ill.	64	75	-2.8
Mich.	66	84	-12.8
Wis.	73	99	0.2
Iowa	74	85	-3.2
La.	78	77	7.8
Ark.	81	87	-0.5
Kans.	83	91	0.0

Sources: National Conference of State Legislatures, State Budget Update, February 1991; U.S. Bureau of the Census, State Government Finances in 1989 and earlier volumes.

a Percentage of expenditures.

Table 3
Relationship between per Capita Spending and Budget Deficit or Surplus

State	Increase in State & Local per Captia Spending, 1979-88a	Surplus or Defici, 1991b
10 Biggest Spending States		
Conn.	19	-9.2
Wyo.	16	0.0
N.Y.	14	-4.0
Minn.	10	-1.4
N.J.	9	-5.6

Del.	8	5.8
N.H.	6	-7.0
Maine	5	-6.9
Ind.	4	-1.5
Ga.	4	-6.3
10 Most Frugal States		
Hawaii	-23	0.5
S.D.	-15	0.0
W.Va.	-14	0.0
Ore.	-13	7.6
Wash.	-11	0.0
Ky.	-10	0.0
La.	-10	7.8
Mont.	-10	15.0
Md.	-10	-7.1
Idaho	-9	4.9

Sources: National Conference of State Legislatures, State Budget Update, February 1991; Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol 2., p. 172.

a Percentage computed as follows: per capita state and local spending relative to national average (100 percent) in 1988 minus per capita state and local spending relative to national average in 1979.

b Percentage of expenditures.

* New Jersey governor James Florio rammed through the state legislature a $2.8 billion tax package, the largest state tax hike in U.S. history.

* California voters approved Proposition 111, which doubles the state gasoline tax from 9 cents to 18 cents per gallon, to pay for new roads. The increased tax will raise $18 billion over 10 years.

* Massachusetts approved $1.2 billion in new income, sales, and motor fuel taxes.

* New York raised $938 million in miscellaneous taxes.

Such tax actions have created a taxpayer backlash in many states. In five states, tax-raising governors--Republicans and Democrats alike--were chased from office by an irate electorate in the 1990 elections.

Undaunted, most state legislatures are pushing forward with tax plans in 1991. The most prominent tax proposals now being considered in state legislatures include[19]

* Introduction of a personal income tax in Connecticut, New Hampshire, Tennessee, and Texas;

* An income tax rate hike and base broadening in California, Maryland, Mississippi, New York, Rhode Island, and Vermont;

* Higher or broadened sales taxes in Arkansas, California, Connecticut, Georgia, Kansas, Maine, Maryland, Mississippi, New York, North Carolina, Oregon, South Carolina, South Dakota, and Vermont;

* A gasoline tax hike in Idaho, Maryland, New Mexico, New York, and Rhode Island;

* New or higher cigarette or liquor taxes in California, Iowa, Minnesota, Nevada, Pennsylvania, Texas, and Vermont; and

* Higher corporate taxes in Georgia, Nevada, New Hampshire, New York, Pennsylvania, and Rhode Island.

The supposed justification for such new and increased taxes is that state treasuries have been depleted of revenues because of the recession and the residual effects of the citizens' tax revolt of the late 1970s. For most states, however, nothing could be further from the truth. As Figure 5 shows, per capita state tax burdens have been climbing steadily since 1960 and have nearly doubled since 1980. Figure 6 shows that even as a percentage of GNP, state taxes climbed to a new peak in 1989 (the most recent year for which official Bureau of the Census data are available).

According to a report by the Tax Foundation, taxes consume 34 cents of every dollar of earnings today. The foundation concluded that "Americans are no better off [with respect to taxes] than they were in 1981 despite economic growth, cuts in income tax rates, and repeated claims that government has been cut."[20] The Tax Foundation calculates that the average American family of four with two wage earners and a total income of $46,000 pays $17,139 in taxes, of which $4,755 is state and local taxes.[21]

One might reasonably expect that the states with the most rapid economic growth in the 1980s and correspondingly large tax revenue windfalls from that growth would today be in the best fiscal health of all the states. Paradoxically, in most cases precisely the opposite is true, as is evident in Table 4. (See also Table 2.) The states with fast revenue growth in the 1980s and the states with the heaviest current tax burden tend to be the states that are now experiencing crippling deficits, not healthy surpluses.

That point is underscored by examining the fiscal experience of just the 10 states now facing deficits of $500 million or more, as estimated by the NCSL: California, Connecticut, Florida, Georgia, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, and Virginia. As shown in Table 5, 8 of the 10 states enjoyed revenue growth above the national average in the 1980s; Michigan and Pennsylvania were the two exceptions. The heavily taxed states, not the lightly taxed states, are burdened with big budget deficits today. Clearly high taxes are no assurance of a balanced budget.

The rapid budget deterioration of the eight northeastern states--Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont--is a case study in how rising taxes can be a double-edged sword for state governments. Thanks to rapid economic growth, their tax revenues grew 20 percent faster than did revenues of all other states from 1980 to 1988. In fact, even over the more recent 1987-90 period, tax receipts in those eight states grew more rapidly (22 percent) than in all other states (20 percent). Yet despite their faster revenue growth, those eight states now have negative budget reserves of 2 percent while the 42 other states have positive balances.

Table 4
State Taxes in 1990 and Budget Reserves in 1991

State	Increase in Revenues, 1980-89(%)	Per Capita Tax Ranking, 1989	Reserves, 1991a
Ala.	99	48	-2
Ariz.	138	19	-4
Ark.	87	49	0
Calif.	126	10	-4
Colo.	107	21	0
Conn.	161	3	-9
Del.	133	14	6
Fla.	170	30	-7

Ga.	129	33	-6
Hawaii	113	4	0
Idaho	98	45	5
Ill.	75	18	3
Ind.	124	37	-2
Iowa	85	23	3
Kans.	91	22	0
Ky.	93	44	0
La.	77	42	8
Maine	131	16	-7
Md.	107	7	-7
Mass.	115	6	-7
Mich.	84	12	-13
Minn.	117	8	-1
Miss.	75	50	-5
Mo.	104	40	-3
Mont.	81	29	15
Nebr.	90	28	0
Nev.	128	24	13
N.H.	106	35	-7
N.J.	148	5	-6
N.M.	111	34	0
N.Y.	123	2	-4
N.C.	118	32	-5
N.D.	73	39	10
Ohio	126	27	-3
Okla.	104	38	0
Ore.	68	26	8
Pa.	83	25	-8
R.I.	113	15	-13
S.C.	131	15	-13
S.D.	85	43	0
Tenn.	107	46	-4
Tex.	128	31	-1
Utah	96	36	1
Vt.	115	13	-7
Va.	132	20	-13
Wash.	114	17	0
W.Va.	51	47	0
Wis.	99	11	0

Wyo.	97	9	0

Sources: U.S. Bureau of the Census, State Government Finances in 1989 and earlier volumes; Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol. 2, p. 191; National Conference of State Legislatures, State Budget Update, February 1991.

a Percentage of expenditures.

Why, then, are the northeastern states awash in red ink? Their plight can be summarized concisely: rapid revenue growth invited unbridled spending expansion on programs that now cannot be cut back painlessly. Between 1980 and 1989, outlays escalated by 173 percent in Connecticut, 137 percent in Massachusetts, 145 percent in New Jersey, and 115 percent in New York and Maine.

Even normally fiscally conservative New Hampshire joined the public-sector feeding frenzy; its expenditures rose by 111 percent in the 1980s. "We did a lot of good things in the years we had the money," explains New Hampshire state Rep. Donna P. Sytek, the Republican chairman of the state House Ways and Means Committee. "But now all these programs are perceived as essential, and we cannot take them away without a lot of screams from the public."[22] The experience of New Hampshire and the rest of the nearly bankrupt New England states suggests that tax hikes are a recipe not for fiscal balance but for uncontrollable expenditures.[23]

Table 5
Relationship among Deficits, Spending, and Taxes in the 10 States with Biggest Deficits

State	Deficit, 1991($ Million)	Increase in Spending, 1980-1989(%)	Increase in Taxes, 1980-89(%)	Per Capita Taxes, 1988 Ranking(a)
Calif.	8,000	121	126	9
Conn.	600	173	161	2
Fla.	800	170	170	29
Ga.	500	120	129	32
Mass.	1,000	137	115	5
Mich.	1,000	66	84	11
N.J.	500	145	148	4
N.Y.	6,000	116	123	1
Penn.	1,000	90	84	24
Va.	1,700	120	131	19
National Average	1,700	130	111	

Sources: National Conference of State Legislatures, State Budget Update, February 1991; Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol. 2, p. 191; U.S. Bureau of the Census, State Government Finances in 1989 and earlier volumes.

a State-by-state ranking of state and local revenues. Excludes Alaska.

Profiles of Tax-Raising States

Most of the states that are now contemplating tax increases are the very states whose legislatures displayed the least amount of fiscal discipline in the 1980s. A sample of the fiscal record of four tax-raising states from around the nation follows.

California

Despite Proposition 13, the Gann Amendment, and other tax limits enacted in the late 1970s, California has seen revenues grow by a healthy 8 percent per year over the past decade. The problem is that expenditures are climbing by 11 percent annually. A bipartisan gasoline tax hike of 9 cents a gallon was narrowly approved by voters in 1990 on the basis of arguments that the state's 1978 expenditure limitation had starved the public sector. Politicians managed to obscure the reality that, since 1983, the state budget had expanded by 50 percent, to $54 billion, and that state spending had risen from 7.5 to 8.5 percent of Californians' personal income. The state has the most generous welfare system in the nation (even more lavish than New York's) and has seen per student education expenditures (adjusted for inflation) rise by one-third in 15 years.[24]

Connecticut

Gov. Lowell Weicker purportedly wants Connecticut to become the 41st state to have a personal income tax because he wants to reduce the state government's $600 million deficit. On average the new tax would capture 6 percent of Connecticut workers' paychecks. Weicker has been hailed in the media for "telling the citizens the truth" about the state budget situation.

The truth is that only one state, Arizona, experienced faster budget expansion in the 1980s than did Connecticut. Although the state's revenues escalated by 160 percent in the 1980s, even that remarkable growth was not enough to keep pace with a 170 percent increase in spending. The state budget crisis has not discouraged the spending juggernaut in the state legislature: the legislature has approved a 14 percent rise in appropriations from 1989 to 1991, while deficits mushroom. In 1980 Connecticut was at roughly the national average in state spending per capita; today it is 20 percent above the average.

New York

New York's fiscal condition belongs in a category all its own. The state enjoyed 80 percent revenue growth between 1981 and 1988--20 percent higher than the rest of the states and 33 percent higher than the rate of inflation--but even after a tax hike of $1 billion in 1990, it still confronts a $6 billion two-year deficit.

The reason: New York's per capita spending is an astounding 47 percent more than the average for all other states. It costs $7,500 a year to educate a child in New York public schools versus $4,500 in all other states. New York spends $1,100 a year for the Aid to Families with Dependent Children program to administer a case--twice the national average of $600. New York has 10 percent of all Medicaid patients nationwide but accounts for 20 percent of the program's cost. And it ranks third among the states in government workers as a percentage of population. Says Edward Rubenstein of the Manhattan Institute, "Had state spending merely kept pace with the '80s boom in income, Albany would have a multi-billion dollar surplus today."[25]

North Carolina

Once upon a time North Carolina enjoyed a comparative advantage over many other states in attracting businesses, population, and jobs through its low taxes. Now Money magazine ranks its tax burden as the 11th worst among the states for business investment and places it at the very bottom of the list of southeastern states.[26] It now also has the third highest personal income tax rates in the nation. Between 1978 and 1990, the state budget grew in real dollars by 50 percent and its per capita tax burden by 26 percent-- up to $6,000 for a family of four.

The higher taxes have been needed to keep pace with explosive spending. Between 1978 and 1989, real spending rose three times faster than population growth and twice as fast as per capita income. Most of the increased spending was devoted to a build-up of the state's massive education bureaucracy, which consumes 60 percent of the state budget. It is doubtful, however, that the increases have affected classroom instruction. In the 1970s the ratio of teachers to nonteaching education employees was two to one; it is now almost one to one.

North Carolina has also become enamored with state-run economic development programs. The state spent $26 million in the 1980s in subsidies to the North Carolina Microelectronics Center, an investment that many believe has been a white elephant.[27] The same is true of the state's Rural Economic Development Center, which was created in 1987, costs $1.7 million a year to operate, and has yet to save or create any jobs for the state.

Despite its recent budget problems, North Carolina increased state spending by 25 percent between 1989 and 1991. And it has just granted its public employees a $340 million pay raise. Now, to reduce a $400 million budget shortfall--unprecedented for the traditionally fiscally tight Tarheel state--Gov. Jim Martin appears to be succeeding in his bid to raise the general sales tax in 1991.

Common Myths about State Budget Shortfalls

For understandable reasons, state officials in California, Connecticut, New York, and North Carolina--and elsewhere--refuse to acknowledge that a breakdown in fiscal discipline in the 1980s is at the root of their fiscal crisis today. Rather, they blame their states' dismal fiscal condition on a combination of other factors, such as the national economic recession, declining federal aid, and the citizen tax revolts of the past decade. But such complaints are based on myth, not reality.

Myth no. 1: The States Have Sharply Cut Back Spending in Response to Growing Deficits

Many governors and state legislators insist that, in response to dwindling budget reserves and a sputtering economy, they have been forced to cut back vital services. Thus, they allegedly have no alternative but to turn to new revenues as the only way to balance the budget. The truth is that the fiscal distress signals that began to appear in 1989 have not deterred continued growth of expenditures. Since 1989 expenditures have continued to grow faster than inflation in all but a very few states. Aggregate expenditures grew by 8.7 percent in 1989, 7.7 percent in 1990, and 6.5 percent in 1991--a rate of spending that is 2.7 percent above the inflation rate.[28] That is not a dramatic rate of spending--especially in relation to the explosive spending growth of the middle and late 1980s--but neither is it a sign of austerity.

One encouraging budget development is that, of economic necessity, many of the northeastern states--other than Connecticut and Maine--have finally begun to gradually restrain their spending. For instance, spending since 1989 has climbed only 8 percent in Massachusetts, 5 percent in New Jersey, and 5 percent in New York.

Unfortunately, a new disturbing trend of the last two years is that the South has now become the region of massive state spending growth (Figure 7). Recently, the fiscal policies of the southern states have become almost mirror images of those witnessed in the Northeast in the 1980s--and they are producing the same unhappy results. Florida, Georgia, Kentucky, North Carolina, and Texas have all seen their operating budgets grow by roughly 20 percent or more in just two years. Each is facing a large potential deficit in 1991. And it is anticipated that those that did not raise taxes in 1990 will do so in 1991.

Myth no. 2: Reductions in Federal Aid during the 1980s Have Caused State Budget Deficits

The New York Times recently restated this persistent myth:

The seeds of the states' fiscal crisis were sown over the last decade or so. . . . Starting in Jimmy Carter's Administration and accelerating under President Ronald Reagan's New Federalism, the federal government has shifted a heavy financial burden to the states and cities, cutting or eliminating federal grants for housing, education, mass transportation, and public works projects.[29] Indeed, federal aid dropped from about 25 percent of state budgets in 1980 to less than 20 percent in 1991. But that was mainly due to the states' rapidly increasing their own funding of new programs rather than to any reduction in federal aid.

Although federal aid to states and cities in total dollars was cut back severely in the early 1980s, such payments have climbed steadily from $108 billion to $159 billion since 1987.[30] In real dollars the increase represents a gain of more than 20 percent (Figure 8). Today's state budget deficits can hardly be blamed on the Reagan and Carter reductions in federal aid that occurred 10 budget cycles ago. Indeed, the states' fiscal performance of the last dozen years bears little or no relationship to fluctuations in federal aid, as illustrated in Figure 9.

That finding should not be altogether surprising. Federal aid has been more of a curse than a blessing for the states. Because federal grant programs typically require state matching funds, federal payments often increase, rather than decrease, the states' own-source tax burdens and spending.[31] Lured by what appears to be free federal money, states are often induced to use a portion of their own tax money to undertake spending projects that they would never undertake on their own. The correlation between real per capita own-source state revenue collected and per capita federal aid to the states over the 30-year period 1954-83 was 0.98. Hence, federal aid has tended to encourage, rather than supplant, state taxes.[32]

The states do have a legitimate gripe with federally mandated spending. Federally mandated spending--on such areas as Medicaid, welfare, corrections, highways, and the environment--can consume as much as 60 percent of a state's annual budget. The NCSL expects that the 1990 federal budget agreement will cost the states $16.9 billion.[33] The price tag for complying with new Medicaid mandates alone will be roughly $4 billion annually.[34]

As onerous and unjustified as federal mandates are, it is doubtful that policies handed down from Washington can account for all, or even a substantial amount, of the states' budgetary red ink. If increased mandates or reductions in federal aid are responsible for the decline in the states' fiscal health, then how have such states as Idaho, Montana, and Wisconsin managed to avoid the deficits that have plagued other states? Presumably, they too have suffered from the same Washington-imposed payment reductions and spending requirements. The fact that the states' budgetary circumstances vary dramatically from region to region and state to state suggests that the unique fiscal behavior of the individual states, not national factors such as federal aid, is the primary explanation for the deficits.

Myth no. 3: State Spending on Education Must Rise to Make Up for a Decade of Neglect

More than a dozen states either raised taxes in 1990 or are planning new taxes in 1991 to comply with court-ordered "school finance equalization" requirements. California, Kentucky, Montana, New Jersey, and Texas are a few of the states that have already raised taxes in response to those court decisions. Typically, the judges in such cases have empowered themselves to require the state legislature to equalize per student spending on education within the state. For the education establishment, "equalization" has become a buzzword for more money.

Those cases have reinforced two false impressions: (1) that the states are neglecting education and (2) that a larger commitment of state tax dollars to the nation's schools will raise the educational performance of America's children. Education has been a growth area in state budgets. State and local spending on education doubled, from $89 billion to $188 billion, between 1980 and 1989.(35) Given falling enrollment, education expenditures might have been expected to ease during that period.

Moreover, an increasing portion of those education dollars has come from the states, not local school districts where money is better spent. Before 1970 funding for primary and secondary schools came almost exclusively from local property taxes, with only a small fraction originating from state government. Today almost half of all education funds come from the states.[36]

Pumping more state tax dollars into the schools is likely to yield disappointing results in improving education. There is nearly unanimous agreement among researchers that, above a minimum level, government spending on education is unrelated to test scores and other measures of education performance. According to a comprehensive review of 38 studies on education quality by Eric Hanushek of the University of Rochester:

Two decades of research into educational production functions have produced startlingly consistent results: Variations in school expenditures are not systematically related to variations in student performance. These findings suggest that . . . the concentration on expenditure differences in, for example, school finance court cases or legislative deliberations, appears misguided given the evidence.[37]

That point has been stated more concisely by education analysts John Chubb and Terry Moe of the Brookings Institution: "As for money, the relationship between it and effective schools has been studied to death. The unanimous conclusion is that there is no connection between school funding and school performance."[38]

South Dakota is a case in point. It ranks 47th in per student state expenditures for education but 5th in the nation in SAT scores, and in the top 10 in most other rankings of educational performance.[39]

Myth no. 4: States Should Raise Income Taxes to Make Tax Codes Fairer

As it is in Washington, so-called tax fairness is now the rage in the nation's state capitals. A well-publicized recent document from the Citizens for Tax Justice suggests that "virtually every state taxes its poor and middle income families at rates significantly higher than those faced by the richest families."[40] The group's prescription: states should make their income tax systems more progressive.

Governors and state legislators are naturally drawn to the income tax as the fairest tax because it is progressive and based on ability to pay.[41] Connecticut, New Hampshire, Tennessee, and Texas have never had an income tax but are now considering one.

The popular perception is that the states' tax structures grew more unfair in the 1980s. But the reality is that state income taxes, which have become increasingly progressive and fall most heavily on the rich, have been the fastest growing revenue source for state governments. The percentage of total state taxes derived from income tax receipts today is twice as high as it was in the mid-1960s (Figure 10).[42]

More important, the states could not possibly choose a more economically destructive way to raise revenues than through personal and corporate income taxes.[43] In 1982 the Joint Economic Committee of the U.S. Congress compared the tax policies of the 16 states with the fastest growing incomes and the slowest growing incomes between 1970 and 1979.[44] The results, shown in Table 6, demonstrate that income growth in a state is inversely related to the level of state and local tax burdens, changes in state and local tax burdens, the amount of income taxes levied in the state, and the progressivity of the income tax rates in the state.

Those relationships were found to be statistically significant. The conclusion of the JES study was as follows:

The evidence is strong that tax and expenditure policies of state and local governments are important in explaining variations in economic growth between states--far more important than other factors frequently cited such as climate, energy costs, the impact of federal fiscal policies, etc. It is clear that high rates of taxation lower the rate of economic growth, and that states that lower their tax burdens are rewarded with an enhancement in their economic growth. Income taxes levied on individuals and corporations are particularly detrimental to growth, more so than consumption-based taxes or user charges that do not reduce incentives to work or form capital. Progressive taxation not only lowers the rate of economic growth compared with proportional or regressive taxation, but in the process hurts the very persons that progressive taxes are designed to help: the poor.[45]

The recent experiences of the individual states only confirm that conclusion. Iowa, for instance, is now suffering from one of the Midwest's highest income taxes. A 1987 study by the Iowa Tax Education Foundation, entitled The Iowa Exodus: Why Are People Leaving the State? included interviews with 251 former Iowans who moved out of the state in the 1980s.[46] The study found that the state's very high income tax rates were a major factor in explaining the out-migration. It told this sobering tale:

During the 1980s Iowa has experienced a significant population loss. Between 1980 and 1987 80,000 Iowans left the state. Sayings such as--"Will the last Iowan who leaves please shut off the lights"--were common.

Our survey results reveal that Iowans leave for a variety of reasons. Job opportunities, Iowa's overall tax situation, and the Iowa personal income tax appear to play the largest role in people's decision to leave.

Table 6
Tax Policies of High- and Low-Growth States, 1970-79

Tax Measure	High-Growth States	Low-Growth States
Change in state & local taxes per $1,000 income,		

1970-1979	+$0.80	+$7.51
State & local personal income taxes per $1,000 income, 1970	$7.10	&14.90
Change in State & local personal income taxes per $1,000 income, 1970-79	+$4.89	+$8.08
State & local corporate income taxes per $1,000 income, 1970	$2.90	$6.26
State income ta progressivity, 1970a	3.30%	5.40%

Source: Richard K. Vedder, "State and Local Economic Development Strategy: A Supply Side Perspective," U.S. Congress, Joint Economic Committee, October 1981.

a Highest marginal tax rate minus lowest marginal tax rate. The higher the percentage, the more progressive the state's tax code.

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Our survey results reveal that Iowans leave for a variety of reasons. Job opportunities, Iowa's overall tax situation, and the Iowa personal income tax appear to play the largest role in people's decision to leave.

Older people, high income individuals, and high net worth Iowans are very sensitive to Iowa taxes. In fact, Iowa's personal income tax plays a very significant role in the decision making process of these individuals.

Perhaps most disturbing is the fact Iowa is losing the very people it needs to spark economic development and growth. As evidenced in this sample, Iowa is losing both its new generation of young professionals and its crop of wealthy individuals who are needed to fund future economic growth.[47]

Illinois is another midwestern state whose economy is being harmed by rising personal income taxes. In 1989 the state passed a temporary income tax surcharge of 20 percent, which the new governor Bob Edgar now wishes to make permanent. According to an economic analysis of the tax surcharge by the Chicago-based Heartland Institute, the tax will have a devastating effect on the state in the 1990s if made permanent.

Based on our study of the experiences of other states, we would predict an annual loss of $400 million in personal income that would have been created during the coming decade in the absence of the tax increase. This lost personal income corresponds to an annual loss of approximately 10,000 jobs that otherwise would have been created.

During the course of the 1990s, then, a permanent 20 percent increase in the personal income tax rate could cost the residents of Illinois approximately $5 billion in lost income and 100,000 jobs.[48]

The latest case of a state's hiking its income taxes was New Jersey's $2.8 billion tax increase in 1990. Although the new taxes include substantial increases in excise taxes (including an increase in the sales tax from 6 to 7 percent), the major change is in personal income tax rates. Gov. James Florio doubled the top marginal rate to 7 percent for individuals earning over $75,000, one of the highest top rates in the nation. New Jersey's ambitious program is being viewed as a national experiment on the effects of new taxes on a state's economic pulse. An initial economic analysis by the New Jersey-based economics consulting firm Polyconomics predicts "a severe economic recession" in New Jersey, with growth as much as 3 percent lower than it would otherwise have been by 1992.[49) The report continues:

State tax revenues could decline by approximately 5 to 10 percent by 1992 with property tax revenues of local governments possibly declining by as much as 20 to 30 percent. Net relocation of corporate offices to the state will turn negative, eliminating about half the demand for mid-range ($250,000 to $500,000) homes, and about two-thirds of the demand for new office space. . . . A vicious cycle of declining property values and declining tax revenues, combined with higher property tax revenue requirements, will throw many New Jersey communities into fiscal crisis.[50]

Already, some of those dire predictions are proving highly accurate. Real estate values in New Jersey have dropped substantially over the past 12 months, unemployment has climbed from below to above the national average, and business bankruptcies nearly doubled in 1990.[51]

A pioneering new study for the Texas Public Policy Foundation by economist Thomas Dye finds that state income taxes have had two primary effects, both undesirable. First, income taxes have slowed the rate of income growth in states that have adopted them. Second, they have led to an acceleration in state spending in those states. Dye investigated the economic and fiscal changes in the eight states that most recently enacted an income tax and concluded:

Dramatic rises in state government spending were recorded in six of the eight states that adopted an income tax. Of course, state spending rose before and after adoption of an income tax. But the rate of increase following adoption of an income tax was significantly higher than the rate of increase prior to doing so. Each of these six states began spending significantly more than pre-adoption-based forecasts.

In six of the eight states, personal income growth slowed significantly following enactment. Personal income continued to grow in these states, but the rate of increase was significantly lower following adoption of income taxation.[52]

In sum, state income taxes would seem to have little to commend them. The empirical state-by-state evidence suggests that governors and state legislators should resist increases in personal income tax rates in redesigning their tax codes. Indeed, a pro-growth fiscal strategy would involve making substantial reductions in those tax rates.

Conclusion

With each passing month the fiscal outlook for America's state governments grows more bleak. Predictably, the preferred method of reversing the tide of red ink in state capitals is to raise taxes in 1991 or 1992. Advertised spending reductions are often fictitious, built from highly inflated budgetary baselines.

The reality of the fiscal policies of the states varies widely from the rhetoric. The states that insist that spending has been cut to the bone are many of the very states that expanded their budgets by more than 50 percent in real dollars in the past decade. The states that argue that the bureaucracy has been pruned are the same states that have allowed the number of workers on their payrolls relative to the number of private-sector workers supporting their salaries to climb to an all-time high. And the states that say that Washington has left them high and dry are receiving $150 billion in federal aid this year, an all-time record in real dollars.

State lawmakers now have two options. The first is to close the budget gaps through tax hikes. James Florio spearheaded that approach in 1990 with his $2.8 billion "soak-the-rich" tax increase, which gained the enthusiastic support of special-interest groups and much of the media. Political commentator Tom Wicker cheered Florio's program as "liberalism for the 1990s."[53] If New Jersey's tax hikes are the model, then governors and legislators should examine the results. Florio is now the most unpopular politician in America. New Jersey is still bankrupt. And now the state's economy is collapsing, with the real estate market in a depression and unemployment and business failures skyrocketing.

The alternative path is now being tested by three first-term renegade governors: Democrat Doug Wilder of Virginia and Republicans John Engler of Michigan and William Weld of Massachusetts. They propose to erase sizable deficits inherited from their predecessors through spending cutbacks alone and not a penny of new taxes. It is too early to predict whether their programs can succeed politically. But their fiscal blueprint does offer a ray of hope that the tax-and-spend cycle can finally be disrupted and that balanced budgets will once again become standard operating procedure in state capitals.

Notes

[1] Stephen Moore, "What the States Can Teach Congress about Balancing the Budget," Heritage Foundation Backgrounder no. 751, February 6, 1990.

[2] Most of the state budget data are based on fiscal years. Most states' fiscal years run from July 1 through June 30.

[3] Ellen Perlman, "After a Bad '90, States Brace for '91," City and State, August 13, 1990.

[4] "80's Leave States and Cities in Need," New York Times, December 30, 1990, pp. 1, 16.

[5] Quoted in "States Aren't Crying Wolf about Red Ink," USA Today, April 3, 1991, pp. 1A, 2A.

[6] The data on state spending and revenues cited in this paper, unless otherwise indicated, come from U.S. Bureau of the Census, State Government Finances in 1989, GF-89-3, August 1990 and earlier volumes in the series.

[7] Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol. 2, p. 176.

[8] National Conference of State Legislatures, State Budget and Tax Actions 1990 (Denver, Colo.: NCSL, August 1990).

[9] National Association of State Budget Officers, Fiscal Survey of the States, September 1990.

[10] Warren Brookes, "Second Front against Spenders?" Wash ington Times, March 11, 1991, pp. D1-2.

[11] National Association of State Budget Officers, p. 13. The forecast of 1.5 percent for FY 1991 is NASBO's February 1991 preliminary estimate.

[12] That is not to suggest that balanced-budget amendments are ineffective. There is significant evidence that such constitutional restraints, despite their shortcomings, have restrained spending, taxes, and debt. See Moore, "What the States Can Teach Congress," for a listing of research on that topic.

[13] Arturo Perez, State Fiscal Outlook for 1991 (Denver, Colo.: National Conference of State Legislatures, February 1991).

[14] Advisory Commission on Intergovernmental Relations, pp. 147-63.

[15] "A Giant Tea Party Is Brewing in Massachusetts," Wall Street Journal, October 3, 1990, p. A20.

[16] Advisory Commission on Intergovernmental Relations, p. 176.

[17] Janet Stotsky, "Coping with State Budget Deficits," Journal of the Federal Reserve Bank of Philadelphia, Janu ary-February 1991, pp. 13-14.

[18] National Conference of State Legislatures, State Budget Update (Denver, Colo.: NCSL, February 1991).

[19] The list of proposals is derived from several sources, including National Conference of State Legislatures, State Budget Update; Steven Gold, Tax Increases Proposed by Gover nors (Albany, N.Y.: Center for the Study of the States, March 2, 1991); and Taxation and Revenue Policies (Alexan dria, Va.: State Capitals Newsletters, February 25, 1991).

[20] Tax Foundation, Inc., Facts and Figures on Government Finance, 1988-89 ed., pp. 1-2.

[21] Tax Foundation, Tax Features, February 1991, pp. 1-7.

[22] Personal interview with Donna Sytek, October 1990.

[23] For more details of the tax-and-spend relationship, see Stephen Moore, "License to Spend," Reason, December 1990, pp. 46-48.

[24] For more details on the California budget situation, see Tim W. Ferguson, "California Seen Wasting Away and Needing a Tax Gulp," Wall Street Journal, May 29, 1990, p. A15.

[25] Edward Rubenstein, "The Good Times Were Never Good Enough," New York Newsday, March 24, 1991, pp. 39-40. See also "Why It Costs So Much to Run New York State," New York Times, January 4, 1990; and Cynthia Green, "New York State's Fiscal Record," Empire State Report, January 1991, pp. 34-41.

[26] Money, January 1991, p. 83.

[27] John Hood, "Boom Time for State and Local Government," Freeman, November 1990, pp. 406-8.

[28] National Association of State Budget Officers, pp. 23-27.

[29] "80's Leave States and Cities in Need," New York Times, December 30, 1990, pp. 1, 16.

[30] Office of Management and Budget, Budget of the United States Government, Fiscal Year 1992 (Washington: Government Printing Office, 1991), part 7, pp. 132-3.

[31] Richard McKenzie, "How Federal Aid Hikes State and Local Taxes," Heritage Foundation Backgrounder no. 223, October 29, 1982; Richard K. Vedder, "Rich States, Poor States: How High Taxes Inhibit Growth," Journal of Contemporary Studies (Fall 1982): 19-32.

[32] Stephen Moore, "States and Cities Pay a High Price for Their Federal Aid," Heritage Foundation Backgrounder no. 522, July 15, 1986.

[33] National Conference of State Legislatures, State Budget Update.

[34] The states and cities were also hurt by the decision of Congress and the president to raise the federal gasoline tax by 5 cents per gallon, thus raiding the traditional tax base of the states.

[35] The statistics given are National Education Association figures cited in "80's Leave States and Cities in Need."

[36] Ibid.

[37] Eric Hanushek, "Impact of Differential Expenditures on School Performance," Education Researcher, May 1989.

[38] John Chubb and Terry Moe, "Letting Schools Work," New York: The City Journal, Autumn 1990.

[39] Patricia Summerside, "The Things Money Can't Buy: South Dakota Gets More Education Than It Pays For," Policy Review (Winter 1990): 36-39.

[40] Citizens for Tax Justice, "A Far Cry from Fair," Wash ington, April 1991.

[41] That was the argument used by New Jersey governor James Florio to push through his 1990 record tax hike. Connecti cut governor Lowell Weicker also is using tax fairness as the grounds for trying to impose a first-ever state income tax. See John B. Judis, "A Taxing Governor," New Republic, October 15, 1990, pp. 22-31.

[42] Advisory Commission on Intergovernmental Relations, p. 93.

[43] A review of the impact of state taxes on economic growth can be found in Stephen Moore, "A Pro-Growth Tax Agenda for the 1990s," Texas Public Policy Foundation, San Antonio, April 1991.

[44] Richard K. Vedder, "State and Local Economic Development Strategy: A Supply-Side Perspective," U.S. Congress, Joint Economic Committee, October 1981.

[45] Ibid., p. 340.

[46] Iowa Tax Education Foundation, The Iowa Exodus: Why Are People Leaving the State? (1987).

[47] Ibid., p. 1.

[48] Joseph Bast, Coming Out of the Ice (Chicago: Heartland Institute, 1988), p. 55.

[49] David Goldman, New Jersey's Fiscal Counter-Revolution and Its Consequences (Morristown, N.J.: Polyconomics, July 1990).

[50] Ibid., p. 2.

[51] Based on calculations derived from an economic analysis conducted by Laffer and Canto Associates, La Jolla, Califor nia, March 1991.

[52] Thomas Dye, "A Texas Income Tax: Fueling Government, Stalling the Economy," Texas Public Policy Foundation, San Antonio, forthcoming.

[53] Quoted in Judis, p. 22.

Figure 1
30 States with Biggest Deficits, 1991
Projected Deficit as Percentage of Appropriations

Ala.	2.2
Ariz.	3.6
Ark.	0.5
Calif.	3.6
Colo.	0.9
Conn.	9.2
Fla.	6.9
Ga.	6.3
Ill.	2.8
Ind.	1.5
Iowa	3.2
Maine	6.9
Md.	7.1
Mass.	7.0
Mich.	12.8
Minn.	1.4
Miss.	5.2
Mo.	3.3
N.H.	7.0
N.J	5.6

N.Y.	4.0
N.C.	4.8
Ohio	3.0
Pa.	8.2
R.I.	13.0
S.C.	2.7
Tenn.	3.5
Tex.	1.3
Vt.	7.4
Va.	12.8

Source: National Conference of State Legislatures, State Budget Update, February 1991 (estimated). (Graph Omitted)

Figure 2 **Real State Expenditures, 1980-90**	
Billions of 1990 Dollars	
1980	415
1981	424
1982	425
1983	444
1984	447
1985	481
1986	513
1987	532
1988	544
1989	562
1990(est.)	580

Source: U.S. Bureau of the Census, State Government Finances in 1989 and earlier volumes. (Graph Omitted)

Figure 3 **Growth in State Public Employment** Employees per 10,000 Population	
1950	60
1955	65
1960	75
1965	90
1970	110
1975	130
1980	137
1985	125
1988	147

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol. 2 p. 176.
(Graph Omitted)

Figure 4 States with the Fastest Economic Growth from 1977-1987... Percentage Change in Per Capita Income	
Far West	7.7
Southwest	7.2
Rocky Mountain	7.0
Plains	7.6
Great Lakes	7.1
Southeas	8.2
Mid Atlantic	8.4
New England	9.4
Had the Fastest Rate of Spending Increase from 1980-1988... Annual Spending Growth	
Far West	3.6
Southwest	3.3
Rocky Mountain	2.4
Plains	1.8
Great Lakes	1.9
Southeast	2.9
Mid Atlantic	3.5
New England	4.4

Sources: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol. 2 pp. 28-29; Janet Stotsky, "Coping with State Budget Deficits," Journal of the Federal Reserve Bank of Philadelphia, January-February 1991, pp. 14-15.
(Graphs Omitted)

Figure 5 Per Capita State Tax Receipts Current Dollars	
1960	116
1965	151
1970	249
1975	409
1980	658
1985	975
1989	1150

Sources: U.S. Bureau of the Census, Government Finances, 1989; Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990.

(Graph Omitted)

Figure 6 State Revenues as Percentage of GNP Percentage	
1960	4.9
1965	5.6
1970	6.9
1975	7.9
1980	8.2
1985	8.3
1989(est.)	8.5

Source: Advisory Commission on Intergovernmental Relations, Sigficant Features of Fiscal Federalism, 1990.
(Graph Omitted)

Figure 7 Spending Increase in 10 Southeastern States, 1989-91 Percentage	
Fla.	20
Ga.	22
Ky.	29
Mass.	11
N.C.	25
S.C.	16
Tenn.	26
Tex.	11
Va.	14
W.Va.	32
Nat'l. Ave.	15

Source: National Association of State Budget Officers, Fiscal Survey of the States, September 1990.
(Graph Omitted)

Figure 8 The Myth of Declining Aid to States and Cities Total Federal Aid ($ Billion)	
1987	108
1988	115
1989	122
1990	137
1991	159
1992(est.)	171
Real Change (%)	

1987	-6.0
1988	2.0
1989	1.0
1990	7.0
1991	9.0
1992(est.)	9.03.5

Source: Office of Management and Budget, Budget of the United States Government, Fiscal Year 1992 (Washington: Government Printing Office, 1991), part 7, pp. 132-33.
(Graphs Omitted)

Figure 9
The Nonrelationship between Federal Aid and Fiscal Health
Percentage
Total Balances as Percentage of Spending
Change in Federal Aid
Sources: Office of Management and Budget, Budget of the United States Government, Fiscal Year 1992, part 7, pp. 132-33; National Association of State Budget Officers, Fiscal Survey of the States, September 1990.
(Graph Omitted)

Figure 10
Income Taxes as a Growing Source of State Revenues
(Graph Omitted)

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, vol. 2 p. 93.