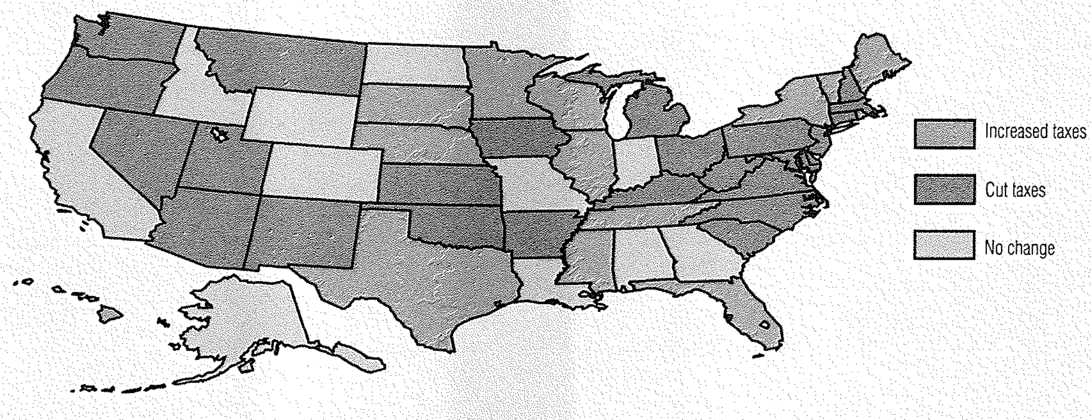
Regional Conditions

STATE TAX CHANGES, 1995



States that Cut Taxes in 1995
(Millions of dollars)

North Carolina	363	Montana	31
Pennsylvania	281	Virginia	26
Oregon	266	Arkansas	25
New Jersey	260	New Mexico	25
Michigan	245	Delaware	18
Arizona	104	Nevada	15
Washington	103	Connecticut	11
New Hampshire	86	South Carolina	5
Utah	84	West Virginia	3
Ohio	68	Maryland	2
Kentucky	34	Oklahoma	2
Iowa	32	Massachusetts	1
Kansas	31		

States that Increased Taxes in 1995
(Millions of dollars)

New York	285
Illinois	257
Tennessee	103
Hawaii	65
Rhode Island	56
Vermont	55
Wisconsin	30
South Dakota	27
Minnesota	8
Texas	7
Mississippi	6
Florida	4
Maine	4
Nebraska	4

SOURCE: National Conference of State Legislatures.

While politicians in Washington make painfully slow progress toward resolving their battle over the size of government, state legislatures have apparently committed themselves to making do with less. This past year—for the first time in a decade—the total value of state tax cuts exceeded the value of state tax increases.

The National Conference of State Legislatures reports that 25 states cut taxes by a combined total of $2.1 billion, while 14 states boosted taxes by a combined total of $910 million. Most of the increase was concentrated in taxes on hospitals, nursing homes, and other health care providers, as states use these revenues to pay their share of Medicaid, one of the fastest-growing state budget items. The largest cuts occurred in North Carolina, Pennsylvania, Oregon, and New Jersey, each of which reduced taxes by more than $250 million. In contrast, New York (which anticipates a substantial loss of Medicaid funds if federal block grants are enacted) and Illinois each raised taxes by more than $250 million.

Whether some states will ultimately regret such bold moves will not be revealed until the federal government decides whether to give them long-promised block grants and increased autonomy over spending on various programs.

(continued on next page)

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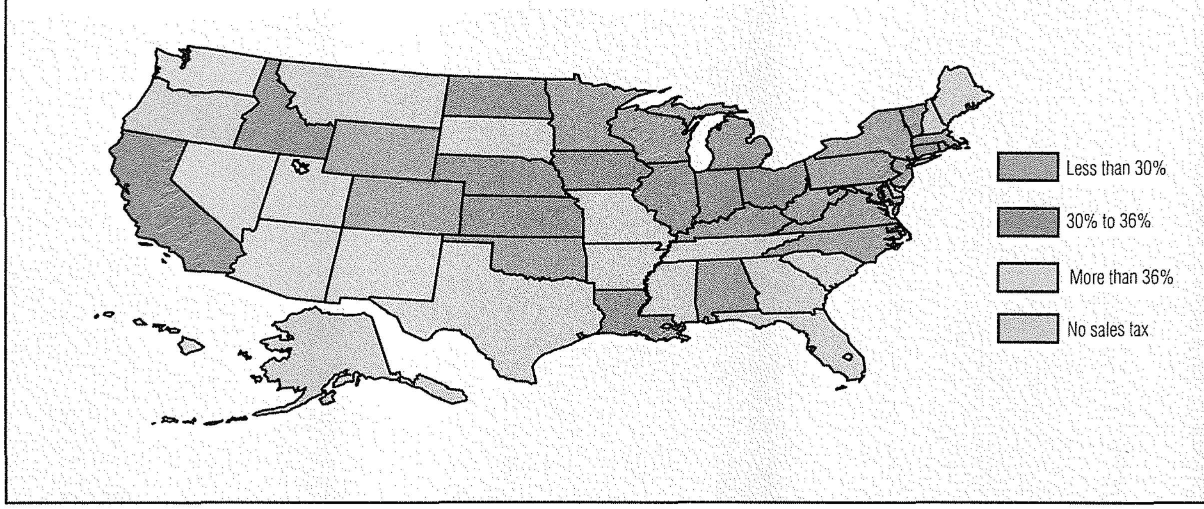
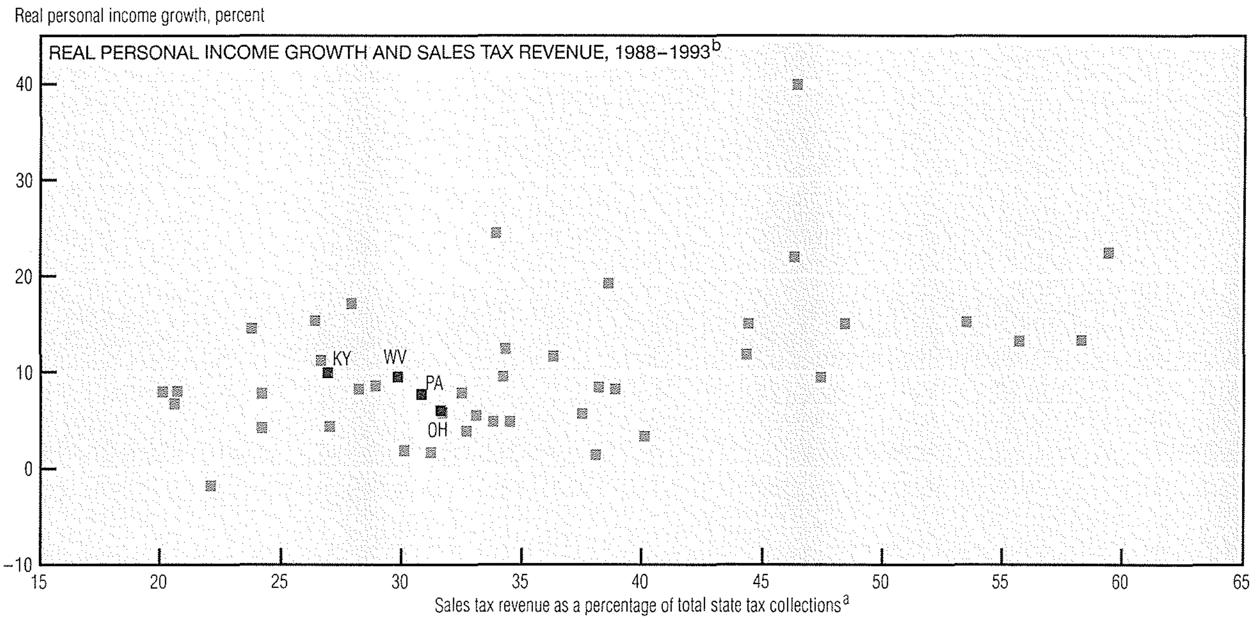
Regional Conditions (cont.)

SALES TAX REVENUE AS A PERCENTAGE OF TOTAL STATE TAX COLLECTIONS, 1993[a]



REAL PERSONAL INCOME GROWTH AND SALES TAX REVENUE, 1988–1993[b]



a. Sales tax revenue includes general sales and gross receipts.
b. Excludes states with no sales tax.
SOURCE: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

Another area in which state policy may presage federal policy is the structure of the tax system. For instance, there has been much debate about whether the federal tax code discourages saving and work effort. Many economists have suggested that a uniform national sales tax would be a more efficient way to raise needed tax revenues and encourage saving. They believe that the additional saving would result in greater investment, enhancing the productivity of workers and raising their earnings.

States' tax codes exhibit varying degrees of reliance on sales taxes and thus may suggest how increasing taxes on consumption could affect economic growth. In 1993, 33% of total state revenues were generated by sales taxes, a figure virtually unchanged from 1988. The proportion of state revenues raised by a sales tax in 1993 ranged from zero (in Alaska, Delaware, Montana, Oregon, and New Hampshire) to a high of 60% in Washington state, with the median state garnering 31% of its revenues from a sales tax.

There is no obvious connection between reliance on sales taxes and growth, however. From 1988 to 1993, residents of states that relied more heavily on sales taxes did not experience greater overall growth in real personal income than did residents of other states.