Policy Analysis

Cato Institute Policy Analysis No. 167: A Fiscal Policy Report Card on America's Governors

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Executive Summary

This study is a detailed fiscal policy report card on the nation's governors. An objective fiscal policy index was devised and used to determine which governors have raised spending and taxes the most and which the least. The results give a clear indication of the fiscal responsibility of each governor.

The rankings of 45 current governors are based on a review of their budget and tax policies. For the 26 governors who were elected before 1989, we examine data on state government finances from the U.S. Census Bureau and other sources and construct a 15-variable index of fiscal performance. The fiscal measures investigated include the annual change in state expenditures per family and as a percentage of personal income; the change in state employees per 100,000 residents; the overall level of 1990 spending; total revenues as a share of personal income and per family; the annual growth rate of taxes; and the change in income, sales, and gasoline tax rates. For the 19 governors elected in 1989 or 1990, we explore similar but fewer fiscal policy variables that reflect budget and tax changes enacted through fiscal year 1992.

Alaska, Kentucky, Louisiana, Mississippi, and Vermont are excluded from the study. Alaska is excluded because of peculiarities in its budget and tax policies; the other states are excluded because they elected new governors in November 1991.

On the basis of his or her ranking on each of the fiscal policy measures, we assign each pre-1990 governor four grades: one for spending, one for taxes, one for tax rate changes, and one for overall fiscal policy record. We assign the new governors three grades--the grades for tax revenues and tax rates are combined. Two governors earned A's for their overall fiscal performance: Michael Sullivan of Wyoming, and William F. Weld of Massachusetts. Six governors received F's: John Waihee of Hawaii, Gaston Caperton of West Virginia, Bob Miller of Nevada, Lowell P. Weicker, Jr., of Connecticut, Jim Florio of New Jersey, and Pete Wilson of California. Other prominent governors earned the following grades: Bill Clinton of Arkansas, D; Mario M. Cuomo of New York, C; Jim Edgar of Illinois, C; Ann W. Richards of Texas, C; and L. Douglas Wilder of Virginia, B.

The results indicate that the states are pursuing widely disparate budget policies to cope with the current economic and fiscal crisis. The different budget directions pursued by their governors are having a dramatic impact on the economic conditions of individual states. Those directions also translate into significant shifts in the relative tax burden on families in many states. For example, through 1990 in Wyoming under Sullivan annual spending fell by 5.5 percent of personal income and by $356 per family, whereas in Hawaii under Waihee the corresponding spending trends were increases of 3.5 percent relative to income growth and of $864 per family.

The Expansion of State Government

With the exception of the president, the most powerful chief executive officers in America today are probably the nation's governors--particularly those who occupy the state houses of the large, populous states--and gubernatorial influence is continually growing. For the past two decades state governments have rapidly expanded in size and economic clout. In the 1980s alone, the states, on average, doubled their total budgets. Today the budgets of California, New York, and Texas are larger than those of most countries. Every state in the country, even sparsely populated South Dakota and Wyoming, would rank in the Fortune 500 if it were a business. In many states today state government is the largest employer.[1]

The expansion of state government has given governors increasing influence over their states' economic destinies. Perhaps that is why the state house is now regarded as a potential stepping stone to the White House. It certainly was for Jimmy Carter and Ronald Reagan, and Michael Dukakis won the Democratic presidential nomination in 1988 largely because of his gubernatorial record in Massachusetts. Now Clinton and former governor Jerry Brown of California aspire to duplicate that feat.

Because of their rising stature, many governors are being lauded by the media for their policies. As a result of the policy gridlock in Washington, the governors are by default now regarded as America's premier public policy innovators. More than ever before, the states, not the federal government, serve as incubators for new ideas and as "laboratories of democracy." In practice, that has meant that activist governors have been regarded as the "best" governors. That was certainly true in the 1980s when big- spending governors--including Dukakis, John Sununu of New Hampshire, Tom Kean of New Jersey, Bruce Babbitt of Arizona, and George Deukmejian of California, to name a few--were all widely praised as architects of economic and social policy change.[2]

Despite the rhetoric surrounding their economic and fiscal policy programs, objective assessments of the actual track records of governors are nearly nonexistent. Even rarer are objective performance ratings that compare the track records of individual governors. That situation contrasts with the dozens of prominent rating systems used to assess members of Congress on a whole gamut of issues ranging from their budget and tax policies to their positions on foreign policy and abortion. The few ratings of governors available are mostly subjective assessments of their success that serve as little more than popularity contests.[3] They tend to yield more information about the political ideologies of the "experts" doing the rating than about the actual policy achievements of the governors themselves.

Computation of Fiscal Policy Ratings of the Governors

In this study we examine changes in three primary fiscal policy variables during the term of each current governor:

* Growth in spending,

* Growth in tax revenues, and

* Changes in tax rates.

Most of the variables analyzed measure whether a state's fiscal policies have improved or worsened under the current governor. In consultation with an advisory panel of fiscal policy experts, we computed an overall fiscal policy grade for each governor on the basis of the results of our analysis of each fiscal policy category.

Limitations

We believe that this is the most comprehensive and objective analysis of the governors' fiscal policy performance available and hope that it will serve as a useful reference guide for taxpayers and analysts of state government. However, at the outset, we acknowledge several unavoidable deficiencies and explain how we account for them. The first is that we do not take direct account of the influence of the state legislatures with which the governors must work. In most states the influence of the legislature on budget outcomes is roughly equal to that of the governor. In addition, if the state legislature is controlled by a different party, the governor's command over the budget process is diminished. (In the Appendix, which gives a summary of the fiscal policy record of each governor, note is made of whether the legislature is of the same party as the governor.) On the other hand, it is important to emphasize that, with only a few exceptions, most governors have been granted greater constitutional control over the state budget process than the president has the over the federal budget process.

Second, every state has peculiarities in its expenditure and tax policies that can complicate interstate tax and spending comparisons. For instance, in Hawaii most school funding comes from the state, not the local governments, which inflates Hawaii's spending figures but does not affect annual changes in spending. Alaska and several plains and mountain states receive tax revenues from severance taxes on oil produced or minerals mined in the state. Those taxes can be exported out of state. Furthermore, the fiscal condition of those states can improve or deteriorate dramatically in response to changes in the market price of their natural resources. We believe that severance taxes are a significant distortion only for Alaska and exclude that state from the study for that reason. Severance taxes have been excluded from the revenue data for all other states.[4]

Third, the states' constitutions assign varying degrees of budget authority to their governors.[5] For instance, in North Carolina the governor's budgetary powers are severely limited; North Carolina is the only state that does not give the governor veto authority. The governors of 43 states have line-item veto authority. The degree of stringency of the line-item veto authority varies among states.[6] Finally, several states require a supermajority vote in the leg islature to enact a tax increase, which, of course, makes it very difficult for the governor or the legislature to raise taxes. All of those factors can significantly affect budget outcomes.[7]

Fourth, some changes in the states' tax codes may not be fully accounted for in the rate structures we examine. For instance, a broadening of the sales tax base is not directly measured in the tax rates analysis, whereas an increase in the sales tax rate is. Comparisons of income tax structures may not fully account for all the manifold deductions and exemptions that make each state's tax code unique. Furthermore, most states tax corporations through an income tax, which we measure; however, some states, such as Texas, tax corporations through property taxes or "franchise taxes." It is important to emphasize that changes in the tax structure that may escape direct detection in our analysis of tax rates are accounted for in the analysis of tax revenues.[8]

Finally, we do not yet have official Census Bureau data on the 19 states whose governors were elected in 1989 or 1990, so we are unable to measure all the spending and tax changes that have been implemented in the first year or two of their terms. Therefore, we divide the governors into two groups: those who were elected before 1989 and those who have been elected since then. For the 19 new governors, we rely on general fund budget data, including FY 1992 appropriations, compiled by the National Association of State Budget Officers and the National Conference of State Legislatures. Those data do not include all spending and sources of taxes and are less reliable than the Census data. They are, however, the best data currently available. Furthermore, because of the nearly universal budget problems of the states last year, the FY 1992 budgets of many states reflect significant policy changes.

Why a Fiscal Restraint Index?

The states are in the grip of one of the most severe fiscal crises in memory, with deficits skyrocketing to unprecedented levels. To combat the red ink, over half the states passed major tax hikes in 1990 or 1991. Indeed, the past two years have produced the largest increases in state taxes in history: $15 billion in 1990 and $18 billion in 1991. One consequence of those actions is that the average family's state tax burden has risen to an all-time high this year. That situation has precipitated a grass-roots tax revolt in many states--including California, Connecticut, Michigan, and New Jersey--reminiscent of the early stages of California's Proposition 13. A citizens' tax revolt may usher in a new era of fiscal retrenchment in the nation's state capitals.

It is essential that states regain control of their budgets and taxes for several reasons. First, the current fiscal crisis on the state level was caused by record spending and revenue increases in the 1980s.[9] State spending more than doubled between 1980 and 1989. The average number of state government employees grew from 135 to 150 per 10,000 residents during the same period. Average state tax payments for a family of four ballooned from $2,600 to $4,600 in the 1980s. Further increasing taxes clearly will not alleviate the crisis.

Second, the growth of state government that occurred in the 1980s and earlier decades is not economically sustainable for much longer. For most of America's history, the states consumed roughly 4 to 5 percent of the gross national product. But by 1970 that figure had grown to 7 percent; by 1980, to 8 percent; and by 1990, to 8.5 percent. State government cannot continue to expand 10 to 20 percent faster than the incomes of Americans who pay for it.

Third, of economic necessity, state taxpayers are demanding fiscal restraint. The few states that are keeping their expenditures and taxes under control are becoming richer than states with bloated public sectors. There is now an emerging consensus among public finance economists, substantiated by solid research, that states with low or declining tax rates are economically outperforming states with high or rising tax burdens.[10] The low-tax states are attracting more industries, more jobs, and more people than their high-tax neighbors. Even New York governor Cuomo recently acknowledged that it would be economically destructive for his state to raise its income tax rates because businesses and jobs would simply flee.

Finally, the American people are voting in record numbers with their feet against high-tax and high-spending policies. In the 1980s each and every day 1,000 Americans left the 10 states with the highest tax rates for the 10 states with the lowest tax rates.[11] Almost 5 million Americans left the nation's "tax hell" states for the 10 "tax haven" states.

In sum, now more than ever, governors are being forced by taxpayers to constrain budgets and lower tax burdens. If recent history is any guide, the governors who successfully do so will increase the economic competitiveness of their states, provide welcome financial relief to overburdened families, and avoid a recurrence of the fiscal collapse that is occurring in state capitals today. This study provides evidence of who those governors are.

Grading Procedure

The fiscal restraint index gives an indication of each governor's performance in three policy areas: expenditures, tax revenues, and tax rate structures.[12] Ratings are determined separately for the 26 governors who were elected before 1989 and the 19 who were elected in 1989 or 1990.

To rate the pre-1990 governors, we examine 15 policy variables: 6 for spending, 4 for tax revenues, and 5 for tax rate structure changes. We standardize the results for each variable, so the lowest score is 0 and the highest score is 100. We then assign each variable an equal weight of 1 and add the scores achieved in each category in the three separate policy areas.[13] That procedure provides a subtotal for each governor for each policy dimension. Our procedure is to use those subtotals as the basis for assigning each governor a grade within each area. The overall grade is determined in the same manner: the three subtotals are added to produce an overall score. The overall weights assigned the three categories are 50 percent for spending policy and 50 percent for combined tax policy. Two-thirds of the tax grade is determined by the tax revenue score and one-third by the tax rate structure score. The same basic procedures are used for grading the 19 new governors except that fewer variables are examined.

Policy Variables Examined

The objective of the analysis is to compile as comprehensive a picture as possible of the changes each governor has made in fiscal policy. We attempt to do so be examining a broad spectrum of fiscal policy measures that take into account economic, demographic, and other factors within each state. Every variable is adjusted for inflation. Dollar figures are in 1990 dollars unless otherwise noted. All but two of the variables measure the change in the fiscal policy variable during each governor's tenure. The change is measured from the year the governor took office through 1990 or 1992, as specified. Two of the variables measure the current tax and spending position of each state after the governor's policies have been in effect for at least one year.

For each of the 26 governors who were elected before 1989, we examine the following expenditure variables:

1. Overall level of state spending per family in 1990;[14]

2. Change in annual state spending per family through 1990;

3. Change in annual state spending relative to the change in annual state personal income through 1990;

4. Average annual percentage change in state spending through 1990;

5. Change in state general fund expenditure per family from 1990 to 1992;[15] and

6. Change in the number of state employees per 100,000 residents through 1990.

The following tax revenue variables are examined:

1. Annual average percentage rate increase in state taxes through 1990;

2. Annual average change in state revenues per family through 1990;[16]

3. Average annual increase in state revenues relative to the change in state personal income through 1990; and

4. Change in state general fund revenues per family from 1990 to 1992.

The following tax rate structure variables are examine

d:

1. Percentage point change in the top individual and corporate income tax rates;

2. Change in state personal income tax rate paid by the U.S. median-income wage earner;

3. Sum of the state's top marginal individual and corporate income tax rates in 1992;

4. Change in the state's sales tax rate; and

5. Change in the state's gasoline tax rate.

For the 19 new governors there is much less comprehensive data available. For each of those governors, we examine 10 fiscal policy measures, 4 of expenditures and 6 of revenues. The measures of expenditures are

1. Total 1992 state general fund expenditures per family;

2. Annual average change in state general fund expenditures per family;

3. Average annual change in state general fund expenditures relative to 1990 personal income levels; and

4. State deficit level in 1992 as a percentage of 1992 general fund expenditures.

The measures of tax revenues are

1. Change in annual general fund tax revenues per family;

2. Change in annual general fund tax revenues per family relative to 1990 personal income;

3. Change in the state's top corporate and individual income tax rates;

4. Sum of the state's top marginal corporate and individual income tax rate in 1992;

5. Change in the sales tax rate; and

6. Change in the gasoline tax per gallon.

The Data

Unless otherwise noted, the U.S. Census Bureau is the source of all data on state spending, taxes, government employment, population, and personal income that are used in rating the pre-1990 governors. The Census Bureau monitors state government finances each year and publishes detailed reports of its findings entitled "State Government Finances" and "State Government Employment." The Census data on state governments are superior to those from all other sources because they account for every type of outlay and every type of revenue generated for each state. The most recently published data are for 1990.

The data on general fund expenditures and general fund tax revenues come from annual compilations by the National Association of State Budget Officers published in "Fiscal Survey of the States."

The data on tax rate changes come from several sources including the Advisory Commission on Intergovernmental Relations, "Significant Features of Fiscal Federalism," various years; the National Conference of State Legislatures, "State Budget and Tax Actions," various years; and the finance and tax offices of the individual states.

The data on the 1992 budget deficit come from State Policy Research, Inc., "State Budget and Tax News," January 8, 1992; estimates made in January 1992 by the National Association of State Budget Officers and the National Conference of State Legislatures; and the budget offices of individual states.

Ratings of the Pre-1990 Governors

The analysis of the 26 pre-1991 governors is divided into three subsections on expenditures, tax revenues, and tax rate changes.

Expenditures

A summary of the results and ratings based on the six expenditure variables is shown in Table 1. The table also gives the overall expenditure grade for each governor. Tables 2-7 list the five biggest spenders and the five biggest budget cutters in each individual spending category.

One governor, Mickelson, distinguished himself as outstanding on the spending side of the budget and received an A under our grading system. Mickelson ranks near the top of almost all the spending categories examined. The only major area in which he falters is monitoring spending growth since 1990. Expenditures appear to be on the rise in South Dakota. Judd Gregg of New Hampshire, Bayh, Sullivan, and Romer also have reduced spending. Sullivan has substantially cut expenditures in Wyoming, although there is still much work to be done to bring Wyoming's spending levels down to those of other states. Bayh has held Indian's spending under control in almost every category.

Governors Waihee, Michael N. Castle of Delaware, and Bob Miller were the biggest spenders, and each received an F under our grading system. Waihee ranked near the bottom in almost all spending categories. Through 1990 he increased inflation-adjusted expenditures by 7.9 percent per year, by 3.5 percent annually above the rise in personal income in the state, and by $864 per family on an annual basis. In 1990 Hawaii was one of the nation's biggest spending states. Castle's performance has been only slightly better with per family spending rising by $444 per year through 1990 and state employment up by 362 workers per 100,000 residents. Under Bob Miller, Nevada's rate of increase in annual spending and its rate of spending growth relative to income growth have been the greatest of any of the 26 states examined.

Several of the results of the expenditures analysis warrant special mention. First, different governors have pursued dramatically different spending policies over the past 5 to 10 years. For instance, Cuomo has raised spending by $3,540 for every family, whereas Sullivan has slashed spending by $1,068 per family. In other words, New York under Cuomo has launched $4,600 more new spending for every family than Wyoming has under Sullivan. That is a substantial difference that will be felt by every family in both states. Similarly, in Nevada under Bob Miller, spending has increased by 8.3 percent per year, whereas in Wyoming under Sullivan spending has declined by almost 5 percent per year. Those numbers underscore the different directions in which various states have headed with respect to spending policies.

Second, governors of the plains and mountain states have generally held down spending more than governors of other states, which suggests a regional difference in the way governors have dealt with state budgets. Sullivan, Mickelson, Romer, and George A. Sinner of North Dakota have all restrained expenditure growth--and in some cases have even cut spending--much more than the governors of the other states have. As a result, those states have avoided the severe fiscal crunch that has salvaged the states of the Northeast and the Southeast. On the other hand, the data indicate that in the Northeast, Governors Caperton, Castle, Cuomo, and John R. McKernan, Jr., of Maine failed to restrain spending in the 1980s.

Finally, it is noteworthy that some governors have reversed their spending policies since 1990, either of fiscal necessity or by free choice. For instance, Cuomo, McKernan, and Waihee were among the biggest spenders before 1990, but they have all restrained spending in the last two years, in large part because tax revenues have declined during the economic recession in their states. Conversely, some governors who were fiscally conservative in the 1980s may be turning into big spenders in the 1990s--perhaps most notably, Robert P. Casey of Pennsylvania and Mickelson.

Taxes and Revenues

Table 8 summarizes the results for each tax revenue category and shows the overall grade on taxes for each governor. Tables 9-12 list the top and bottom five governors in the individual revenue categories.

The governors with the best overall records on taxes are Sullivan, Sinner, Gregg, Bayh, and Tommy G. Thompson of Wisconsin. Through 1990 each of those governors had significantly cut tax revenues both per family and as a share of personal income. All except Thompson and Gregg have continued to hold down taxes since 1990. Sullivan in particular has compiled an exemplary record on taxes. Under him taxes adjusted for inflation have declined by 6 percent per year, taxes per family adjusted for inflation have fallen by $212 per year, and taxes as a share of personal income have fallen by more than 5 percent per year.

The governors who had the worst overall tax records and received F's on their report cards were Waihee, Caperton, and Bob Miller. Each increased taxes by more than 5 percent above inflation per year through 1990. Caperton and Waihee each increased per family tax and revenue payments in 1990 dollars by more than $475 per year. All three have continued to increase general fund tax revenues over inflation since 1990.

As was the case with expenditures, the governors have pursued dramatically different fiscal policy paths with respect to taxes. For instance, Waihee and Caperton have raised tax revenues by over $475 per family annually, whereas Sullivan and Thompson have cut tax revenues by over $200. Similarly, revenues rose by almost 8 percent relative to personal income under Bob Miller, whereas they fell under Sullivan, Sinner, and Thompson.

Clearly, the northern plains states have been the most volatile with respect to tax revenues, perhaps because their economies are heavily dependent on the oil and mining industries, which have experienced turbulent times over the past decade.

Tax Rate Changes

Measuring the changes in the tax rate structure of each state provides valuable clues about which governors have been the most pro-tax and which the most anti-tax. The results for the five tax rate categories examined and the tax rate grade for each governor are shown in Table 13. The top five tax cutters and tax hikers are listed in Tables 14-18

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The governors who have raised tax rates the most are Clinton, Sinner, and James G. Martin of North Carolina. Each of those governors receives an F for having raised the income tax, the sales tax, and the gasoline tax during his term. The governor who has cut tax rates the most, perhaps surprisingly, is Cuomo. He has cut the personal income tax rate from the national high of 14 percent to roughly 7 percent. He has also cut corporate income taxes by 1 percentage point. His is far and away the best record for cutting taxes, although Romer has also cut rates fairly significantly. Sullivan and Bayh have not cut taxes, but they have kept their states' tax rates among the lowest in the nation.

Overall Grade

The overall grade for each governor is shown in Table 19. Sullivan ranks head and shoulders above any other pre-1990 governor and earns an A. He is by far the top budget and tax cutter in our survey. Mickelson, Bayh, Gregg, Romer, and Thompson are at the top of the next echelon. Each restrained spending and taxes through 1990. If Wisconsin had a more fiscally conservative state legislature, Thompson might have received an A also. He has used his veto and line-item veto authority more than 400 times to eliminate excessive spending proposed by the legislature.

The three governors who rank at the bottom in our survey and received F's are Waihee, Bob Miller, and Caperton. All three of those governors have substantially increased taxes and spending, according to virtually all the individual indices.

One noteworthy result is that, in general, pre-1990 Republican governors do not score any better than do Democratic governors. For instance, three of the four top-ranked governors are Democrats, and the three bottom-ranked governors are Democrats. The fourth worst record was compiled by a Republican.

Ratings of the New Governors

Nineteen states, including most of the largest, most heavily populated states, have governors who were elected in 1989 or 1990. The list includes California, Florida, Illinois, Massachusetts, Michigan, New Jersey, Ohio, and Texas. The fiscal policy track records of the governors of those states are much more limited than are those of the pre-1990 governors. Census Bureau expenditure and tax data are not yet available for use in measuring the performance of the newly elected governors. However, we do have data on general fund expenditures and taxes for the first year or two those 19 governors have been in office. We also have reliable information about tax rate changes enacted last year (or in 1990) by those governors. (For many states 1991 was a pivotal year for budget decisions and policies.) Finally, estimates of the 1992 budget deficits on which the new governors deferred action until this year were used to assess the current fiscal condition of each state.

Expenditures

The results for each of the four categories we investigated are shown in Table 20. Tables 21-24 list the five top and bottom spenders and budget cutters according to each measure of spending.

The governor with the best record is Weld, who inherited one of the most bloated state budgets in the country. Expenditures declined by almost 6 percent, and per family spending declined by over $400 in Massachusetts. Other governors who cut general fund spending in 1991 after accounting for inflation were David Walters of Oklahoma, Wilder, Engler, and Joan Finney of Kansas.

At the other end of the scale, four governors received F's for their performance on spending. They are Florio, Wilson, Weicker, and Chiles. Those governors hiked per family spending by $388, $204, $169, and $240, respectively--in states (except Florida) whose per capita spending was already well above the national average. Furthermore, with the exception of Florio, each must grapple with a substantial deficit of 3 percent or more of expenditures in 1992.

The governors who signed into law appropriations bills that represented the largest total amounts of per family spending were Weicker, Florio, and Weld. Each of their states spends more than $6,000 per family on general fund programs. However, Florio and Weld have their states headed in opposite directions. In 1990 Massachusetts spent sub stantially more per family than did New Jersey; just two years later, New Jersey is spending more than Massachusetts.

The importance of fiscal policy variables for state economies and family incomes is dramatically illustrated by comparing the budgets enacted in 1992 by high-spending states and low-spending states. For instance, whereas Weicker signed a budget with total spending of roughly $8,000 per family, Engler will spend roughly $3,000 per family.

Tax Policies

The results for the six revenue categories are summarized in Table 25. The five top-ranked and the five bottom- ranked governors in each of those categories are given in Tables 26-31.

In six states per family tax revenues adjusted for inflation are falling in 1992. Governors Weld, Engler, Zell Miller of Georgia, Wilder, Finney, and Sundlun all have signed budgets with declining real revenues. In contrast, Weicker, Wilson, Florio, Bruce King of New Mexico, and Lawton Chiles of Florida have all signed budgets that will raise tax burdens $300 or more per family. Weicker's new taxes will cost the average Connecticut family of four $1,400 in 1992. Wilson's new taxes will cost each California family roughly $800. Finally, Florio's income and sales tax hikes will cost each New Jersey family more than $500 in higher taxes.

In 1991 taxpayers were subjected to the largest state tax increases ever, and much of the new money was raised in the 19 states with newly elected governors. Eight of the 19 newly elected governors raised the income, sales, or gasoline tax during their first year in office. Four governors enacted major tax hikes and receive F's on their report cards. They are Sundlun, Weicker, Florio, and Wilson. All those governors enacted steep increases in income tax rates; Wilson and Florio also raised sales taxes; and Weicker and Sundlun raised the gasoline tax.[17] Other tax hikers were Carlson, who raised the income and sales tax rates slightly; Nelson, who imposed income tax surcharges; and Richards and Roberts, who raised their states' gasoline taxes by 5 and 2 cents a gallon, respectively.

Overall Assessment

The overall fiscal policy grades are shown in Table 33. Those grades are based on the governors' performance in the expenditure and tax policy categories examined above. The top governor by far is Weld. His main achievement has been to cut inflation-adjusted spending and taxes substantially during his first year. Governors Engler, Walters, Wilder, and Finney also had noteworthy records on spending and taxes.

The three lowest rated governors are Florio, Weicker, and Wilson. They performed poorly in nearly every category examined. Each enacted major new taxes in his first year, or two years in the case of Florio. At the same time, spending has surged in Connecticut, New Jersey, and California, and those states face a rising tide of red ink in 1992.

The new Republican governors fare somewhat better than the new Democratic governors. The two top-ranked governors are Republicans, although the next three are Democrats. The three new governors who received F's are a Republican, a Democrat, and an Independent, and the three governors who received D's are all Democrats.

Conclusion

The tax revolts that are developing in many states suggest that there is a limit to the tax burden citizens will accept, regardless of their ideological leanings. Tax-and- spend governors would do well to emulate some of their more fiscally conservative brethren. Those who succeed in restraining taxes and spending will increase their states' economic competitiveness, provide needed financial relief for overburdened families, and put their states solidly back on the path to growth and prosperity.

Notes

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[1] For instance, the state of Michigan currently employs more workers than does General Motors.

[2] For instance, in the 1980s the left-leaning research group, Corporation for Economic Development, published sev eral ratings of the states that indicated which governors were implementing the best economic policies. Massachusetts and Dukakis routinely ranked at the top of the scale, until the fiscal collapse of Massachusetts in 1989.

[3] On September 10, 1991, for example, in an article enti tled "Rating the New Governors," USA Today published the results of a survey of prominent political scientists on the performance of the recently elected governors. Richards and Wilson were considered the two most effective.

[4] We found that including or excluding severance tax reve nues did not alter the overall results much.

[5] For a summary of the various budget powers assigned to the governors in each state, see The Book of the States (Washington: Council of State Governments, 1990-91 edition), pp. 67-70.

[6] One particular kind of line-item veto, the "item reduction" veto, has been found to have a significant effect on the governor's ability to control spending. See Mark Crain and James Miller, "Budget Process and Spending Growth," William and Mary Law Review, 1991 (forthcoming).

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

[8] For example, if a governor expands the sales tax base, that change does not affect the governor's score on the tax rate index. However, such a change in the tax base does affect the tax revenue collections of the state and thus will be reflected in the tax revenue index.

[9] For more details, see Stephen Moore, "State Spending Splurge: The Real Story Behind the Fiscal Crisis in State Government," Cato Institute Policy Analysis no. 152, May 23, 1991.

[10] In the 1950s and 1960s the conventional wisdom in the economics and public finance communities was that the fiscal policies of the states had little or no effect on their economic growth rates. There is now a growing consensus in the economics literature that state fiscal policies, particularly tax policy, have a substantial impact on the relative growth rates of individual states. For instance, in the 1970s and again in the 1980s, states with low or declining tax burdens tended to economically outperform states with high or rising tax burdens. Tax burdens and tax rates have a significant impact on population shifts among states, job creation rates within individual states, changes in personal income levels within states, and industrial location decisions of firms. The most comprehensive survey of the literature is Joseph Bast, Coming Out of the Ice (Chicago: Heart land Institute, 1988). See also Stephen Moore, "A Pro- Growth Tax Agenda for the States in the 1990's," Texas Public Policy Foundation, San Antonio, 1990.

[11] "Fleeing Tax Fairness," Wall Street Journal, June 12, 1991, editorial page.

[12] We also examined data on debt for each governor. However, our advisory panel recommended against using that mea sure in interstate comparisons because of data problems. For instance, the composition of long-term and short-term debt is significantly different among states. Also, many states have constitutional restrictions on the overall level of debt. In any case, we found that inclusion of debt measures did not significantly alter the overall ratings.

[13] Although many of the advisers we consulted believed that some categories were of greater importance than others, most agreed that assigning each an equal weight would minimize subjectivity in the results. One can alter the outcomes and final grades by assigning different weights to different variables.

[14] Throughout this study "family" is used to refer to a group of four related people who live together.

[15] That spending measure captures the effect of spending decisions that have been made in the last two years but are not yet reflected in the Census Bureau data. For that measure we use annual data compiled by the National Association of State Budget Officers. The FY 1992 estimates are based on the levels enacted during last year's budget cycle. General fund data are far from ideal for measuring total spending growth in a state because general fund spending does not include certain types of nonappropriated spending, such as pension fund spending and some entitlement outlays. Furthermore, governors sometimes move spending in or out of the general fund to mask the severity of fiscal problems. Despite those important caveats, the general fund data for the most part do provide a fairly good picture of how the states' spending patterns have changed since 1990.

[16] Revenues include all taxes, fees, and other charges with the exception of intergovernmental funds received from the federal government and severance taxes, which are both omit ted.

[17] The argument is often made that income tax rate increas es are the fairest way to raise taxes because the burden

falls most heavily on the rich. However, surveys show that the public believes that income taxes are the most unfair taxes. Furthermore, studies show that of all state taxes, income taxes are the most economically harmful. See Stephen Moore, "Soak the Rich Fallacies," Christian Science Monitor, May 10, 1991, p. 20.

[Tables have been omitted]

Appendix

Alabama

Guy Hunt, Republican Legislature: Democratic
Took Office: 1/87
Grade: C

Hunt's primary accomplishment as governor has been to hold the line on almost all taxes--though he has not cut them. Hunt's record on controlling spending has been average at best. Expen- ditures have risen as a percentage of personal income and by almost $260 per family per year. Even with those expenditure increases, however, Alabama remains a low-spending state. Alabama's fiscal health has deteriorated rapidly during the recession, and Hunt now must close a $150 million deficit.

Arizona

Fife Symington, Republican Legislature: Republican
Took Office: 3/91
Grade: C

Elected in 1990, Symington inherited a large budget deficit that was a byproduct of a decade of runaway spending in Arizona. (Arizona had the fastest growing state budget in the nation in the 1980s.) Symington has not ended the spending spree; he has only slowed it down. Spending is still climbing in real dollars. Arizona still must erase a deficit equal to 3 percent of expenditures in FY 1992. The one positive feature of Symington's record is that he resisted calls for major new taxes last year.

Arkansas

Bill Clinton, Democrat Legislature: Democratic
Took Office: 1/83
Grade: D

Clinton's fiscal record is below average in most categories, and in some areas it is near the bottom. Arkansas is still a low taxing and spending state, but it has been moving away from that tradition under Clinton. Clinton has been a tax increaser. The sales tax has risen by 1.5 percentage points under Clinton; the corporate income tax was just raised by 0.5 percentage points last year (at a time when most other states are lowering corporate taxes); and the gasoline tax has climbed by 9 cents a gallon during Clinton's 10 years. Real spending has risen by roughly $1,500 for every family of four under Clinton, and it has climbed at a pace well above the national average as a percentage of the personal income of Arkansas residents. Much of the spending has been on education and employee pay increases.

California

Pete Wilson, Republican Legislature: Democratic Took Office: 1/91 Grade: F

Pete Wilson's first-year budget performance could best be described as dreadful. Wilson used a mythical $14 billion deficit crisis, which was predicated on the assumption that baseline spending would climb by more than 12 percent in 1992, to push through a $7 billion tax hike. Not only was that the largest state tax increase in U.S. history, it shattered the previous record of less than $3 billion. Included in the tax package was a hike in income tax rates that brought California's already-high rates up to 11 percent--which makes California's income tax rate one of the five highest in the nation. The higher taxes have already contributed to the erosion of California's economy and an exodus of businesses from the state. Wilson told Californians that he signed the gigantic tax package in exchange for $7 billion in budget cuts. In fact, total spending in California will rise by $6 billion--a 10 percent increase. Wilson faces a genuine $2 billion to $4 billion budget gap in 1992.

Colorado

Roy Romer, Democrat Legislature: Republican
Took Office: 1/87
Grade: A

Romer ran for governor in 1986 as a pro-growth, fiscal conservative, and so far he has kept his promise. Spending has increased only slightly in per family terms--$11 per year. Expenditures have declined to 10.5 percent of personal income, placing Colorado solidly in the ranks of the low-spending states. Government debt has declined by $86 per person and even more substantially as a share of income. Colorado has implemented pro-growth tax relief under Romer. In addition to reducing corporate income tax rates, he has reformed the personal income tax code from a progressive rate structure, which ranged from 3 to 8 percent, to a flat 5 percent rate. The 3 percent sales tax has remained untouched and is one of the lowest in the nation.

Connecticut

Lowell P. Weicker, Jr., Independent Legislature: Democratic Took Office: 1/91 Grade: F

Weicker won a closely contested three-way race for the state house by pledging not to support an income tax in a state that has always resisted one. He has now ignited a ferocious tax revolt in Connecticut by reneging on that promise. Weicker's controversial tax plan establishes a 4.5 percent income tax in exchange for a 2 percentage point decline in the sales tax and a slight reduction in business taxes. It will raise an estimated net $1.1 billion in the state that experienced the fastest expansion of tax collections of any northeastern state during the 1980s.. The new taxes will cost the average Connecticut family of four between $300 and $400 per year. Weicker will use the additional tax revenues to accelerate state spending. The appropriations bills that Weicker signed for 1992 approve spending levels 8 percent above 1991 levels. It is not surprising that Connecticut faces a deficit of $175 million that is still growing.

Delaware

Michael N. Castle, Republican Legislature: Split
Took Office: 1/85
Grade: D

Building on the momentum of his predecessor, Pete du Pont, Castle has cut income tax rates. He has gradually reduced Delaware's top income tax rate from 12 to less than 7 percent--a move that clearly attracted new businesses and jobs to the state. Unfortunately, because of other types of tax increases, including an 8 cent per gallon hike in the gasoline tax, state revenues have continued to outpace the growth in individual income during Castle's tenure. Castle performs very poorly on the spending side of the equation. Expenditures have risen by $2,000 per family of four in Delaware since Castle entered the governor's mansion in 1985. Thanks in part to Castle's spending splurge, Delaware is now a high-expenditure state; it spent roughly $12,500 per family of four in 1990. Much of the new spending has been on education and health care.

Florida

Lawton Chiles, Democrat Legislature: Democratic
Took Office: 1/91
Grade: D

Chiles, who has been heralded as one of the nation's innovative new governors, is expected to turn Florida into a laboratory for new public policy initiatives. So far his performance on fiscal issues has been below average, and it is getting worse. Despite a significant budget crisis in Florida and talk of budget-saving efficiency reforms, spending climbed by $240 per family in Chiles' first year. Although he did not raise taxes in 1991, he has announced his support for one of the largest tax hikes in the state's history in 1992. It would include a broadening of the sales tax and higher user fees. To his credit, Chiles has rejected calls for creating a Florida income tax.

Georgia

Zell Miller, Democrat Legislature: Democratic
Took Office: 1/91
Grade: C

Miller's first-year performance was slightly above average, but he has deferred most of his major budget decisions until this year, when he must close a mammoth $400 million deficit--5.5 percent of expenditures. His rhetoric has been encouraging: he says he will close the deficit through spending cuts and budget restructuring alone. He also wants to institute a state lottery. Last year Miller succeeded in restraining expenditures in one of the South's highest spending states. He also warrants praise for refusing to raise any major new taxes. General fund tax revenues declined in Georgia last year. If Miller keeps his word, he may be a surprisingly strong governor.

Hawaii

John Waihee, Democrat Legislature: Democratic
Took Office: 12/86
Grade: F

Hawaii has been one of the biggest spending states under Waihee's governorship. Real annual expenditures rose by almost 8 percent from 1987 through 1990. Per family expenditures rose by $160 a year over that period, bringing total per family expenditures in Hawaii up to $3,450, well above the national average. Revenues have also risen sharply under Waihee, although income tax rates have been reduced slightly. The average family of four in Hawaii paid $1,630 (1990 dollars) more in taxes and other fees in 1990 than in 1987. Waihee's sole success has been in reducing the burden of long-term debt, both in per family terms and relative to personal income. However, Hawaii's current spending trend is clearly unsustainable.

Idaho

Cecil D. Andrus, Democrat Legislature: Republican
Took Office: 1/87
Grade: D

When Andrus began his second stint as governor in 1986, Idaho was solidly in the ranks of the low-taxing and low-spending states. Now it is losing that distinction and is clearly moving in toward the middle. Andrus has raised top income tax rates for both individuals and corporations. As a result, real tax collections from individuals and corporations have been climbing by over 9 percent per year, one of the five fastest rates of increase in income tax collections in the nation. The gasoline tax has also climbed by 7.5 cents a gallon during his term. Spending has been growing at slightly above the national average, but debt has been exploding at 10 percent of real growth annually.

Illinois

Jim Edgar, Republican Legislature: Democratic
Took Office: 1/91
Grade: C

Edgar replaced long-time moderate, pro-tax Republican "Big Jim" Thompson in 1991. So far Edgar appears to be carved out of much the same stone. Illinois raised taxes more than any other Great Lakes state in 1991. Edgar refused to allow a controversial income tax surcharge to expire as scheduled; instead, he extended it through 1992. To his credit, Edgar warned voters of his support for extending the surtax before the election. During Edgar's first year, spending grew moderately faster than inflation and growth in income. The budget and tax revenues grew slightly faster, thanks to the surtax. Edgar has a hefty budget deficit to tackle this year and next, and he has called for sharp spending cutbacks (even in the education), rather than further tax hikes. For Illinois taxpayers that would be a pleasant change.

Indiana

Evan Bayh, Democrat Legislature: Republican
Took Office: 1/89
Grade: A

Bayh became governor in 1989 by promising budget and tax control in one of the nation's most fiscally conservative states. He has kept his promise. Bayh has held the line on taxes even during difficult fiscal times. Taxes and revenues as a percentage of personal income have both fallen since 1989 in Indiana. Expenditures have climbed at only a modest pace. Indiana has avoided the substantial fiscal problems many other states are facing during the current recession. On balance, Bayh's record so far is that of a genuinely fiscally conservative Democrat, though he is still a relative newcomer and has had the help of a fiscally conservative legislature.

Iowa

Terry E. Branstad, Republican Legislature: Democratic
Took Office: 1/83
Grade: D

Branstad has done some things right but many things wrong. He cut business taxes in his first term and personal income taxes across the board in 1988--from a top rate of 13 percent down to 10 percent. Unfortunately, Iowa still has one of the five highest top marginal income tax rates for individuals and corporations, which has contributed to its economic woes. Under Branstad other taxes have risen, including the sales tax, which has gone up by 1 percentage point, and the gasoline tax, which has increased by 7 cents a gallon. Branstad's primary weakness has been his failure to restrain spending. Per family outlays have risen by roughly $400 during his tenure--quite an increase considering that the personal income of Iowans has been falling relative to the national average. In Branstad's defense, it should be noted that he has had to do perennial battle with a pro-tax, pro-spending legislature; that has undoubtedly contributed to his poor rating.

Kansas

Joan Finney, Democrat Legislature: Republican
Took Office: 1/91
Grade: B

Finney ejected a pro-tax Republican, Mike Hayden, in 1990 by running as the fiscal conservatives' choice. So far she has lived up to that billing. In 1991 she cut back spending moderately (by about 1 percent in real terms). She also kept her word not to raise taxes. She faces a budget deficit in 1992, but at 2 percent of expenditures, it is more manageable than the red ink in most states. Her performance thus far has been solidly above the average for the new governors in all categories.

Maine

John R. McKernan, Jr., Republican Legislature: Democratic
Took Office: 1/87
Grade: C

McKernan's record on fiscal policy has been a mixed bag. He took office in 1987 during the boom years of the Northeast and, like most other governors in the region, raised spending dramatically--$200 per family--in his first two years. But since the recession hit the Northeast, McKernan has insisted on, and has won from the Democratic-controlled legislature, substantial belt tightening in state government. Indeed, since 1990 Maine has cut its budget more than all but a handful of states. McKernan has laid off hundreds of government workers, thus reversing the dramatic growth of Maine's public sector workforce in the 1980s. General fund spending has come down substantially since 1990, by almost $150 per person. Unfortunately, McKernan has also consented to increases in income tax rates on individuals and corporations and to a hike in the sales tax. Those concessions have accelerated the economic deterioration of the state and left Maine with one of the largest deficits in the nation.

Maryland

William Donald Schaefer, Democrat Legislature: Democratic
Took Office: 1/87
Grade: C

Until very recently Schaefer's unexceptional fiscal policy record over the past five years exhibited one virtue: his reluctance to impose major new taxes. He has now abandoned that position and has unveiled a major tax hike plan for 1992 to close a record state deficit. That deficit was caused in large part by spending that rose steadily faster than personal income in Maryland during Schaefer's first term. Schaefer allowed real state spending to rise by 3.5 percent per year, or $120 per family, from 1987 to 1990. That spending track record is not horrible, but it does not indicate that Maryland is tightening its belt.

Massachusetts

William F. Weld, Republican Legislature: Democratic
Took Office: 1/91
Grade: A

Weld has been cutting the Massachusetts budget, reversing a decade of spending growth under his predecessor Michael Dukakis. In the wake of the "Massachusetts miracle's" collapse, last year Weld cut general fund spending by an enormous 6 percent. Massachusetts will thus spend less money in nominal dollars in 1992 than it did in 1991. Per family spending will fall by roughly $400. In contrast with the governors of other deficit-plagued northeastern states, Weld has not pumped up taxes in response to the recession. In fact, he reduced a sales-tax-broadening measure signed by Dukakis in his final days. Tax revenues will fall by 1.5 percent of personal income in Massachusetts in 1992. For 1992 Weld has already called for continued growth-oriented fiscal reforms including a reduction of personal income tax rates and elimination of the state's capital gains tax. If Weld continues on his present course, Massachusetts may cease to be "Taxachusetts."

Michigan

John Engler, Republican Legislature: Split
Took Office: Took Office: 1/91
Grade: A

Engler won a razor-thin victory over incumbent Jim Blanchard in 1990 by pledging reform of Michigan's bloated budget and significant property tax relief. Thus far he has delivered on the first promise but not the second. In his first-year budget, Engler pruned real state general fund spending by 3 percent, or almost $100 per family. His proposal to eliminate general welfare assistance to employable adults without children has become a national test case. Even with those spending cuts, Engler still faces a substantial deficit (3 percent of expenditures) in 1992 thanks to the state's faltering economy. Engler has not raised a single major tax, nor does his second budget propose new taxes, despite revenues that are rapidly declining because of the recession. Engler's next major task is to push for a promised 20 percent reduction in Michigan's very high property taxes.

Minnesota

Arne H. Carlson, Republican Legislature: Democratic
Took Office: 1/91

Grade: B

Carlson came to the governor's mansion with a reputation as a moderate Republican, not as a dedicated budget cutter. But in his first year, Carlson took his knife to the Minnesota state budget and spent most of his time slicing. He cut general fund outlays in real terms by 8 percent, which reduced by roughly $500 the tax expenditure of every Minnesota family of four. That was the deepest cut made by any governor in 1991. Unfortunately, the Minnesota Supreme Court reversed his line-item vetoes on a technicality, which means spending will be greater than indicated herein. Carlson's tax record was less inspiring. He raised Minnesota's already-high income tax rates by half a percentage point. He did the same with the sales tax. The big question about Carlson is whether he will continue cutting the budget or raising taxes in years to come.

Missouri

John Ashcroft, Republican Legislature: Democratic
Took Office: 1/85
Grade: C

Ashcroft has built a reputation as a fiscal conservative, but it may not be deserved. Ashcroft has been a relatively big spender for one of the nation's lowest spending states. Missouri spends only about $1,700 per person, but that is up from $1,500 in 1985 when Ashcroft was elected. Real expenditures have risen at more than a 3 percent real rate during his terms in office, easily outpacing the growth in personal income in the state. He has shown a willingness to increase spending on education and transportation in particular. Worst of all, last year Ashcroft supported a large increase in corporate income and sales taxes. The voters repudiated Ashcroft's policies by rejecting those tax hikes November 1991.

Montana

Stan Stephens, Republican Legislature: Split
Took Office: 1/89
Grade: C

In a region in which many states have been cutting back on spending, Montana has bucked the trend under Stephens. Spending has not been cut; in fact, expenditures have been growing slightly faster than personal income over the past four years, especially in 1991 and 1992. Since 1990 spending has outpaced economic growth by half a percent. That helps explain why Montana has a mountainous budget deficit in 1992, unlike other states in the region. Stephens has not raised taxes, and revenues have grown only modestly since 1989. Yet Stephens has done nothing to reduce the state's very high income tax rates, which contributed to low growth and out-migration in the 1980s.

Nebraska

E. Benjamin Nelson, Democrat Legislature: Split
Took Office: 1/89
Grade: C

Nelson narrowly upset incumbent Kay Orr by pounding her for breaking a no-new-taxes pledge and by promising to revive the state's economy. Although he trimmed property taxes last year, he raised Nebraska's already excessive business and individual income tax rates. He also accelerated state spending last year. General fund expenditures rose by 7.7 percent in his first budget, which constituted a $260 expenditure increase per family. Those first-year policies would hardly seem to be the prescription for reversing the state's recent population and business defections.

Nevada

Bob Miller, Democrat Legislature: Split Took Office: 1/89 Grade: F

Miller has presided over an explosion of new spending during his four years as governor of Nevada, and he has not been the least bit reluctant to raise taxes on several occasions to pay for the spending spree. Since 1989 Nevada has been one of the five biggest spending states. In Miller's first year expenditures rose at a real rate of 8.25 percent and tax revenues climbed by over 10 percent. Although Miller was foiled in an attempt to impose a 1 percent payroll tax in this non-income-tax state, he has raised business taxes, the sales tax, and gasoline taxes. Miller's tax-and-spend policies have begun to take a toll on the state's economy. They are surely unsustainable over the long term.

New Hampshire

Judd Gregg, Republican Legislature: Republican
Took Office: 1/89
Grade: B

As the successor to John Sununu, Gregg has had to govern during much leaner economic times. Perhaps as a consequence, Gregg has restrained spending much more than was done during the mid-1980s when expenditures grew by double digits each year. Under Gregg the spending spree has ended: expenditures have been growing at no faster than the inflation rate, and real per capita outlays have actually fallen slightly. Although Gregg has steadfastly dismissed the notion of a New Hampshire sales or income tax, he did raise the gasoline tax last year and other "sin" taxes the year before. Gregg's opposition to new taxes may soften again this year when he attempts to close an 8 percent deficit caused by a continuing deep recession in the state.

New Jersey

James Florio, Democrat Legislature: Democratic
Took Office: 1/90
Grade: F

Florio ran for governor on a pledge of no new taxes, but as governor in 1990, he pushed through the legislature the largest state tax hike to date in American history. The $2.8 billion tax package, which included a steep income tax rate hike and a 1 percentage point increase in the sales tax, was passed under the guise of deficit-reduction and education-financing reform. New Jersey's middle class has repudiated Florio's taxes, which were sold as a populist plan to "soak the rich." In the 1991 legislative elections, irate taxpayers swept out of office the Democratic majorities of both houses, who had voted for the Florio program. Florio's spending record has been equally bad. Since Florio arrived in Trenton in 1990, New Jersey has had one of the five fastest growing state budgets. Spending has climbed by roughly $750 per family in Florio's two years. He has continued to pour money into the public schools even though education spending per student has doubled since 1980 with little positive results. In 1992 Florio faces a half-billion-dollar deficit and a newly elected Republican legislature that seems certain to repeal at least a portion of his tax package. Florio's brief tenure has been a case study in how not to govern.

New Mexico

Bruce King, Democrat Legislature: Democratic
Took Office: 1/91
Grade: C

Running for his third term as governor (New Mexico does not allow governors to serve consecutive terms), King took the no-new-taxes pledge before the 1990 election. So far he has kept that promise. Unfortunately, if spending continues to climb as it did last year, he may have to break his promise. Last year's budget allowed spending to climb by 3 percent above inflation--an additional $150 per New Mexico family. Much of that money was spent on education, to keep another campaign pledge--to boost teachers' pay.

New York

Mario Cuomo, Democrat Legislature: Split
Took Office: 1/83
Grade: C

Cuomo's reputation as a big taxer and spender may be only half deserved. To be sure, Cuomo launched a massive spending campaign in New York during his first seven years in office. Total per family spending from 1983 to 1990 under Cuomo rose by more than $800. Over those years spending rose at a 5 percent annual rate above inflation and 1 percent over personal income. During the first seven Cuomo years, the average New York family saw their real taxes and fees skyrocket by about $400 each year. In the last two years, Cuomo has mended his ways and gradually brought down New York's spending rate--but not fast enough to avert the nation's biggest deficit crisis this year. Making matters worse, New York's bond rating was recently dropped by Moody's for the second time during Cuomo's command. On the other hand, Cuomo has done several commendable things. Under him income tax rates have come down faster than in any other state-- though they remain excessive. When Cuomo came took office, the top rate was 14 percent; it is now about 8 percent. State corporate income taxes have been shaved slightly as well. And New York is one of the few states that have not raised the state sales tax or the gasoline tax since the early 1980s. Unfortunately, in the last two years Cuomo has reversed course and raised taxes more than $2 billion. His adherence or departure from his new course in the current budget crisis will determine whether he should be regarded primarily as a big spender or a supply-side tax cutter.

North Carolina

James G. Martin, Republican Legislature: Democratic
Took Office: 1/85
Grade: D

North Carolina is the only state that does not give its governor veto power--which means that the governor's control over the budget process is significantly diminished. However, Martin has been a willing partner in the spending explosion that has occurred in North Carolina in recent years. He has pushed through the legislature spending initiatives for education and highways. Average annual spending per family rose by almost $300 from 1985 to 1990. To finance that spending, Martin has agreed to increases in the income tax, the gasoline tax, and most recently the sales tax. He has been the third biggest tax hiker of the 26 pre-1990 governors. In sum, the spending and tax status of North Carolina has deteriorated under Martin.

North Dakota

George A. Sinner, Democrat Legislature: Split
Took Office: 12/84
Grade: C

Sinner has one of the most enigmatic track records on fiscal policy. As a result of dramatic reductions in severance tax revenues, North Dakota has been forced to undergo significant fiscal restructuring. Sinner has impressively cut back expenditures both per family and as a share of personal income. Real per family tax revenues have fallen by $175 per year under Sinner. However, to at least partially make up for lost severance tax revenues, Sinner has increased tax rates. He has raised the top personal income tax rate by 3 percentage points and the rates on middle-income families by 2 percentage points. He also has raised the gasoline tax and the sales tax. When all those changes are taken together, the best that can be said is that Sinner has been an average governor.

Ohio

George V. Voinovich, Republican Legislature: Split
Took Office: 1/91
Grade: C

Voinovich came to the statehouse in 1990 vowing to reverse the high tax policies of long-time governor Richard Celeste. Ohio ranks as one of the 15 highest tax states, according to a survey by Money magazine; a typical family pays $6,800 to the coffers of state and local governments. Voinovich did not raise taxes in 1991, but he did not decrease the state's excessive tax burden either. Spending in the governor's first year budget is far more restricted than in the high-growth 1980s. Real expenditures will rise by about 1.9 percent, which is about the national average.

Oklahoma

David Walters, Democrat Legislature: Split
Took Office: 1/91
Grade: B

Walters came to office in 1990 after selling himself as the education candidate. He supported a controversial education reform package that carried a $230 million price tag and was passed under his predecessor. However, in a state whose tax revenues have been plummeting as a result of the drop-off in the oil market, Walters did not raise taxes in his first year, and he did not significantly raise spending. Spending will keep pace with inflation in 1992, but that does not qualify Walters as a big spender. Walters has not ruled out new taxes, but he says that any tax bill will need to be explicitly approved by the voters at the polls.

Oregon

Barbara Roberts, Democrat Legislature: Democratic
Took Office: 1/91
Grade: D

Roberts ran for governor in 1990 as a self-proclaimed prospending liberal, and so far that is what she has been. In her first budget, spending climbed by 10.5 percent above inflation, giving Oregon one of the three largest budget increases in the country for 1992. Much of the money was poured into double-digit increases in funding for education. Roberts hiked the gasoline tax by 2 cents a gallon and increased other taxes, thus raising the tax burden on the typical family by roughly $200 in real dollars. Next on her agenda appears to be a push to add a firstever sales tax to the Oregon tax code to finance further increases in spending.

Pennsylvania

Robert P. Casey, Democrat Legislature: Split
Took Office: 1/87
Grade: C

From 1987 through 1990 Casey built an admirable track record on budget policy. Unlike those of other states in the Northeast, Pennsylvania's expenditures grew at only about the inflation rate and fell as a share of personal income growth. State employment grew more slowly than in the region, but taxes were not raised. Since 1990, Casey has dramatically changed course. Pennsylvania has had one of the 10 fastest growing budgets since 1990; per family expenditures are up by $400. To finance new spending, last year Casey signed into law a $1 billion plus income tax increase--which represents the third largest tax bill in the nation. The old Robert Casey was a fiscal conservative when other governors were spendthrift; the new Robert Casey is one of the nation's premier tax-and-spend governors when many states are scaling back. Although his overall record is average, Casey is headed in the wrong direction.

Rhode Island

Bruce Sundlun, Democrat Legislature: Democratic
Took Office: 1/91
Grade: F

Sundlun crushed the incumbent Republican governor in the 1990 election and took over the helm of a state in the midst of a financial depression; banks were closing, unemployment was surging, and the Rhode Island budget deficit was climbing each month. Sundlun's response to the crisis has been a mixed bag at best. To his credit, he has restrained spending to slightly below the inflation rate. He even laid off close to 1,000 state employees last year. Unfortunately, Sundlun also raised taxes almost across the board. He raised business taxes, personal income taxes, and the gasoline tax by 5 cents a gallon. Worse yet, the new taxes have not prevented the deficit crisis from worsening.

South Carolina

Carroll A. Campbell, Jr., Republican Legislature: Democratic
Took Office: 1/87
Grade: C

Campbell's fiscal policy record has been steadily improving over the past five years. From 1987 to 1990 under Campbell, state spending climbed by more than $300 per year for every family, and the annual spending growth rate outpaced income growth by 2 percent. Real taxes grew by 2.2 percent during that period. Since 1990, however, Campbell has slammed the brakes on spending and tax revenues. Real general fund outlays have now begun to fall both per family and as a percentage of personal income. Campbell also deserves credit for boosting the South Carolina economy by cutting income tax rates and business taxes.

South Dakota

George S. Mickelson, Republican Legislature: Republican
Took Office: 1/87
Grade: A

Mickelson earned the second highest rating in our survey of governors in office over two years primarily for having significantly cut back on expenditures in the 1980s, at a time most of the rest of the states were on a spending binge. Average annual spending fell by over $200 per family from 1987 to 1990. That was a significant 5 percent decline relative to personal income growth in the state. One worrisome trend, however, is that, in the last two years, Mickelson has allowed spending to begin rising again. Mickelson has refused to entertain the idea of a personal or corporate income tax for South Dakota, but he has raised the gasoline tax and temporarily raised the sales tax. On balance, South Dakota has a pro-growth tax code. That and the budget restraint imposed by Mickelson in the 1980s may explain why South Dakota has one of the nation's healthiest economies today.

Tennessee

Ned Ray McWherter, Democrat Legislature: Democratic
Took Office: 1/87
Grade: B

McWherter's performance has been slightly above average in controlling taxes and spending in Tennessee. Annual real expenditures rose by $168 per family from 1987 to 1990, but since then per family general fund spending has fallen slightly. Taxes under McWherter have grown no faster than the inflation rate, and the tax code has been left alone save for a 4 cents a gallon hike in the gas tax. McWherter's raw numbers, however, are deceptively flattering. Last year he tried to accelerate funding for education by throwing his support behind a personal income tax. He was saved temporarily by the legislature, which flatly rejected the idea. Undeterred, McWherter continues to push aggressively for an income tax, which is anathema to most Tennessee residents. McWherter's policies are clearly getting worse.

Texas

Ann W. Richards, Democrat Legislature: Democratic
Took Office: 1/91
Grade: C

In 1990 Richards won an improbable, come-from-behind victory over her self-destructing opponent, Clayton Williams. Although she has tried to paint herself as a fiscal moderate, her first- year record contradicts that label. One of her first actions was to sign an expensive school-financing reform bill to pump more money into the public schools in low-income areas. That and her other spending priorities have caused real general fund expenditures to shoot up by $296 per family--an 8.8 percent increase. Also in her first year, Richards raised taxes by $850 million, including a 5 cents per gallon in the gasoline tax. She also approved a state lottery. Richard's real test, however, will come this year as the state debates instituting an income tax for the first time to close a growing deficit. Richards has not taken a strong position on that tax.

Utah

Norman H. Bangerter, Republican Legislature: Republican
Took Office: 1/85
Grade: C

Bangerter's brand of fiscal conservatism closely matches the temperament of the state he heads. Although real expenditures and taxes have risen by about $100 per family each year, personal income growth has slightly outpaced spending and taxes during Bangerter's seven years in office. He took some heat from the voters in 1987 for backing a tax hike, and since then he has cut tax rates. In 1989 Bangerter cut personal income and business taxes, which has contributed to continued strong economic growth in the state even as most of the rest of the nation flounders in recession. Because of its still-strong economy, Utah has eluded the budget deficits that have stung many of its neighbors.

Virginia

L. Douglas Wilder, Democrat Legislature: Democratic
Took Office: 1/90
Grade: C

Wilder, a grandson of slaves, was elected as nation's first black governor in an upset win in 1989. He has been touting himself as a fiscally conservative Democrat who wishes to make government leaner and more effective. His challenge has been to deal with Virginia's severe budget crisis without disrupting essential services and without raising taxes. So far he has succeeded admirably. Taxes have not been increased. Spending has grown at a slightly slower pace than inflation, and real tax revenues per family have fallen by more than $100. Wilder has another deficit to close this year, but again his budget proposal recommends further spending cuts, furloughs, and no new taxes. In short, Wilder's record keeps getting better all the time.

Washington

Booth Gardner, Democrat Legislature: Split
Took Office: 1/85
Grade: D

Gardner presided over the Washington state government during the state's boom years of the mid and late 1980s. Unfortunately, he allowed the money to pour out of the state as fast as it came in. Real spending grew by more than 4 percent a year from 1985 to 1990, or about $220 per family per year. Worse yet, the pace of spending has accelerated, rather than subsided, in the 1990s. Washington has had one of the nation's five fastest growing budgets since 1990. Tax revenues have been steadily climbing as a share of individual income and on a per family basis. Gardner has raised the gasoline tax by 5 cents a gallon and continues to push for new taxes (even a state income tax) for school funding and other spending plans. It should come as no surprise that Washington has to tackle a 4 percent deficit in 1992.

West Virginia

Gaston Caperton, Democrat Divided: Democratic
Took Office: 1/89
Grade: F

From 1980 to 1989 West Virginia had the slowest growing state budget in the nation. Then Caperton became governor. In his first year he increased state spending by more than $600 per family after accounting for inflation. Since 1990 he has further increased the general fund budget by $425 per family. In the 1990s West Virginia has had one of the five fastest growing budgets. One of Caperton's first actions as governor was to break his no-new-taxes pledge and pass a

$400 million tax bill that included a broadening of the sales tax base and a hike in the gasoline tax. Those tax increases raised the average West Virginia family's tax burden by almost $500--or by about 9 percent. Caperton's is hardly an enviable record.

Wisconsin

Tommy G. Thompson, Republican Legislature: Democratic
Took Office: 1/87
Grade: B

Thompson has been quickly gaining a reputation as one of America's most innovative governors. Nowhere has he been more impressive than on budget policy. From 1987 through 1990 spending under Thompson crept up at only the rate of inflation and personal income growth in the state. State employment during those years remained relatively constant as a percentage of population at a time when almost all other governors were significantly adding to their states' payrolls. Thompson has routinely blocked planned spending by the more liberal legislature; he has used his line-item veto authority over 400 times. One blemish on Thompson's record is signs that since 1990 spending has been rising faster than the national average. Where Thompson's record truly shines is on tax policy. He has cut income taxes, capital gains taxes, and inheritance taxes, and last year he vetoed a major tax bill. The result: the tax burden has fallen by 3 percent of personal income and by $250 per family per year.

Wyoming

Michael J. Sullivan, Democrat Legislature: Republican
Took Office: 1/87
Grade: A

Sullivan's budget-cutting record from 1987 to 1990 was far and away superior to any other governor's. When the oil market went bust in the 1980s, Wyoming's severance tax revenues fell, throwing the state government's finances into turmoil. Sullivan responded by dramatically downsizing a state government that spends more money per capita than any other in the nation. He began the retrenchment effort by trimming 79 government agencies down to just 12. From 1987 to 1990 real government spending fell by $350 per family each year and by an even more impressive 5 percent of personal income. Sullivan also has resisted all calls for a major tax hike to replace the lost oil tax revenues, except for a penny a gallon increase in the gasoline tax. Perhaps most impressive of all, Sullivan has even helped turn the economy around; in spite of the loss of oil jobs, job growth has expanding under his administration. Thanks to the budget austerity program of the late 1980s, today Wyoming's finances are in better shape (though the state budget is still bloated) than are the vast majority of state governments'. That is truly a record to be emulated.

Notes

For all states, + indicates that local taxes are additional.

California

* Temporary increase in the sales tax to 5 percent enacted 10/91 for earthquake relief; expired 1/91. The rate fell back to 4.75 percent at that time.

** Sales tax was also broadened in 1991.

*** Gasoline tax increase from 5 to 14 cents per gallon for transportation improvements approved by voters; effective 1/91.

Connecticut

* Instituted a 4.5 percent tax on federal adjusted gross income plus an additional 1.5 percent retroactive for calendar year 1991. The tax on capital gains, dividend, and interest income was reduced from 7 percent to 4.6 percent. Effective

in 1992 capital gains income will be taxed as ordinary income.

** Reduced business tax surcharge from 20 percent in 1991 to 10 percent in 1992 to 0 thereafter. After 1992 the corporate income tax rate will be 11.5 percent.

*** Expanded sales tax base to various services.

Delaware

* Increased business franchise tax.

Georgia

* Additional gasoline tax levied at 3 percent of retail sales price.

Hawaii

* Income tax includes a flat fee based on income level.

** Capital gains tax raised from 3 percent to 4 percent in 1987.

Idaho

* Effective 4/91 the gasoline tax rose 3 cents; half of the increase is dedicated to local governments.

Illinois

* Previously enacted temporary income tax surcharge made perma- nent.

Indiana

* A supplemental net income tax of 4.5 percent is imposed on corporations, banks, trust companies, and insurance companies.

Kansas

* The corporate income tax rate is 4.5 percent plus a 2.25 percent surtax on taxable income in excess of $25,000. Banks pay 4.25 percent plus a 2.1 percent surtax

.

Massachusetts

* Interest, dividends, and net capital gains are taxed at 12 percent.

** Massachusetts corporations pay an excise tax equal to 9.5 percent of net income plus $2 per $1,000 of net worth.

*** Repealed sales tax on services that had been enacted on 12/90.

Michigan

* In taxing corporations, state uses a single business tax of 2.35 percent, which is a modified value-added tax.

Minnesota

* In addition to a sales tax rate increase, the base was expanded in 1991.

Missouri

* Tax increases passed legislature and approved by the governor, but repealed by voters 11/91.

Nebraska

* Corporate income tax includes temporary 15 percent surcharge on corporate taxable income over $200,000, which brings the highest marginal rate to 8.99 percent.

Nevada

* Sales tax includes state-levied local tax of 3.75 percent and 2 percent state rate.

** Increased local school-support sales tax by 0.75 percent in 1991.

New Hampshire

* State has no personal income tax but does have a tax of 5 percent on interest and dividends over $1,200.

** Corporate tax is 8 percent of taxable business profits.

New Jersey

* Corporate income tax surtax of 0.375 increased to 0.417 per- cent.

New York

* Postponed previously enacted personal income tax cut and extended highest marginal income tax rate to entire income of upper-income individuals.

** Small businesses are subject to a lower corporate income tax rate. A 15 percent surcharge applies to years ending after 6/30/91 and before 7/1/92.

*** Counting local sales taxes, the sales tax in New York City is 8.5 percent.

North Carolina

* State also instituted a corporate income tax surcharge of 4 percent in 1991, 3 percent in 1992, and 1 percent in 1993.

Ohio

* Expanded the sales tax base to include various services.

Pennsylvania

* Personal income tax increase includes 0.3 percent temporary surcharge due to expire 7/92.

** Corporate income tax increase also includes a 1.75 percent temporary surcharge.

Rhode Island

* Personal income tax rates are based on federal income tax liability. In 1991 rates were raised from 23 percent to 27.5 percent of taxable income.

** Corporate tax is greater of 9 percent of net income or franchise tax.

*** Raised corporate income tax rate to 11 percent plus a temporary surtax of 11 percent.

South Carolina

* Beginning in 1990 banks pay a 4.5 percent net income tax and savings and loans pay a 6.0 percent net income tax.

South Dakota

* Before 1989 banks and financial institutions paid 6 percent of federal taxable income. Starting in 1989 the tax was changed to 6 percent of net income.

** A temporary sales tax rate increase from 4 to 5 percent was in effect in 1987 but expired as scheduled.

Tennessee

* Individuals are taxed only on income from dividends and interest.

** In addition to corporate income tax, corporations are subject to a 9 percent tax on dividends and interest.

Texas

* Broadened sales tax base to certain services in 1991.

Wisconsin

* The motor fuel tax increased from 21.5 to 22.2 cents per gallon and is scheduled to increase to 23.2 cents on 4/92.