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AUTHOR	Benson, Charles S.; Weinstock, Phyllis
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ABSTRACT

This analysis is the second of a series of seven reports on the ways that the urban fiscal crisis has affected children. During the 1970s, as a result of general public disenchantment with government, 39 states (78 percent of the 50 states) appear to have enacted tax limitations that affected children's services. Of these states, 37 imposed restrictions on local governments. Examination of census data indicates that after a period of expansion in the early 1970s, direct state-local expenditures dropped off more sharply than revenues, indicating that factors other than revenue availability were acting to curb expenditures. Tax limitations were installed in those states in which the growth of state-local revenues outstripped growth in personal income. Similarly, states with a high rate of in-migration were also likely to initiate tax limitations. There appears to be no relationship between changes in educational funding, the largest category of state-local spending, and changes in public school enrollments. Children's services may be particularly vulnerable during a period of public disenchantment because the wealthy "shop around" and pick a community to live in that gives them what they want. Statistical data are included on seven tables. An eight-item bibliography is appended. (FMW)

The Tax Limitation Movement of the 1970's: A National Perspective

Charles S. Benson and Phyllis Weinstock,
University of California, Berkeley

In this paper we make observations about tax limitations that have been adopted in various states. Our intent is not to deal in detail with the laws and initiatives passed in any one state, or even in any set of states; instead, we offer a kind of national perspective on changes that have occurred in the financing of state and local services.

The period of time to which our comments apply is the decade of the 1970's. True, certain states have long had tax limits in regard to state revenue measures; and, indeed, the whole apparatus of executive budgets, legislative scrutiny of budgets, the executive's privilege of veto of whole budgets or line items, etc., can be regarded as a generalized form of tax limitation. Local governments traditionally have operated under legal constraints towards revenue raising, of which the New England town meeting is perhaps the oldest surviving form.[1]

Nevertheless, we believe something happened in the 1970's that represents a major shift in the way that state and local governments do business. In commercial jargon, we see a "break in the trend line," a departure from the slow steady change that is characteristic of major, long-established in-

stitutions. Our special concern is how this shift in the way state and local governments do their business--assuming the phenomenon we seek to identify is real--affects the provision of public services for children. We make a number of inferences on this point, but we believe the reader will agree that they are firmly based.

Only in a very narrow sense is our paper predictive. It seems clear that federal support of state and local services will continue to decline at least through the middle of the 1980's. Actually, a relative decline in federal support predates the Reagan administration, as we show below, but we are now in a period of absolute reduction of support in current dollars. As of early 1983, we can anticipate with virtual certainty that larger reductions are forthcoming.

As for state and local revenues, we do not find we can make predictions. A number of states are in deep financial trouble, including California, our largest and one of our most prosperous. New York City is undergoing budget cuts of the order imposed during the near-bankruptcy of 1975. Seven states ended 1981-82 with a budget deficit and many more are expected to do so in 1982-83.[2] Some states and localities appear to have gotten into a situation where the revenues are income elastic on the downslope but inelastic on the rebound. In regard to meeting needs of people for public services, we have been ratcheting down, not up, in real resources available. In such a condition one needs either to impose new taxes and reduce

the constraints on existing taxes, such as indexation (the process of protecting taxpayers from the additional tax burden associated with inflation). Yet, the tax limitation movement makes these adjustments more difficult, and the federal government is now in a very weak position to engage in a bail-out.[3]

We recognize that these are quite limited predictions, but as of early 1983 the economic outlook and the federal government's budgetary problems, matters that are obviously related, are sufficiently portentous to instill modesty. We hope to offer the reader some information that may seem fresh and, with the best of luck, some information that will help the reader adjust his or her own predictions to the changing times.

The Extent of the Tax Limitation Movement

Table I shows, by state, tax limits and related actions that were approved during the decade of the 1970's. We note various types of limits. Some limits affect tax instruments used by state governments; other limits are those imposed by the state on use by local governments of their own revenue sources. Limits may be voted by state legislatures simply as statutes, affecting either their own revenue sources or those of local governments, or they may be incorporated into state constitutions. Ordinarily this latter action requires a vote of the people of the state. Tax limits may be written so as to specify the mechanisms by means of which they are rendered wholly or partly inoperative, called "override provisions."

TABLE 1

State and Local Tax and Spending Limitations in the 1970s

	State Limits				Local Limits (State Imposed)				
STATE	Year	Type of Law	Type of Limit	Override Provisions	Year	Type of Law	Entities Affected	Type of Limit	Override Provisions
ALAB					1979	C	c m sc	property tax rate limit ranging from 1% to 2%, depending on class of property	if requested by govt. of taxing unit, enacted into law by state legis., and approved by referendum in taxing district
ALASK					1973 (amended 1975)	S	c m	property tax levy limited to $1,000 per person or 225% of state average	
					1972	S	c m sc	property tax rate limited to 3%	
ARIZ	1978	C	expenditures limited to 7% state pers. income.	2/3 legis.	1980	C	c m sc	resid. prop. tax rate limit to 1%	
	1978		individ. income tax indexation		1980	C	c m sc	assessment increase limited to 10%	
					1980	C	c m sc	expenditure limit based on pop. & cpi. formula	
					1980	C	c m	levy limit 2% inc/yr.	
ARK					1980	C	c m sc	prop. tax levy limit to offset increase after reassessment	
CALIF	1979	C	appropriations increase limited to cpi & pop. incr.	legis. or voters may override temporarily with compensating reduction in 3 subsequent yrs.	1979	C	c m sc	appropriations increase limited to cpi & pop. inc.	same as state level
	1978		income tax indexation		1978	C	c m sc	prop. tax limited to 1%, and assessed value increase limited to 2% (unless sale)	2/3 local voter approval may impose special tax

COLO	1978		income tax indexation		1981	S	c m s	full disclosure law*	
	1977	S	expenditure increase limited to 7%	majority of legis.	1976 (amendment to 1956 law)	S	c m	levy increase limited to 7%	voters or local govt. may exceed limit
CONN									
DEL	1980	C	appropriations limited to 98% revenue	60% legis.	1972	S	c	property tax levy limited to offset incr. after reassessment	
D.C.					(under control of U.S. Congress)				
FLA					1980 (amendment to 1971 law)	S	c m sc	full disclosure	
GA									
HA	1978	C	expenditures incr. limited to increase in state pers. income	2/3 legis.	1976	S	c	full discolosure	
IDA	1980	S	expenditures limited to 5 1/3% state pers. income	majority of legis.	1981	S	c m sc	prop. tax (in 1981 only) limited to 5% incr. over largest levy in last 3 yrs. or 1/2 growth in assessed value over 80	
					1981 (amendment to 1978 law)	S	c m sc	prop. tax rate limited to 1%	2/3 voter approval needed to exceed
ILL									
IND					1979 (amendment to 1973 law)	S	c m	for counties & munic., prop. tax levy growth limited to average growth in assessed value over past 3 years	

IOWA					1977	S	c m sc	limit on increases in assessed value (4%)	
					1971 (amended since)	S	sc	expenditures growth tied to growth in state revenues & cpi deflator & also, limits on increase in per pupil spending	
KANS					1971, 73 (amended since)	S	c m	prop. tax levy limited to growth in new construction	counties and home rule charters may modify
					same		sc	expenditures limited to varying increases each year	
KENT					1979	C	c m sc	full disclosure: prop. tax levy limited to growth in assessed value unless public mtg. need	
LA	1979	S	certain revenues limited to ratio of 78-79 revenues to 1977 personal income	(may be amended)	1978 (may be amended)	S	c m sc	prop. tax levy limit to offset increase after reassessment	may be exceeded with approval of majority of voters
					1974		m sc	various specific rate limits	" "
ME									
MD					1977	C	c m	full disclosure	
					1977	S	c m	homeowners receive credit assessment inc. 15% or more	
MASS					1980	S	c m s	prop. tax rate limited to 2.5% or 1979 rate, whichever is less; levy increase in succeeding years also limited to 2.5%	majority vote in local special election needed to exceed

MICH	1978	C	revenues limited to prior year rate of revenues to personal income	2/3 legis. and governor	1978	C	c m sc	prop. tax levy limit rolls back rates when growth in assessed value exceeds that of cpi	may be exceeded with approval of majority of voters
MINN	1979		individual income tax indexation		1973 (amended 1981)	S	c m	prop. tax levy limited to 8% increase/year	may be exceed with voter approval
					1971	S	sc	state sets limit on levy which may be exceeded by district referendum	
MISS					1980	S	c m s	prop. tax levies limited to 10% increase/year till 1983, then 6%	
MO	1980	C	revenues limited to prior year ratio of revenues to personal income	2/3 legis. & governor	1978, 1980	C	c m sc	prop. tax levy limited to rise in cpi; all gen. revenues growth limited to rate of growth of rev. base	may be exceeded with voter approval
MONT	1980	S	individual income tax indexation		1974 (amended 1979)	S	c m sc	full disclosure	
NEB					1979	S	c m sc	revenue increase limited to 7%/year through 1984, unless pop. increases greater than 5%	may be exceeded by referendum or in time of emergency
NEV	1979	S	rise in budget requests limited to rise in inflation and pop. growth (between 75-77 and current yr.)	(may be amended)	1981 (may be amended)	S	c m	budget increase limit based on state estimates of prop. & sales taxes	can be exceeded in emergencies
							c m sc	various prop. tax levy levy limits	" "
NH									

MICH	1978	C	revenues limited to prior year rate of revenues to personal income	2/3 legis. and governor	1978	C	c m sc	prop. tax levy limit rolls back rates when growth in assessed value exceeds that of cpi	may be exceeded with approval of majority of voters
MINN	1979		individual income tax indexation		1973 (amended 1981)	S	c m	prop. tax levy limited to 8% increase/year	may be exceed with voter approval
					1971	S	sc	state sets limit on levy which may be exceeded by district referendum	
MISS					1980	S	c m s	prop. tax levies limited to 10% increase/year till 1983, then 6%	
MO	1980	C	revenues limited to prior year ratio of revenues to personal income	2/3 legis. & governor	1978, 1980	C	c m sc	prop. tax levy limited to rise in cpi; all gen. revenues growth limited to rate of growth of rev. base	may be exceeded with voter approval
MONT	1980	S	individual income tax indexation		1974 (amended 1979)	S	c m sc	full disclosure	
NEB					1979	S	c m sc	revenue increase limited to 7%/year through 1984, unless pop. increases greater than 5%	may be exceeded by referendum or in time of emergency
NEV	1979	S	rise in budget requests limited to rise in inflation and pop. growth (between 75-77 and current yr.)	(may be amended)	1981 (may be amended)	S	m	budget increase limit based on state estimates of prop. & sales taxes	can be exceeded in emergencies
							c m sc	various prop. tax levy levy limits	" "
NH									

NJ	1976	S	expenditure increases limited to average rise in state personal income over prior two-yr. period	majority referendum	1976	S	c m sc	prop. tax levy increase limited to 5%/yr. expenditures (own source) increase limited to 5%/yr. per pupil spending growth limited to 3/4 growth of valuation; plus ceiling	may be exceeded with referendum
NH					1979	S	c m sc	prop. tax levies limit based on increases in assessed value	
					1977	S	c m sc	assessed value increase limited to 10% per year	
NY									
NC					1973	S	c m	prop. tax rate limited to 1.5%	levies for certain purposes may be excl. from limit w/referendum
ND					1981	S		prop. tax levy increases limited to 7%/year	
OHIO					1976 (amended 1980)	S	c m sc	prop. tax levies above 10 mills rolled back to offset increases in assessed value	10 mills limit can be exceeded by municipal charter or majority vote
OKLA									
ORE	1979	S	expenditure increase for biennium limited to incr. in state personal income over past 2 yrs.	may be amended	1979	S		assessment average statewide limited to 5% increase	
PA			(proportional income tax) prevents unlegis. income tax increases						

RI	1977	S	requests increase in budget limited to 8%	(non-binding)					
SC	1980	S	expenditure increase limited to growth in state personal income over previous 3 yrs.	may be amended					
	1980		individual income tax indexation						
SD			(varying prop. tax rate limits dating from early 1900s) "Prop. 13 style limit planned for 1982 ballot."						
TENN	1978	C	expenditure growth limited to growth of state personal income	majority legis.	1979	S	c m sc	full disclosure; local tax rates must produce same levy in current year as in previous year	
TEX	1978	C	increases in appropriations limited to growth in state personal income	majority legis.	1978	C	c m sc	full disclosure; prop. tax levy limited to 3% increase unless public meeting held	
					1976 * (& amended since)	C	c m sc	varying specific prop. tax rate limits	
UT	1979	S	appropriations increase limited to 85% of rise in state personal income	2/3 legis.	(specific prop. tax rate limits dating from 61 & 65, and amended in 75)				
VA					1975 (amended 79 & 81)	S	c m	full disclosure; if prop. tax increases more than 1%	
VT					1978		sc	limit on exp. increase: [illegible]0 per ADM	
WASH	1979	S			1977	S	s	revenue increases limited to 10% of school costs	
					1971	S	c m	prop. tax levy limited to 106% of highest levy of past 3 years.	with voter approval

W.VA.							
WIS	1979	individ. income tax indexation	1973	S	c m	levy rate of increases limited to rate of increase in statewide equalized valuation	may be exceeded with referendum
			1975		sc	expenditure limit based on per pupil spending	
WYO							

S = statutory
C = constitutional

c = counties
m = municipalities
sc = school districts

*full disclosure: public hearing is required if district chooses to exceed property tax rate established by state to maintain total level equal to the previous years.

States with property tax limits established prior to 1970 (most are specific limits; i.e. vary with type of local government entity).

ALA	OHIO
ARK	OKLA
COLO	ORE
FLA	PA
GA	SD
ILL	UTAH
KAN	W.VA
KENT	WISC
MICH	WYO
MISS	
MONT	
NEB	
NEV	
NM	
NY	

SOURCES:

Advisory Council on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1980-81

and

Friedrich J. Graeberger et. al, "State and Local Tax and Expenditure Limitations: An Inventory," Center for Governmental Research Inc., Rochester, N.Y. May 1980

Ordinarily, override provisions specify the percentage of vote required, say two-thirds, in the legislature or in the local community that is sufficient to call forth higher taxes. Lastly, we note that local tax limits may be applied to all types of local governments (ordinarily counties, municipalities, or school districts) or only to some of them, in the given case.

Table I describes these various features of tax limits as they were imposed during the 1970's (and through the year 1981). Some action was taken toward local governments in 37 states. Of the 37 states, 23 underwent restrictions on the use of state tax instruments. Two states, Rhode Island and South Carolina appeared to impose state tax limits but not local. Thus, overall, 39 states were directly affected, or 78 percent of the 50 (the District of Columbia should not be counted, since its financial affairs are controlled by the U.S. Congress).

Local tax limits most often are expressed either as a maximum annual rate of growth in revenues or as a maximum increase in yield relative to growth, if any, in assessed value of taxable properties. State tax limits commonly are defined in terms of level or change in state personal income (either in current or real dollars) or in terms of indexing the income tax, to the end that taxpayers are not pushed into higher tax brackets under inflationary increases in their incomes.

We draw the conclusion from Table I that tax limitation activity during the 1970's represents something more than quixotic behavior of some handful of leading states. It was

a reasonably pervasive phenomenon, not confined by region (though the New England region was not exactly a full participant) nor by wealth of state nor by form of dominant economic activity (e.g. manufacturing vs. farming).[4]

Changes in State and Local Revenues

Tax limits are intended to curb growth in state or local revenues. Let us shift our attention now to changes in the pattern of state and local revenues in the 1970's. We do this in order to address the following question: did states that imposed tax limits during the decade show a levelling off of revenue growth that was in any way unusual? In a sense, we are asking if revenue limits work, and obviously the question does not apply to states that imposed revenue limits as late as 1980 and 1981.

State legislators and local officials have the power to curb revenue growth in the absence of tax limitations. The imposing of limits is an act of discipline or abnegation. The intent is to make it harder for legislators or local officials to bend to the demands of pro-expenditure advocates. Where the limitation is passed by a vote of the people, moreover, the politicians can then justify budget constraint as reflecting the wishes of the people or a majority of the electorate. Although tax limitations can be circumvented, extraordinary measures such as a special referendum or declaration of an "emergency" by the legislature are required.

We use estimates of state and local revenue from U.S. Bureau of the Census, Governmental Finances, GF, No. 5, various years. The figures to be quoted, it should be emphasized, refer to the total of state and local revenue in each state, as derived from "own sources," meaning that grants from the federal government are excluded (these are shown separately below). The revenue figures are "general," meaning that all receipts are included, except, as noted, revenue from the federal government, and except utility revenue, liquor store revenue, and insurance-trust revenue. In other words, the figures now to be presented are drawn almost altogether from state and local taxes.

Table II shows absolute amounts of revenue in per capita terms for three years, 1971-72, 1975-76 and 1979-80, and Table II also shows annual compound rates of change in revenue from own sources for three periods: 1972-76, 1976-80, and for the complete period, 1972-80. By dividing the decade into two equal parts, we are able to see whether there was a change in the rate of growth of revenue during the period of the 1970's and, if so, whether that change was an acceleration or deceleration.

Given the pervasiveness of the tax limitation movement, we would expect a substantial falling off of revenue growth, and this indeed did happen notably in California, Idaho, Kentucky, Maine, Maryland, Nevada, New York, North Dakota, Oregon, South Carolina, and West Virginia. In other states,

Table II

Per Capita General Revenue from Own Sources, State and Local Governments

	Absolute Amounts in Current $			Average Annual Rate of Growth		
	71-72	75-76	79-80	72-76	76-80	72-80
1 ALAB	441.32	659.19	985.56	10.5514	10.5778	10.5645
2 ALAS	1057.91	2543.25	7840.68	24.5190	32.5076	28.5133
3 ARIZ	634.98	926.03	1309.39	9.8929	9.0463	9.4692
4 ARK	418.15	614.26	902.25	10.0918	10.0898	10.0909
5 CALF	828.71	1188.38	1545.34	9.4305	6.7867	8.1085
6 COLO	655.59	984.66	1407.23	10.7040	9.3376	10.0209
7 CONN	723.18	916.27	1309.07	6.0948	9.3289	7.7119
8 DEL	756.20	1074.93	1493.14	9.1908	8.5626	8.8767
9 DC	752.20	1125.31	1724.59	10.5948	11.2622	10.9285
10 FLA	567.44	786.72	1077.44	8.5113	8.1791	8.3452
11 GGA	530.83	761.92	1116.57	9.4557	10.0257	9.7407
12 HA	798.28	1167.02	1629.35	9.9590	8.7011	9.3301
13 IDA	528.59	791.88	1075.92	10.6331	7.9643	9.2987
14 ILL	668.45	929.52	1341.08	8.5919	9.5971	9.0945
15 IND	570.68	772.58	1031.29	7.8668	7.4878	7.6773
16 IOWA	623.00	919.86	1315.19	10.2322	9.3493	9.7907
17 KAN	591.91	858.96	1269.79	9.7563	10.2655	10.0109
18 KENT	466.45	719.87	1005.84	11.4583	8.7223	10.0903
19 LA	576.46	873.63	1275.47	10.9531	9.9223	10.4377
20 MNE	554.78	813.62	1061.53	10.0462	6.8754	8.4609
21 MD	678.03	1029.90	1484.03	11.0162	9.5625	10.2894
22 MASS	728.90	1050.89	1478.22	9.5777	8.9044	9.2411
23 MICH	716.84	980.53	1467.51	8.1459	10.6063	9.3761
24 MINN	747.15	1080.96	1582.20	9.6732	9.9925	9.8329
25 MISS	470.32	682.42	947.83	9.7525	8.5600	9.1562
26 MO	522.81	718.63	1003.15	8.2780	8.6967	8.4873
27 MONT	634.25	935.75	1355.65	10.2110	9.7102	9.9606
28 NEB	606.55	880.43	1272.43	9.7633	11.7375	10.7504
29 NEV	816.22	1130.87	1435.69	8.4929	6.1479	7.3204
30 NH	525.17	729.24	987.24	8.5532	7.8669	8.2100
31 NJ	665.91	960.95	1413.30	9.6027	10.1244	9.8635
32 NM	594.31	898.30	1507.75	10.8797	13.8222	12.3510
33 NY	937.44	1393.43	1842.59	10.4169	7.2348	8.8259
34 NC	472.21	676.05	982.90	9.3858	9.8077	9.5967
35 ND	609.63	1017.56	1485.42	13.6641	9.9189	11.7915
36 OHIO	538.90	781.88	1100.13	9.7509	8.9121	9.3315
37 OKLA	513.31	745.30	1175.02	9.6644	12.0543	10.8593
38 ORE	608.04	976.65	1460.45	12.5775	10.5826	11.5801
39 PA	620.17	822.75	1231.61	7.3221	10.6118	8.9669
40 RI	598.09	873.59	1335.90	9.9348	11.2030	10.5689
41 SC	446.24	692.01	978.55	11.5927	9.0490	10.3204
42 SD	615.04	799.44	1146.23	6.7753	9.4262	8.1007
43 TENN	462.67	664.21	937.03	9.4608	8.9838	9.2223
44 TEX	500.98	786.19	1160.58	11.9249	10.2267	11.0759
45 UTAH	552.78	797.74	1165.97	9.6042	9.9529	9.7785
46 VT	686.03	923.54	1192.99	7.7155	6.6093	7.1624
47 VA	525.45	785.86	1137.68	10.5868	9.5904	10.1385
48 WASH	714.23	990.57	1429.48	8.5205	9.5032	9.0619
49 WVA	484.20	750.51	1074.61	11.5791	9.3890	10.4841
50 WISC	721.82	1004.91	1429.87	8.6237	9.2175	8.9205
51 WYO	748.21	1202.12	2126.85	12.5851	15.3313	13.9582

Source: U.S. Bureau of the Census, Governmental Finances, Series GF 5, various years

there was either an acceleration of revenue growth, as in Alaska and Connecticut or a modest decline in the rate of growth.

Table II reveals that 29 states underwent a deceleration of revenue growth, however slight, and 22 states experienced an acceleration of revenue growth, the tax limitation movement notwithstanding.

In most states, state and local revenues are drawn from the incomes of residents. (This is to say that when state governments tax corporations, tax exporting and importing pretty much cancel each other out, and in the general case, personal income taxes and the general sales tax, other main sources of revenue along with the gasoline tax, are paid by residents.) There are exceptions: Hawaii, Nevada, and New Hampshire draw a lot of revenue from tourists and oil-rich states, like Texas, Oklahoma, and Alaska can shift their tax burdens outside to a significant degree. But the more typical case is to expect a relationship between changes in state personal income per capita and changes in state and local revenue.

Accordingly, we performed the following exercises. We computed for each state the ratios,

$$R = \frac{\text{Average Annual Rate of Growth in Own State-Local Revenues, 1976-}}{\text{Average Annual Rate of Growth in Own State-Local Revenues, 1972-}}$$

and

$$Y = \frac{\text{Average Annual Rate of Growth in Personal Income, 1976-80}}{\text{Average Annual Rate of Growth in Personal Income, 1972-76}}$$

and we then computed the correlation between the two ratios,

with income change as the independent variable. The coefficient of determination, r^2, was only 0.0029. Plainly, during the decade of the 1970's, other conditions than change in personal income were influencing the rate of own revenue growth.

As a next step, we computed the ration R/Y for each state, calling this ratio a measure of revenue demand (RD). The meaning can be explained as follows. Assume we have a state that experienced a marked acceleration in growth of personal income per capita in the second half of the decade of the 1970's and that also experienced a large decline in the rate of growth in state and local own revenue. This would be a condition, we suggest, of a low level of demand for revenue to support state and local public services; the value of RD would be low. In contrast, imagine a state in which there is a big decline in the rate of growth in personal income from the first half of the decade to the second and, on the other hand, a notable acceleration in state and local own revenue growth. This would be a condition of a high level of demand for publicly-financed services, and the value of the ratio, RD, would be correspondingly high.

Table III displays the values of the ratio RD, with the states ranked from high to low. We take the top 13 states ranked in RD (in effect, the top quartile) for further analysis, along with the lowest 13 (the bottom quartile). One question to ask is whether the high RD states were largely free of tax limitations; correspondingly, we need to see if the low RD

Table III

Revenue Demand, Decade of the 1970's, States Ranked from High to Low

State	Value of Revenue Demand	State	Value of Revenue Demand
Alaska	4.783	Louisiana	0.883
Pennsylvania	1.402	New Jersey	0.875
New Mexico	1.270	South Carolina	0.870
Illinois	1.167	Kentucky	0.865
Michigan	1.133	Virginia	0.855
Arkansas	1.078	Texas	0.849
Washington	1.078	Hawaii	0.822
Alabama	1.057	Ohio	0.821
Oklahoma	1.057	Delaware	0.790
Utah	1.042	Montana	0.785
Wyoming	1.035	Minnesota	0.781
North Carolina	1.030	Oregon	0.778
Connecticut	1.028	New Hampshire	0.778
Rhode Island	1.014	Idaho	0.761
Nebraska	0.991	Vermont	0.756
Tennessee	0.975	Florida	0.702
Indiana	0.968	Maine	0.690
Georgia	0.965	Colorado	0.680
West Virginia	0.944	Maryland	0.680
D.C.	0.943	Massachusetts	0.672
Missouri	0.932	Arizona	0.634
South Dakota	0.923	North Dakota	0.594
Kansas	0.913	California	0.593
Mississippi	0.903	Nevada	0.578
Iowa	0.897	New York	0.550
Wisconsin	0.888		

Sources: U.S. Bureau of Economic Analysis, Survey of Current Business, July, various years; U.S. Bureau of the Census, Governmental Finances, Series GF 5, various years.

states were heavily encumbered with limits. Table IV displays some results on these two points, using data from Table I. Eight of the 13 high revenue demand states imposed new or additional limits on local revenue raising during the 1970's and 10 of the low revenue demand states did likewise, suggesting that local tax limitation was slightly more characteristic of the low revenue demand states. Somewhat more impressive is the fact that only two of the 13 high revenue demand states imposed state tax limits during the 1970's, while five of the low revenue demand states did so.

Nevertheless, revenue curbing can occur in the absence of tax limits: witness the performance of New York,[5] Maine, and New Hampshire in Table IV. Likewise, revenue expansion can occur in the presence of tax limits, as the behavior of Michigan and Utah shows (again Table IV).

A closer perusal of Table IV reveals that for the set of high revenue demand states, at least six of the local tax limitations were passed in time to affect revenue growth by our cut-off date of 1980, i.e., by the year 1978. In the case of low revenue demand states only four of 10 local tax limitations were passed by 1978 and two of the state tax limits were passed in 1979 and 1980. In sum, though Table IV first appears to indicate that the low revenue demand states were more heavily encumbered with tax limits than high revenue demand states, this finding is considerably weakened when one considers the dates that the various limits were passed. One

Table IV

Tax Limits of the 1970's: High Revenue and Low Revenue Demand States Compared

	Tax Limits			
High Revenue Demand States	State Level	Date [1]	Local Level	Date [1]
Alaska	No	-	Yes	1972
Pennsylvania	No	-	No	-
New Mexico	No	-	Yes	1977
Illinois	No	-	No	-
Michigan	Yes	1978	Yes	1978
Arkansas	No	-	Yes	1980
Washington	No	-	Yes	1971
Alabama	No	-	Yes	1979
Oklahoma	No	-	No	-
Utah	Yes	1979	Yes	1975
Wyoming	No	-	No	-
North Carolina	No	-	Yes	1973
Connecticut	No	-	No	-
Low Revenue Demand States [2]				
New York	No	-	No	-
Nevada	Yes	1979	Yes	1981
California	Yes	1978	Yes	1978
North Dakota	No	-	Yes	1981
Arizona	Yes	1978	Yes	1980
Massachusetts	No	-	Yes	1980
Maryland	No	-	Yes	1977
Colorado	Yes	1977	Yes	1976
Maine	No	-	No	-
Florida	No	-	Yes	1980
Vermont	No	-	Yes	1978
Idaho	Yes	1980	Yes	1981
New Hampshire	No	-	No	-

1. Where multiple limits were passed, date refers to the earliest limitation of the decade.

2. Listed from the lowest RD values to higher ones.

Sources: Tables I and III.

could thus conclude that the tax limits in low revenue demand states were simply an adjunct, an extra measure, complementary to a general policy of tax curbing.

Accounting for Tax Limitations

From Table I we can see that the majority of tax limiting actions were taken in the second half of the decade of the 1970's. Could these actions reflect "runaway growth" of revenues in the state or local public sectors during the first half of the decade? Some would maintain that this is what happened in California, where inflation pushed people into higher state income tax brackets, and also increased their home values and therefore their property tax bills (even though local tax rates were largely unchanged or lowered in this period). The state's executives failed to make the case that public needs were growing at a rate sufficient to absorb the revenues that were being generated. A surplus accumulated and a tax revolt succeeded where earlier, similar efforts had failed.

Our analysis of this matter proceeds as follows. We establish two sets of states: the first includes those states, 18 in number, that imposed both state and local tax limitations during the decade and the second includes those states, 10 in number, that imposed neither. We may assume that people in the first set of states have more intense feelings about the desirability of tax limits than do the people in the second set.

These two sets of states are displayed in Table V.

In Column (2) of Table V, we show the ratio of own revenue growth (state and local combined) during 1972-76 to growth in state personal income, same years. From the argument above, we would expect a propensity toward tax limitation to exist in those states where revenue growth outstripped income growth in the first half of the decade.

Table V also offers information on two additional variables that may help to explain inter-state comparisons on tax limitations. One is rate of unemployment. High rates of unemployment are characteristic of economic uncertainty and fearfulness. They might suggest defensive behavior to prevent tax inroads into one's precariously-held private income and assets, such as one's house. The unemployment data are for the recession year of 1975, mid-decade. The second variable is migration. A high rate of out-migration is a likely result of factory closings and limitation of economic opportunity generally. Such conditions might breed tax revolt. On the other hand, a high rate of in-migration might provoke established residents to try to seek protection from the revenue demands (for more schools, more health facilities, etc.) of new arrivals, and the logical means to get that protection is through tax limits. Tax limitation thus may be associated with <u>either</u> high rates of out-migration or high rates of in-migration. Column (4) shows rates of migration, 1975 compared with 1970.

Table V offers modest confirmation of the assertion that

Table V

Comparisons of States with High-and Low-Propensity Toward Tax Limitations in Terms of Revenue Growth, Unemployment, and Rates of Migration

(1) States with High Propensity Toward Tax Limits:	(2) Ratio of Own State-Local Revenue Growth to Growth in State Personal Income, 1972-76	(3) Rate of Unemployment, 1975	(4) Net Rate of Migration [1]
Arizona	1.294	12.1	18.5
California	1.022	9.9	1.0
Colorado	1.172	6.9	9.4
Delaware	1.085	9.8	1.9
Hawaii	1.143	8.2	-0.2
Idaho	1.076	6.2	8.0
Louisiana	0.949	7.4	0.2
Michigan	0.916	12.5	-2.1
Minnesota	1.058	5.9	-0.5
Missouri	0.895	6.9	-0.6
Montana	1.120	6.3	3.6
Nevada	1.000	9.7	15.9
New Jersey	1.120	10.2	-1.3
Oregon	1.309	10.6	6.0
Tennessee	0.973	8.3	3.1
Texas	1.063	5.6	3.8
Utah	1.009	6.8	3.3
Wisconsin	0.913	6.9	0.6
Average	1.062	8.3	3.9
National Average Values	1.050	8.0	0.9

Table V - Continued

(1)	(2)	(3)	(4)
States with Low Propensity Toward Tax Limits			
Connecticut	0.739	9.1	-0.1
Georgia	1.068	8.6	2.4
Illinois	0.886	7.1	-3.2
Maine	0.982	10.3	3.6
New Hampshire	0.921	9.1	6.6
New York	1.324	9.5	-4.4
Oklahoma	0.929	7.2	2.8
Pennsylvania	0.757	8.3	-1.6
West Virginia	1.061	8.6	0.5
Wyoming	1.129	4.2	7.6
Average	0.980	8.2	1.42

1. Whites only.

Sources: U.S. Bureau of Economic Analysis, Survey of Current Business, July, various years; U. S. Bureau of the Census, Governmental Finances, Series GF 5, various years, and Current Population Reports, Series P-23, No. 67 and Series P-25, No. 460, and Statistical Abstract of the United States, 1981, p. 392.

tax limitation results from a high rate of revenue growth. Among the 18 states that imposed limits at both state and local levels, 13 show state-local revenue increase at a rate higher than growth in state personal income (per capita). Among the 10 states that imposed no limits, six had revenue growth at a lesser rate than personal income, and in only two, New York[6] and Wyoming, could revenue growth be regarded as really high relative to income.

The states showing a high propensity toward the limitation also tended to have relatively high rates of in-migration: in 10 cases it was over three percent. There is no readily discernible relationship of tax limitation to unemployment.

We conclude that the possibility of obtaining real growth in the state-local public sector diminished substantially during the decade of the 1970's. Where revenue increase exceeds increase in personal income, pressure for imposition of tax limits mounts. Where people seek to better themselves by internal migration, the receiving states resist expanding the size of the public sector. Yet, given that the state-local public sector is more vulnerable to inflation than the private economy (for the reason, apparently, that it offers less opportunity to substitute ever more efficient capital goods for labor), some transfer of current dollars for private consumption into state-local government is required just to hold the provision of state-local services at a constant level per capita.[7]

In any case, it looks like a zero-sum game in the state-local sector. Improvements in services for children and young people are to be got, it would seem, at the price of services aimed toward other groups or for the benefit of the population at large. Taking account of needs to rebuild urban infrastructure, protect the environment, provide health services for older people, meet increasing pension requirements of an aging state-local labor force, and provide a safety net for structurally-displaced workers and their families, the competition for funds to upgrade children's services is almost certain to be fierce.

Changes in State and Local Expenditures in an Era of Tax Limitation

We have also examined certain major series of expenditures. Charts I-III offer a graphic portrayal of changes in state and local expenditures during the 1970's. Chart I refers to total direct expenditures of state and local governments combined, defined as payments to employees, suppliers, contractors, beneficiaries and other final recipients of governmental payments. Chart II shows changes in support of local schools, taking account of state and local payments but excluding federal. Chart III describes changes in welfare payments, i.e., payments and assistance to low income persons contingent upon their need. Pension payments and payments to individuals not contingent on need are excluded. In each

chart there is a double bar for each state, the left part referring to average annual rate of change in expenditure from 1972 to 1976 and the right part refers to the rate of change from 1976 to 1980.

With regard to direct expenditures, 43 states experienced a decrease in the rate of increase, comparing the second half of the decade with the first. In some states, such as Colorado, Florida, Hawaii, Idaho, Ohio, and Oregon, the tailing off of expenditures was especially strong, and almost certainly these states moved into a position where expenditures were falling in real dollars given the high rates of inflation that characterized the second half of the decade. Comparison of Chart II with Table I shows that decline in the relative rate of expenditure change was considerably sharper than decline in own revenues, indicating that states were accumulating surpluses or paying off debt in the second half of the decade.

Chart II indicates that 40 states had a relative decline in local schools expenditures during the second half of the decade. The decline was in some cases (Arizona, California, Ideaho, Illinois, Rhode Island, and Vermont) even more dramatic than the fall off in total direct expenditures. In general, the pattern of states' experiencing a large relative decline in local school outlays is much more pronounced than in the case of total direct expenditures.

In the case of welfare, Chart III reveals that nearly half of the states (22) underwent a relative increase of expendi-

tures during the decade. In some cases, the jump in rate of growth between the first and second half of the decade was truly extraordinary, as Chart III shows. We were able to make inquiries in some of these high increase states as to what happened and here, in brief, are the results.

Alabama - The Food Stamp Act of 1977 eliminated a "purchase requirement" for food stamps. Alabama's food stamp caseload grew about 150 percent between 1977 and 1980; the costs of administering the food stamp program doubled. There was also a large expansion in Medicaid eligibility.

Alaska - During the boom years of pipe-line construction (1974-76) welfare caseload fell sharply but then increased from 1977, after the construction work tapered off, at a rate of 8-12 percent until 1980. There were also increases in benefit levels in 1978, 1979, and 1980.

Arizona - The rise in welfare outlays is apparently attributable to increases in AFDC payments and in costs of administering the food stamp program.

Mississippi - Under state law, maximum payments under AFDC were doubled in 1978.

Oklahoma - State standards for AFDC payments went up by about 50 percent from 1975 to 1979. The number of persons eligible for Medicaid and food stamps rose significantly, resulting in larger total payments and administrative costs.

Washington - The level of AFDC payments was increased in 1979. Changes in federal regulations in 1976 resulted in a

relaxation of eligibility for AFDC (people receiving unemployment compensation became eligible) and general assistance ("employable people" became eligible).

Let us now turn our attention back to school expenditures, since these are the closest we can come in this paper to expenditures on services specifically for children and youth. Table VI shows the top and bottom quartiles of states ranked by change in local schools expenditure growth: the highest quartile includes the states that had a relative increase in expenditure growth, along with two states that experienced the smallest relative decline, and the lowest quartile includes those states that the largest tailing off of expenditure growth (columns 1 and 2). Comparing the membership of the two quartiles, it is hard to discern any geographic, size, or industrial composition pattern to the display.

On the other hand, one might reasonably expect that enrollment change would influence the pattern of expenditure change for local schools.[8] Nationally, enrollment in public elementary and secondary schools declined by 8.9 percent between 1970 and 1980. Column 3 of Table VI shows enrollment change in the states of the upper and lower quartiles. Roughly half of the upper quartile states, seven in number, had enrollment declines in excess of the national average and roughly half of the lowest quartile states, six in number, had positive enrollment growth in the face of national average decline. A systematic connection between enrollment change and expendi-

Table VI

Comparison of States Showing High and Low Rates of Advance in Local School Expenditures, Relative to Enrollment Change, Teachers' Salaries, and Welfare Expenditures

(1) States with Relatively High Ratios of Expenditure Advance for Local Schools	(2) Ratio of Average Annual Change in Exp. Per Capita on Local Schools, 1976-80/1972-76	(3) Percentage Change in Public School Enrollment, 1970-80	(4) Percentage Change in Real Income of El/Sec Teachers, 1970-80	(5) Ratio of Average Annual Change in Exp. Per Capita on Welfare, 1976-80/1972-76
Delaware	1.683	-20.0	-12.2	0.972
Wyoming	1.589	+10.3	- 4.0	1.369
Indiana	1.429	-11.4	-19.9	0.823
Connecticut	1.413	-12.2	-12.3	1.293
South Dakota	1.357	-19.8	- 6.5	0.791
Washington	1.319	- 6.7	0.0	2.902
Iowa	1.262	-17.1	- 7.7	0.663
Oklahoma	1.120	- 4.9	- 7.7	8.758
Hawaii	1.111	- 5.6	- 6.6	0.507
New York	1.108	-15.5	- 6.5	0.535
New Mexico	1.040	0.0	+15.2	5.147
Nevada	0.995	+19.4	-14.7	0.356
Pennsylvania	0.992	-15.1	- 6.7	0.528
National Average	0.793	- 8.9	- 7.5	1.563

Table VI - Continued

(1)	(2)	(3)	(4)	(5)
States with Relatively Large Decreases in Expenditure Advance for Local Schools				
Alaska	-1.952	+15.6	+23.6	4.238
Idaho	0.309	+12.8	- 5.4	0.681
Vermont	0.365	- 0.2	-22.7	0.205
California	0.3823	-12.0	- 3.6	2.307
New Hampshire	0.439	+12.5	-21.5	0.677
Maryland	0.440	-12.9	- 9.2	0.988
Colorado	0.441	+ 2.4	+ 1.0	0.804
Maine	0.488	- 5.0	+ 4.7	1.129
Illinois	0.498	-12.1	-12.3	0.708
Utah	0.502	+10.3	- 5.2	1.502
North Carolina	0.506	- 3.0	- 7.6	1.849
Montana	0.514	- 9.7	- 9.4	1.430
Florida	0.516	+ 7.1	-14.0	1.716

Sources: U.S. Department of Education, National Center for Educational Statistics, Digest of Educational Statistics 1981, p. 62, and sources cited in Table V.

ture change is thus hard to detect at this level of analysis.

We can be somewhat more conclusive about the matter of teachers' pay. Teachers' salaries are a major item in local school budgets. Some would hold that maintaining the relative economic standing of teachers in the marketplace is a necessary condition to protect standards of educational quality. During the decade of the 1970's, teachers in the United States lost ground, as their average pay in real terms fell by 7.5 percent. This occurred during a period of years when personal income per capita advanced 24.8 percent in real terms.[9] Because the decade of the 1970's was a time of declining school enrollment, and recognizing that enrollment decline is generally accompanied by a gradual aging of the teaching force, it would be hard to contend that the decline in the relative economic position of teachers represented nothing more than the substitution of younger, less experienced and hence cheaper staff for older staff, as may occur in the period of enrollment growth.

It is interesting, then, to compare changes in real income of teachers in the two quartiles of states, the one in which there was the greatest relative decline in school expenditures and the other in which there were, generally speaking, advances in the rate of expenditure growth for schools. The results are shown in Column 3 of Table VI. In 10 of the low expenditure states, teachers lost ground in real salaries, and in four cases the loss was greater than 10 percent (Vermont,

New Hampshire, Illinois, and Florida).

For the high (relative) expenditure advance states, the picture is more dramatic. In only one of these 13 states, New Mexico, did teachers make an advance, and in six of these states, the loss to teachers exceeded the national average. So even in states that were in a positive expenditure position toward schools during the decade of the 1970's, teachers lost out, and the extra money did not reach them. There are various ways in which the money otherwise could have been spent. Costs of heating, cooling and maintaining school buildings rose rapidly during the decade, as did costs of student transportation. More probable is that the extra funds were spent on non-instructional programs for students: meals, medical care, and special programs for the handicapped are obvious examples.

From the point of view of child welfare, this finding leads us to a point of ambiguity. Special services for children may be "more important" than basic instruction, and certainly this would be true for children who are hungry and sick. Other public agencies may have been failing to provide special services in adequate measure, so possibly it was correct that schools stepped in to fill the breach.

Nevertheless, the schools have been prodded into this special services role by the federal government, and, as we shall shortly see, federal contributions to state and local governments tailed off in the second half of the decade, re-

sulting in a likely encroachment of costs of special services on expenditure requirements for basic instruction. In the meantime, concern about the quality of teaching in the public elementary and secondary schools, especially in the fields of mathematics and science, mounts.[10]

With regard to Table VI, we note lastly that there appears to be no discernible direct competition between expenditures on schools and on welfare. Column 5 of Table VI indicates that five of the high school expenditure states had a relative increase in welfare expenditures during the decade and six of the low school expenditure states had a decrease in welfare requirements. There is then no clear pattern of welfare encroachment outside the educational sector.

Federal Revenue: The Relation to State-Local Expenditure Change

The decade of the 1970's was characterized not only by revenue curbing in state and local governments but also by a falling off in the second half of the contributions that the federal government makes to state and local operations. It should be emphasized that this falling off of federal assistance predates the Reagan administration and its drive for a "new federalism."

Chart IV, following the general format of Charts I-III reveals a general pattern of relative cutbacks in federal contributions. In only two states, Illinois and New Mexico, did the rate of increase of federal contributions become higher

in the second half of the decade. Moreover, it is plain that the relative cutbacks were more severe in some states than others. Table VII, as before, displays upper and lower quartiles of states according to whether they suffered a small cutback, relatively speaking, in federal funding or a relatively large cutback. There is no obvious pattern by geography, etc., in the ranking.

Column (3) allows us to see whether the protected states and the states vulnerable to cutbacks had high or low proportions of families in poverty. It is reasonably clear that the protected group had more instances of a high proportion of poverty families. Accordingly, the federal government can be seen as helping to put a floor under state and local services in states where relatively large numbers of people are poor.

Likewise, Column (4) allows us to relate the degree of federal cutback to the degree of slow-down in state and local direct expenditures. The protected group of states (in terms of federal aid) tended to reduce state and local expenditures less than did the states that were subject to relatively large cutbacks. In terms of meeting the needs of poverty families, this all may represent something good, but it also leaves a group of states that were subject to unusually large reductions at both the federal and the state-local levels. These include Hawaii, Pennsylvania, Iowa, Rhode Island, South Carolina, Idaho, Colorado and Minnesota. But what the common characteristic of this set of states is remains a mystery. It

Table VII

Comparison of States Showing High and Low Rates of Advance in Federal Assistance Relative to Poverty Status of Families and Rate of Change in Total Direct Expenditures

(1) States with Relatively Low Decrease in Federal Assistance	(2) Ratio of Average Annual Change in Fed. Assistance Per Capita, 1976-80/1972-76	(3) Percentage of Families Below Poverty Level, 1979	(4) Ratio of Annual Average Change in Direct State and Local Expenditure 1976-80/1972-76
Illinois	1.239	8.6	0.756
New Mexico	1.218	13.8	1.081
Mississippi	0.971	19.5	0.801
Montana	0.971	9.1	0.771
Alabama	0.947	13.9	0.808
North Dakota	0.904	9.6	0.989
California	0.895	8.6	0.653
Missouri	0.889	9.2	1.126
Delaware	0.842	8.8	0.886
Maine	0.828	9.7	0.832
Florida	0.817	9.5	0.605
D.C.	0.812	16.0	0.941
Connecticut	0.809	6.6	1.348
National Average	0.637	9.6	0.833

Table VII - Continued

(1)	(2)	(3)	(4)
States with Relatively High Decrease in Federal Assistance			
Hawaii	0.163	7.8	0.220
Pennsylvania	0.272	7.6	0.670
Nebraska	0.307	7.7	0.880
Iowa	0.325	6.9	0.807
Wyoming	0.339	5.9	0.868
Indiana	0.377	7.4	0.965
Rhode Island	0.386	7.9	0.733
South Carolina	0.388	12.4	0.497
Idaho	0.396	9.9	0.434
Colorado	0.424	7.6	0.490
Wisconsin	0.447	6.4	0.943
Minnesota	0.479	7.0	0.799
Michigan	0.481	8.5	0.857

Sources: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population, Income and Poverty Status in 1979, 1980, Table P-4, pp. 36-41, and sources cited in Table V.

is hard to imagine that the common characteristic is simply a marked reduction in the need for public services. The role of federal grants in stimulating the state-local sector is possibly reflected in this simultaneous decline in both revenue sources.

Summary Observations

We have tried to provide a panorama of trends in the financing of state and local services in the 1970's. One may read these pages and say the data represent a mass of confusing and contradictory events, but we believe that a reasonably clear picture emerges. Until the middle of the 1970's, state and local services were expanding in real terms, at which point a disenchantment set in. It is perhaps instructive that direct state-local expenditures tailed off more sharply in the second half of the decade than revenues from own source: something other than revenue availability was acting to curb expenditures. There are all kinds of explanations in social psychology to account for the disenchantment, ranging from Vietnam-Watergrate aftermath to changes in family structure, and it is not our task to pick a favorite set. What we can say is that in those states in which state-local revenues outstripped growth in personal income, tax limitations, essentially a phenomenon of the later seventies, were likely to be installed. The 1970's were not a time for people to tolerate the encroachment of the private sector on personal income. Similarly, states subject

to high rates of in-migration appear prone to tax limitation. The 1970's were not a time when people were eager to pay for the education of strangers' children nor to meet other public costs imposed by new arrivals.

Some obvious explanations for differences among the states in expenditure change are not particularly reliable. The largest category of state-local spending is public school education. There is a general falling off of enrollment in the United States, but the differences among the states are wide. Some states, even, are still growing. One might think to see a strong clear relationship between enrollment change and change in school expenditures, one state compared with another. We failed to find that clear pattern, though we did find a pattern of tailing off of school expenditures in a large majority of states, which majority included some states that are still growing in enrollment. This reinforces our view that what has happened is a general disenchantment with government.

In a period of disenchantment, children's services are, one would imagine, especially vulnerable. Many types of publicly provided services are available as well in the private sector, so wealthy families need not bother themselves too much about whether the standards that the public sector maintains are adequate. Furthermore, children's services, including schooling, are delivered in the public sector predominantly by local government. This allows families of substantial education and means to "shop around" and pick a community to live

in that gives them what they want. Again, those persons who are well qualified to judge quality of children's services need not care too much about how good the services are in those other towns they would not choose to live in. In this kind of fragmented system, those who have power to demand adequate levels of service throughout the state exert themselves only through altruism, not personal need. It is different with regard to the state highway patrol. The rich and powerful, along with all the rest of us, do not care to be run down or abandoned on the highways, and the highway patrol tends to get the money it needs to maintain adequate standards of service all over the state.

What appears to be happening in early 1983 is that various states are exploring tax minimums, trying to determine how little money can they get away with raising. Presently, several states are in a condition of fiscal crisis or have just recently passed through such a condition. Tax rates are being raised, though the increases are sold as "temporary." In the first pass at establishing the new minimums, a number of states overshot the mark--just as the Reagan administration did in its initial dealings with corporations. An upward adjustment is needed, but it is still intended that the rates be as low as can be tolerated.

The prospects for financing of children's services remain bleak. For those who believe in the importance of these services, it is time to do the best one can in the lobbying

arena. For the foreseeable future, other than holding the line on the public side, it appears that expansion will now come through voluntary efforts and private support.

Footnotes

1. Various studies have shown that property tax rate limits imposed prior to 1970 were not as powerful as more recent levy limits in restricting the growth of local revenues (these include studies by Ladd and Advisory Council on Intergovernmental Relations). But states that used these earlier rate limits were probably less likely to impose levy limits in the 1970's. David Greytak and Donald Shepard found that older limits led to cultivation of non-property tax revenue sources. And Helen Ladd found that states relying heavily on the property tax in 1971 were more likely to impose limits in the 1970's.

2. "Living Beyond Their Means," Time, Nov. 8, 1982.

3. Of course, the strong advocate of tax limitations as practiced during the 1970's may still feel today that state and local services are wastefully provided or that the needs they are intended to meet are unreal, or that, if real, they are served more fairly by private institutions. In other words, what is happening now in California and New York City is exactly what should be happening. However, in response to state budgetary difficulties and federal cutbacks, tax limitation activity has slowed in the early 1980's. Few new limitations or reductions have been passed since 1981; meanwhile, increases in state income taxes and sales taxes have become more common. (See George Peterson.)

4. George Peterson reports on the proliferation of tax reductions along with actual limitations as revenue curbing tools in the late 1970's. Thirteen states reduced their income tax rates between 1978 and 1980; many also reduced their sales tax or sales tax base. Other mechanisms have included one-time revenue turnbacks or tax rebates, and property tax exemptions such as circuit-breakers.

5. Although New York has no formal limits, in 1977 it reduced its maximum personal income tax rate from 15% to 10% and eliminated a surcharge (see Peterson). Peterson explains that this reduction had a "partial indexation effect"; it was used as an attempt to encourage business investment after the recession.

6. As noted in previous footnotes, New York did try to curb revenues in the second half of the decade.

7. Council of Economic Advisors, Annual Report (Washington, D.C.: Government Printing Office, 1982), p. 236.

8. Some school expenditures, such as building maintenance and administrative costs, are not very sensitive to marginal enrollment changes. Thus a short-term local decrease in enrollment could produce a short-term increase in per capita expenditures, and an enrollment increase a per capita spending decrease. Longer-term, statewide enrollment changes, such as we have shown here, might more reasonably be expected to reflect broader social priorities in their relationship to overall school expenditure levels.

9. U.S. Department of Commerce, Statistical Abstract of the United States, 1981 (Washington, D.C.: Government Printing Office, 1982), p. 429.

10. Time, December 27, 1982, p. 67. Further, School Cost Management (Feb. 22, 1983) reports on a recent NIE study, Serving Special Needs Children: The State Approach, which finds that, under block grants, states are unwilling to replace declining federal support for special needs programs with their own revenues. Instead, they are shifting responsibility for those programs to local school districts. How local districts will respond will probably depend on their own revenue capacity and on the amount of stimulus they receive from states.

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