

Georgia State University

ScholarWorks @ Georgia State University

ECON Publications

Department of Economics

1992

Economic Change and Fiscal Planning: The Origins of the Fiscal Crisis in New York State

Roy W. Bahl

Georgia State University, rbahl@gsu.edu

William D. Duncombe

Syracuse University

Follow this and additional works at: https://scholarworks.gsu.edu/econ_facpub



Part of the [Economics Commons](#)

Recommended Citation

Bahl, Roy. "Economic Change and Fiscal Planning: The Origins of the Fiscal Crisis in New York State." 1992. *Public Administration Review* 52 (6): 547–58. <https://doi.org/10.2307/977165>.

This Article is brought to you for free and open access by the Department of Economics at ScholarWorks @ Georgia State University. It has been accepted for inclusion in ECON Publications by an authorized administrator of ScholarWorks @ Georgia State University. For more information, please contact scholarworks@gsu.edu.

WILEY



Economic Change and Fiscal Planning: The Origins of the Fiscal Crisis in New York State

Author(s): Roy Bahl and William Duncombe

Source: *Public Administration Review*, Nov. - Dec., 1992, Vol. 52, No. 6 (Nov. - Dec., 1992), pp. 547-558

Published by: Wiley on behalf of the American Society for Public Administration

Stable URL: <https://www.jstor.org/stable/977165>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



JSTOR

Wiley and American Society for Public Administration are collaborating with JSTOR to digitize, preserve and extend access to *Public Administration Review*

Economic Change and Fiscal Planning: The Origins of the Fiscal Crisis in New York State

Roy Bahl, Georgia State University

William Duncombe, Syracuse University

What can policy makers learn from the fiscal experience of New York during the 1980s? By most measures, the state went from a position of fiscal strength in the early 1980s to fiscal crisis by the end of the decade. In their analysis of demographic, social, economic, and fiscal patterns, Roy Bahl and William Duncombe show that the lack of long-term fiscal planning and short-term discipline were the root causes of the turnabout. They call for greater use of both, as well as tax reforms that will better reflect the changing reality of local and state economies.

Total income in New York State in 1990 was \$395.3 billion, almost the same size as that of Canada. Based on its per capita income, New York would rank as one of the richest nations in the world.¹ The state is home to some of the largest corporations and leading universities; it is blessed with good seaports and has developed a strong transportation infrastructure; its politicians are and always have been national leaders, and New York's rich melting-pot history has made the economy a center of economic development energy. Metropolitan New York City is one of the world's largest urban agglomerations and the most important financial center.

Despite its great economic and political power, New York State and New York City cannot balance their budgets. New York City went broke in 1975, and its finances were monitored by a state-appointed control board. Several other New York cities, most notably Yonkers and Buffalo, were on the edge. Now again, New York State and City governments find themselves in a fiscal deficit position. New York State's potential deficit for fiscal year 1991-92 was estimated to be \$6.5 billion, 22 percent of its original budget. Although the current recession has exacerbated New York's deficit problem, it is not the underlying cause. Indeed, the state has been coping with revenue shortfalls for the past several years.² New York is not alone in experiencing fiscal difficulties in recent years. Recent evidence indicates that 21 states (including all northeastern states) faced potential deficits for fiscal year 1991-92, totaling more than \$35 billion.³

What keeps New York and other states in fiscal trouble? Why did the sustained economic growth of the 1980s not lead to a more permanent fiscal strength? Are things likely to get better or worse in the next decade and, either way, what kinds of discretionary government policies should be followed? New York State is a good case study precisely because its economy seemed to have rebounded strongly in the 1980s from its dismal performance in the 1970s and, yet, it was one of the first to face a fiscal crisis in the late 1980s. What can policy makers in New York and other states learn from New York's fiscal problems in the 1970s and 1980s that will help in the 1990s? These are the policy questions addressed in this article.

We begin with the premise that one cannot separate an evaluation of fiscal performance from an evaluation of economic performance, and we summarize the growth trends and structural changes in the economy of New York in the 1980s compared to the 1970s. We then examine the fiscal adjustments made by New York in the 1980s in response to the changing economy. This analysis leads to the conclusion that the fiscal crisis in the late 1980s had been ripening for some time and should have been anticipated. The conclusion cites the lessons that policy makers in state and local governments elsewhere can take from the New York experience.

Economic Growth

New York's population, employment and income growth in the 1980s seemed to be a sign that the corner had been turned on the absolute and relative decline of the state's economy. In fact, the 1980s were good years for the New York economy, perhaps better than even the most Pollyanna futurists would have hoped for. However, a look beneath the general trend would have suggested a reason for concern.

Population

During the 1970s, New York lost nearly 700,000 people (almost 4 percent of the 1970 population), with most of this loss occurring in New York City. There was a pronounced reversal of this population decline in the 1980s, with the state gaining over 400,000 people (0.2 percent per year) between 1980 and 1990 (Table 1), and New York City was one of the fastest growing areas of the state. Does this indicate a movement back to New York based on a new comparative advantage in the state and city, and is the population growth a source of renewed fiscal strength? Based on available data, the answer to both questions is no.

- ◆ New York's share of the total U.S. population fell from 9 percent in 1970 to 7.2 percent in 1990 (Table 1). If New York had grown at the national rate, it would have added close to 1.3 million more people since 1980.
- ◆ In the 1970s and 1980s, the population in the state grew older, and this trend is expected to continue through the remainder of the century in New York State and in the nation (Table 2).
- ◆ New York is one of the most racially and ethnically diverse states in the nation. The percentage of the population that is nonwhite increased from 13.2 percent in 1970 to 18.3 percent in 1985 (Table 2), compared to 12.5 and 15.2 percent, respectively, nationally. Minorities were estimated to account for 40 percent of New York's children in 1990 and 46 percent by the end of the century. This compares to 31 percent and 34 percent, respectively, for the nation as a whole (Schwartz and Exter, 1989). An increasing proportion of these children are growing up in "nontraditional" households, especially those headed by women.⁴
- ◆ For the nation as a whole in 1988, over 50 percent of black and Hispanic families and close to 30 percent

Table 1
Economic Trends and Projections for New York, the Northeast Region, and the United States, Selected Years, 1970-2000

	New York State		Northeast States ^a		United States
	Annual Percent Change	Share of U.S. (percent)	Annual Percent Change	Share of U.S. (percent)	Annual Percent Change
Population^b					
1970		9.0		15.2	
1980	-0.4	7.8	0.2	13.9	1.1
1990	0.2	7.2	0.4	13.2	0.9
2000	0.3	6.7	0.4	12.4	1.0
Nonagricultural employment					
1970		10.1		16.2	
1980	0.1	8.0	1.5	14.7	2.5
1990	1.3	7.4	1.4	13.8	2.0
2000 ^c	0.7	7.1	1.0	13.5	1.2
Per capita income^d					
1970		119.8		107.9	
1980	0.8	107.8	1.7	106.0	1.8
1990	2.9	117.6	2.9	115.3	2.0
2000	1.2	117.6	1.1	114.2	1.2

^a Includes the Mideast and New England regions as defined by the Bureau of the Census, except for New York.

^b Based on 1990 *Census of Population and Housing*, P.L. 94-71 Redistricting Data.

^c Based on the projected growth rates for nonfarm employment for 1988-2000 by the U.S. Bureau of Economic Analysis.

^d Personal income divided by resident population and deflated using the implicit gross national product deflator.

Source: U.S. Department of Commerce, Bureau of the Census, and Bureau of Economic Analysis; and U.S. Department of Labor, Bureau of Labor Statistics, various sources.

of white female-headed families were below the poverty line (U.S. Bureau of the Census, 1989). In New York State in 1984, 45 percent of black children and 60 percent of Hispanic children grew up in poverty, compared to 15 percent for whites (Alba and Trent, 1986).

- ◆ Out emigration from New York decreased during the 1980s, but it still averaged over 40,000 persons per year. New York's net out-migration rate in the 1980s (2 percent of 1980 population) exceeded that in all other northeastern states. Not surprisingly, the destination of most New York out-migrants was the Sunbelt and neighboring northeastern states. Most migrants tend to be young adults (20-34 years old) who are more highly educated and have higher incomes than the population as a whole. These results imply that New York State has been losing a disproportionate share of its young, educated, and affluent work force.
- ◆ A significant portion of the in-migration into New York has come from overseas. Foreign immigration has averaged between 80,000 and 100,000 persons per year, close to half of total U.S. immigration (U.S. Immigration and Naturalization Service, 1989). New York City has received 90 percent of these

Table 2
Changes in the Demographic Composition and Occupational Distribution
for New York and the United States, Selected Years, 1970-2000

	Population Composition (percent of total population)						
	1970	New York State			Total United States		
		1985	2000	1970	1985	2000	
Age distribution							
Under 25	42.9	36.6	32.1	46.0	38.3	33.9	
25-34	12.4	16.5	14.4	12.3	17.6	13.8	
35-54	23.8	23.8	30.1	22.8	22.8	30.3	
55-64	10.1	10.4	9.6	9.2	9.4	9.0	
Over 65	10.7	12.7	13.7	9.8	12.0	13.0	
Racial composition							
White	86.8	81.7	78.2	87.5	84.8	82.6	
Black	11.9	15.4	17.6	11.1	12.1	13.1	
Other	1.3	2.9	4.2	1.4	3.1	4.3	
Hispanic*	NA	10.6	NA	NA	7.3	NA	
Occupational Distribution (1986) (percent of total employment)							
	United States	White		United States	Nonwhite		
		New York State	New York City		New York State	New York City	
Percent of population employed	61.5	58.5	51.8	54.1	50.4	49.0	
Distribution of employment by occupation							
Professional/manager	28.3	32.2	35.9	17.3	19.3	18.2	
Clerical/sales	28.8	30.3	30.9	24.5	31.9	34.5	
Blue collar:	27.4	23.0	19.7	33.2	24.2	23.4	
Precision/craft	12.6	11.0	8.7	9.7	8.5	8.9	
Other	14.7	12.0	11.0	23.5	15.7	14.5	
Service workers	12.2	12.8	12.9	23.8	20.3	23.8	

* Hispanic category includes persons categorized in the white, black, and other racial categories.

Source: U.S. Department of Commerce, Bureau of the Census, and U.S. Department of Labor, Bureau of Labor Statistics, various sources.

immigrants. Armstrong (1989) estimated that the foreign-born share of New York City's population was about 36 percent in 1987 and will reach 56 percent by the year 2000. Foreign immigration has primarily involved young families who have provided a disproportionate share of the state's children. Most immigrant workers are concentrated in lower paying service or manufacturing jobs and, accordingly, have below average family incomes.

Employment

Above all else, it was the loss of 450,000 jobs in the city and 300,000 manufacturing jobs in the state during the 1970s that prompted concern about the future of the New York economy (Bahl, 1979). These fears were allayed by an increase of over one million jobs in New York from 1980 to 1990, an average growth rate of 1.3 percent per year (Table 1). The unemployment rate, which was consistently above the national average during the 1970s, has been below the average rate since 1981. The major reason for the reversal in employment trends during this decade was the rebound of the New York City economy. Since 1980, New York City has gained back 60 percent of the jobs lost in the 1970s, an increase of over 250,000. This growth was surprising and welcome, but it may be less indicative of a new economic strength than it seems. The following are some of the underlying trends:

- ◆ Employment growth in New York State still lagged behind the regional and national growth rates. If

New York State employment had grown at the national rate since 1980, over 550,000 more jobs would have been added.

- ◆ Nonwhite employees continued to be disproportionately concentrated in service and lower skilled blue-collar jobs (Table 2). These data suggest that the concern that minorities are concentrated in low-paying, dead-end jobs is well justified. Recent national projections show that two of the three occupational categories which are most likely to employ minorities—clerical and low-skill blue-collar occupations—are anticipated to experience below average growth during the 1990s (Silvestri and Lukaszewicz, 1989). This, combined with research that shows the working poor to be an increasing percentage of those below the poverty line (Danzinger and Gottschalk, 1986), indicates that many nonwhite households would remain poor even if they were able to find full-time employment. Unemployment rates have been much higher among nonwhites, and such differences appear to have widened during the 1980s.
- ◆ New York State has experienced a decline in manufacturing employment since 1960. The decline during the 1980s (2.1 percent per year) was on par with that of the 1970s (Table 3). Based on recent projections by the U.S. Bureau of Labor Statistics, it appears that employment in most manufacturing industries will continue to decline to the end of the

Table 3

Employment Trends by Industry Class—the United States, New York State, and New York City

	United States		New York State		New York City	
	1975-1980	1980-1989	1975-1980	1980-1989	1975-1980	1980-1989
Total employment	3.3	2.1	1.1	1.5	0.1	1.0
Goods-producing sectors	2.6	0.0	0.2	-0.9	-1.5	-1.9
Total manufacturing	2.1	-0.4	0.3	-2.1	-1.6	-3.5
Durable	2.7	-0.6	0.9	-2.3	-2.0	-4.7
Nondurable	1.2	-0.0	-0.4	-1.9	-1.4	-3.0
Service-producing sectors	3.6	2.8	1.3	2.2	0.4	1.5
Distributive services	3.1	1.5	0.4	0.1	-0.8	-1.4
Retail trade	3.5	3.0	0.9	2.4	-0.7	1.1
Consumer services	3.0	3.4	1.4	3.5	1.3	2.8
Producer services	6.5	4.9	3.6	3.1	3.0	2.3
F.I.R.E.	4.4	3.1	1.6	2.7	1.3	1.9
Business services	8.7	7.2	5.7	2.2	5.3	1.2
Nonprofit services	4.6	4.2	2.6	3.7	1.6	3.0
Health services	5.0	4.2	2.3	3.8	1.0	2.9
Educational services	2.6	4.1	3.5	3.4	3.3	3.2
Government	2.0	1.0	-0.2	1.1	-2.1	1.7

Note: The classification methodology is available from the authors upon request.
 Source: U.S. Department of Labor, Bureau of Labor Statistics, various sources.

century (Personick, 1989). While the implications of the decreased importance of manufacturing remain controversial,⁵ the decline has occurred faster in New York than in the rest of the nation. This implies that understanding the effects of this structural change, particularly on vulnerable groups, takes on a special urgency in New York.

- ◆ In contrast to manufacturing, service employment has grown by 2.2 percent per year since 1980 (Table 3). Consistently, the fastest growing service sector, both nationally and in New York State, has been producer services. Producer services are composed primarily of the finance, insurance, and real estate (F.I.R.E.) and business services and are centered in New York City. Despite the growth in the 1980s, producer services can also decline as a result of external influences. Producer-service employment in New York has actually decreased since 1987, in part because of the stock market crash of October 1987. The other service sectors experiencing consistently rapid growth have been nonprofit services (health and education services), consumer services (lodging and recreation), and retail trade (restaurants). The growth in services may be a mixed blessing. Much of the employment growth was in low-paying and cyclically sensitive jobs in the service and trade sectors. In the business service sector, there was rapid growth (until recently) in the more technically advanced and higher paying financial and computer service sectors. However, it is questionable how well the jobs demanded in these industries fit the skills available, especially among minority, central city residents (Chall, 1985).

Personal Income

The recovery in real income growth, which occurred in New York State during the 1980s, was even stronger than that

for employment. Real per capita personal income grew by close to 3 percent per year from 1980 to 1990, which was above the national growth rate (Table 1). New York City went from declining real income in the 1970s to 3 percent per year growth in the 1980s. Per capita income was 18 percent higher in New York State in 1990 than the national average. To analyze the impact of rising incomes on the state economy and its finances, it is important to identify the source of this rapid growth in income and its implications for the standard of living.

- ◆ Income growth in New York has been driven by rising real wages. After falling by 0.6 percent per year during the 1970s, wages and salaries experienced real growth in excess of 3.5 percent per year during the 1980s, which was well above the national growth rate. This growth was associated with productivity growth, high levels of unionization within the state, and inflation.
- ◆ During the 1980s, the source distribution of income continued to shift away from wages and salaries and toward capital income and transfer payments. By 1988, 41 cents of every dollar of personal income was from these other sources. The comparable number for 1980 was 34 cents.
- ◆ The distribution of income and particularly the position of the poor worsened in the 1980s.⁶ By 1987, 15.2 percent of persons in New York and 14 percent nationally were below the poverty line compared to rates of 13.4 percent and 12.4 percent, respectively, in 1980 (Plotnick, 1989). The total poverty rate for New York was estimated to be 15 percent in 1990 and 15.6 percent by the end of the century. This compares to national rates of 13.5 percent and 13.8 percent, respectively (Bahl and Duncombe, 1991). The increase in poverty was driven by a rising poverty rate among female-headed households (over 42 percent in 1990 in New York)

Table 4**Annual Percent Change in State and Local Revenues and Expenditures—
New York and Total United States, 1970-1980 and 1980-1989**

	Real Per Capita Amounts				Amounts Per \$1,000 of Personal Income			
	New York		United States		New York		United States	
	1970-1980	1980-1989	1970-1980	1980-1989	1970-1980	1980-1989	1970-1980	1980-1989
General revenue	1.9	2.5	1.9	1.7	1.9	0.3	0.8	0.5
Own-source revenue	1.0	3.2	1.3	2.5	1.0	1.0	0.2	1.3
Total taxes	0.6	2.7	0.6	1.9	0.6	0.5	-0.4	0.7
General sales tax	NA	2.6	2.8	2.5	NA	0.4	1.7	1.2
Income taxes	NA	3.9	4.7	2.7	NA	1.7	3.5	1.4
Property taxes	-0.3	1.6	-1.8	1.9	-0.3	-0.6	-2.9	0.6
Federal aid	6.2	-0.4	4.6	-1.7	6.2	-2.5	3.5	-2.8
Total expenditures ^a	1.0	3.0	1.5	1.8	1.0	0.8	0.4	0.6
By object								
Operating expenditures	1.9	2.9	2.3	2.0	1.9	0.7	1.2	0.8
Total payroll	-0.2	2.6	0.9	0.3	-0.6	1.3	-0.6	0.0
Employment ^b	1.0	1.4	1.9	0.0	NA	NA	NA	NA
Payroll/employee	-1.2	1.1	-0.9	0.3	NA	NA	NA	NA
Capital expenditures	-4.8	3.8	-2.1	0.4	-4.8	1.6	-3.2	-0.8
Long-term debt outstanding	0.9	1.5	0.2	3.6	0.8	-0.6	-0.9	2.3
By function								
Education	0.1	2.3	0.4	1.3	0.1	0.1	-0.6	0.1
Health	-1.1	4.9	3.3	2.0	-0.6	2.4	2.2	0.8
Highways	-2.2	2.6	-1.9	-0.1	-2.3	0.4	-2.9	-1.3
Public safety	NA	5.7	NA	4.3	NA	3.4	NA	3.0
Public welfare	2.1	3.7	2.5	1.9	2.0	1.4	1.4	0.7

^a Expenditures are direct general expenditures. Per capita amounts deflated using the implicit gross national product (GNP) deflator for state and local government purchases, except payroll which is deflated by the implicit GNP deflator for state and local government compensation.

^b Full-time equivalent employment.

Source: U.S. Department of Commerce, Bureau of the Census, *Government Finances and Public Employment*, various years.

and rapid growth of population in such households (1.7 percent per year from 1980-90 in New York).

rate of government spending and taxing on the assumption that the economy was sound and would continue to grow. In point of fact, the fiscal adjustments actually made in New York in the 1980s were more growth than retrenchment oriented.

Fiscal Adjustments

There is no question but that the New York State economy performed better during the 1980s than during the previous decade. As noted above, this improved economic picture had a dark side, especially in terms of the fiscal implications. The growing population included a heavier concentration of the poor, indicating pressure to provide more social services; the increasing income included substantial amounts from transfer payments, capital income, and the production and consumption of services that were either not taxable or difficult to reach under the present tax structure; and the population mix was continuing to change away from those families with a higher taxpaying capacity. Moreover, the state found itself at the beginning of the 1980s with a very large public sector, even considering its capacity to finance, and a corresponding high level of taxes that had long been thought a major detriment to attracting new jobs.⁷

The income and employment growth of the 1980s gave New York policy makers an opportunity to carefully review the question of the proper size of the state and local government sector. In retrospect, two routes open seem to have been possible. One was to take a conservative tack and use the economic turnaround to bring the public sector in line with the rest of the country. The other was to increase the

Expenditures

Real expenditures per capita for all state and local governments in New York grew significantly faster in the 1980s than in the 1970s (Table 4). Relative to personal income, this growth was on par with the national rate and was faster than that in most of New York's neighboring states. New York continued in the 1980s to spend 50 percent more per capita and 28 percent more relative to personal income than the national average (Table 5). The question to be answered is what fueled this continued expenditure growth?

Real per capita *education* expenditures in New York increased at a rate above the national average and above that in most neighboring states. However, relative to personal income, there was little growth in education expenditures in New York or nationally (Table 4). Growth rates were similar for elementary and secondary (K-12) education and higher education. New York's spending per capita was 34 percent above the national average for K-12 but was 13 percent below the national average for higher education.

What drove the increase in New York's per capita education expenditures? Clearly, it was not an increased client population—enrollment and average daily attendance fell by over 1 percent per year in the 1980s. Expenditures per pupil

for elementary and secondary education grew 4.2 percent per year in New York (versus 2.6 percent nationally) and by 1988 were 60 percent above the national average (Bahl and Duncombe, 1991). The other two possibilities are increased expenditures to improve the quality of education services and increased per pupil cost of providing a given level of services.

Neither of these are easily measured. Unit cost increases may come from either increasing teacher compensation or socio-economic (environmental) factors that make it more costly to provide educational services of equal quality. Since the days of the Coleman Report (1966), it has been well established in education research that family background and income can have a crucial impact on a child's success in school (Hanushek, 1986). Ladd and Yinger (1989) have shown that these same environmental factors are responsible for higher levels of expenditure need. The evidence on the changing population mix in New York suggests that socio-economic factors, not rising factor prices, probably had the most important influence on costs in the 1980s. Real teacher salaries have grown modestly, on average, while the number of children below the poverty line is estimated to have grown by 1 percent a year in New York. Has quality upgrading played a role in stimulating education expenditures? It is difficult to measure the fiscal implications of trying to upgrade education quality, and it is even more difficult to assess whether such expenditures are successful. For New York, the limited evidence does not show that rising education expenditures lead to significant improvements in educational quality.⁸

Public welfare spending per capita in New York has gone from 77 percent to 107 percent above the national average from 1980 to 1989 (Table 5) and was at least 25 percent higher than that in all neighboring states. Relative to personal income welfare expenditures increased at twice the national rate. It is important to understand the quite different trends in cash and medical assistance that have led to this expenditure growth.

State cash assistance actually declined by 3 percent per year from 1980 to 1988. Reduction in income support programs such as AFDC and food stamps took place in concert with the 1981 Omnibus Budget Reconciliation Act (OBRA), when eligibility standards were tightened considerably and benefits were reduced for those with earned incomes. It is estimated that 300,000 to 400,000 families nationally (11 to 14 percent) were removed from the welfare rolls, and another 300,000 had their benefits reduced (Bawden and Palmer, 1984). In New York, AFDC and food stamp recipients declined by 14 percent and average real AFDC benefit per family decreased by 8 percent from 1980 to 1988 (Bahl and Duncombe, 1991). Clearly, these reductions did not reflect a change in needs. The estimates of the poverty population developed for this study show that, while AFDC recipients were declining in New York by 1.1 percent per year, the poverty population actually increased by more than 1 percent per year. The percentage of the poor in New York receiving AFDC dropped from 47 percent in 1980 to 38 percent in 1988.

All of the growth in state welfare expenditures in New York came from a rapid increase in Medicaid payments. Medicaid increased from one-third of New York State's welfare

Table 5
State and Local Revenues and Expenditures in New York State as a Ratio of United States Average, 1970, 1980, and 1989

	Real Per Capita Amounts			Amounts Per \$1,000 of Personal Income		
	1970	1980	1989	1970	1980	1989
General revenue	137.5	137.1	146.7	115.2	127.7	125.4
Own-source revenue	142.5	138.8	146.8	119.4	129.3	125.4
Total taxes	151.9	150.8	161.0	127.3	140.5	137.7
General sales tax	NA	127.9	129.1	NA	119.2	110.4
Income taxes	NA	202.0	225.4	NA	188.2	192.6
Property taxes	140.9	164.7	161.3	118.0	153.5	137.9
Federal aid	112.3	131.0	146.7	94.0	122.0	125.4
Total expenditures ^a	141.5	135.2	150.0	118.5	126.0	128.3
By object:						
Operating expenditures	147.8	142.9	154.3	123.8	133.2	131.9
Total payroll	138.7	124.1	151.4	116.2	115.6	129.4
Employment ^b	121.7	111.6	126.7	NA	NA	NA
Payroll/employee	114.4	111.1	119.5	NA	NA	NA
Capital expenditures	117.6	89.2	120.5	98.5	83.2	103.0
Long-term debt outstanding	162.4	174.1	145.3	136.0	162.2	124.2
By function:						
Education	117.2	113.5	124.2	98.2	105.7	106.2
Health	202.4	138.0	173.1	169.5	128.6	148.0
Highways	86.9	83.2	105.6	72.6	77.6	90.2
Public safety	NA	143.8	161.9	NA	134.0	138.3
Public welfare	185.7	177.2	207.1	155.5	165.1	177.0

^a Expenditures are direct general expenditures.

^b Full-time equivalent employment.

Source: U.S. Department of Commerce, Bureau of the Census, *Government Finances and Public Employment*, various years.

budget in 1980 to two-thirds by 1988. Three possible explanations exist for this growth: an increase in recipients (and eligibility standards), expanding service levels, or increasing medical costs. The first possibility may be rejected because the number of Medicaid recipients actually declined slightly in the state, compared to a 1 percent increase nationally. The decline was entirely in AFDC-eligible Medicaid recipients (young families with children), though there was substantial growth in the elderly recipients (1.7 percent per year) and blind and disabled recipients (3.9 percent per year). Despite the decline in recipients, New York State still ranks as one of the easiest states in which to qualify for Medicaid.⁹

The rise in Medicaid expenditures in New York is accounted for by increases in payments per recipient and increases in the cost of services. After adjusting for inflation, the average payment per recipient grew by 5 percent per year in New York from 1980 to 1988—well above the national growth rate. The payment level rose from 84 percent above the national average to 96 percent in 1988. This payment growth may have been partially due to rising health care costs. A comparison of the consumer price index (CPI) for medical services with all items shows a 2 percentage point difference in New York and its neighboring states. Even after adjusting for higher medical costs, a significant rise in payments per recipient was apparent. New York ranks as one of the leading

New York *continues to be relatively successful in the competition for federal aid dollars.*

states in terms of the number of "optional services" provided and has some of the most generous benefit levels for programs affecting children (Rymer and Adler, 1987). A 1987 study of state Medicaid systems from the perspective of a low-income family ranked New York as third "best" in the nation (Public Citizen Health Research Group, 1987).

Highway expenditures per capita in New York have experienced only modest growth since 1980, 2.6 percent per year (Table 4). Relative to personal income, highway expenditures grew only slightly in New York and decreased by 1.3 percent per year nationally. Since 1983, highway expenditures in New York have actually lagged behind growth in the rest of the nation. Even more telling was the slow growth of only 1.4 percent per year in capital outlays for highways.¹⁰ New York's capital outlays per capita were 10 percent below the national average in 1988. The moderate growth in highway expenditures in New York was not due to a decline in highway usage. Although the total number of road miles in the state increased only slightly, there was strong growth (3.9 percent per year) in annual vehicle miles. What does New York's relatively slow highway expenditures imply about changes in the condition of the state's highways? In 1979, 50 percent of state controlled bridges in New York were deemed structurally deficient, and this grew to 60 percent by 1988. Based on highway condition ratings from the New York State Department of Transportation, there has been an improvement from 13 percent in the poor category in 1981 to 11.8 percent in 1988. However, the average rating for state highways did not change from 1981 to 1988 (Bahl and Duncombe, 1991).

Per capita expenditures for *public safety* in New York went from 44 percent above the national average in 1980 to 62 percent above in 1989 (Table 5). Despite New York's rapid income growth, public safety expenditures as a percent of income in New York actually increased relative to the national average. Most of the growth in public safety expenditures has been for police and corrections. Corrections expenditures skyrocketed in the 1980s, growing by more than 10 percent per year (in constant dollars) in New York and 8.4 percent nationally. Part of the explanation for this rapid growth was a rapid rise in corrections employees (11 percent per year) to handle the 9 percent per year growth in the state prison population. New York now employs 80 percent more corrections employees per capita than the national average. Since population growth, and even the growth of the poverty population below 25 years old was well below this rate, either criminal activity has rapidly expanded in the state or the policy toward incarceration has changed.

Since the overall crime rate in New York dropped from 1980 to 1988, it is unlikely that increases in criminal activity were the main driver of correction expenditures. The major policy change for state and local governments with regard to inmate populations has been the increasing use of mandatory sentencing. The rapid growth in inmate populations has led to jail overcrowding which has encouraged courts to step in

and mandate state and local expenditures to alleviate these conditions.¹¹ In 1983, 29 percent of local jails and in 1984, 7 percent of state facilities in New York were under court orders or consent decrees (Bahl and Duncombe, 1991). With New York State's prisons still above capacity, it is likely that prison overcrowding will continue to drive expenditure growth in corrections in the 1990s. It is also likely that the increasing number of poor children and young adults in New York will adversely affect the crime rate because most crimes are committed by persons under 30.

Revenues

Real per capita tax revenues in New York grew at a higher rate than in the rest of the United States in the 1980s and well above the real growth rates of the 1970s (Table 4). With the above-average personal income growth in New York, the tax share of personal income only increased slightly between 1980 and 1989, and the growth rate was below the national average. Hindsight suggests that the fiscal planning strategy was to let public expenditures grow in response to increased demand for public services and to let taxes increase to finance the expanded budget.

Per capita real *income taxes* in New York grew 50 percent faster than the rest of the country, and income tax burdens in the 1980s remained more than twice the national burden and that in most neighboring states (Table 5). The growth in personal income taxes was due primarily to strong growth in the tax base, particularly in New York City. Discretionary reductions in tax rates and a broadening of the tax base (in line with federal tax reform) were legislated in 1985 and 1987 and began to have a significant dampening effect on revenue flows in 1989. These discretionary changes coupled with the economic slowdown in the late 1980s, led real per capita income tax revenue to decline by 2.7 percent between 1988 and 1989. Per capita corporate income tax revenue in New York increased moderately from 1980 to 1988 (2.7 percent per year) even though it actually declined for the total United States, and the tax burden grew to 158 percent above the national average. New York State and City reduced corporate tax rates in 1988 as part of a general business tax reform. At the state level, corporate income tax revenue decreased by 20 percent from 1988 to 1990, partly in response to this tax reform (New York State Assembly, 1990).

Per capita *general sales taxes* grew modestly in New York in the 1980s; however, relative to personal income, they actually grew more slowly in New York State than in the rest of the country (Table 4). New York State's growth was due solely to the economy since no major changes in the state sales tax rates or base were made during the 1980s.¹² Some local governments, however, increased their tax rates in the 1980s. The combined state and local sales tax (nominal) rate in New York State was equal to or higher than that in all but eight states in 1989 (Advisory Commission on Intergovernmental Relations, 1990), and the sales tax burden (per capita) was 29 percent above the national average in 1989, and 10 percent above it relative to personal income.

There was a slight shift away from reliance on *property taxes* in the 1980s, a trend that was counter to what was occurring in the rest of the nation. In fact, per capita property

tax revenues have grown significantly slower than property values (Bahl and Duncombe, 1991), hence the effective tax rate has been coming down. Although the gap in the 1980s had narrowed, the per capita property tax burden in New York State was still 61 percent higher than in the rest of the country and 38 percent higher relative to personal income (Table 5).

New York continues to be relatively successful in the competition for *federal aid* dollars. Although real per capita federal aid (and federal aid received per dollar of income) declined in New York during the 1980s, the declines were not as steep as in the rest of the nation. The share of total federal aid distributed to New York State government rose from 10.3 percent in 1970 to 11 percent in 1989. One reason why New York governments have fared relatively well in the competition for declining federal aid is the concentration of their aid in federal welfare grants. While real federal grants to the New York State government increased 1.2 percent a year between 1980 and 1989, its welfare grants rose almost 4 percent a year. By 1989, New York State's share of all federal welfare assistance reached 16.1 percent, and these funds comprised 71 percent of New York State's federal aid (compared to 48 percent of aid to all states).

Lessons from the 1980s

New York ended the 1980s with a large government sector and a large fiscal deficit. Per capita expenditures of the state and local governments in New York were 50 percent higher than those in the rest of the country. New York employed 130 more workers per 10,000 population than did the average state, and paid the average worker 20 percent more (see Table 6). These high expenditure burdens were supported by one of the highest tax efforts in the nation, a relatively high level of federal aid (fourth in the United States in per capita terms), and a chronic deficit that was partly covered by borrowing. By spending the windfall from the strong economic growth in the 1980s, instead of using it to reduce tax burdens, New York left itself little fiscal cushion to absorb economic or fiscal shocks such as the current recession.

The lack of coordination between tax and expenditure policy is one of the root causes of the present fiscal crisis. On the one hand, New York attempted to lower its tax burden by reducing income tax rates and effective property tax rates and holding the line on sales tax rates. Whether these changes are sufficient to bring New York's tax burden into line with its neighbors is questionable; however, they have clearly dampened revenue growth in New York State. There has been little growth in the state personal income tax since 1987 and a sharp drop in corporate income tax receipts. Per capita state and local tax revenue in New York actually dropped slightly in 1989.

On the other hand, New York state and local governments have done little to adjust expenditure levels to the declining tax base. New York's expenditure growth in the 1980s was driven less by its present and expected future capacity to finance than by rising costs and its desire to renew the public infrastructure, to improve the real salary position of state and local government employees, and to respond to demands for

Table 6
Relative Fiscal Position of New York State
Aggregated Local Governments, 1989

Variable	New York	United States	NY's Rank
Per capita expenditures ^a	\$3,497	\$2,331	4
Per capita taxes	\$2,316	\$1,438	4
Taxes as a percent of income	15.3	11.1	4
ACIR tax effort index (1988)	152	100	2
Per capita federal aid	\$567	\$386	3
Employees per 10,000 of population ^b	615	485	4
Average employee compensation (monthly)	\$1,849	\$1,547	4

^a Expenditures are direct general expenditures. All monetary data are deflated using the implicit gross national product (GNP) deflator for state and local government purchases, except compensation which is deflated by the by the implicit GNP deflator for state and local government compensation.

^b Full-time equivalent employment.

Source: U.S. Department of Commerce, Bureau of the Census.

Government Finances and Public Employment, various years; and Advisory Commission on Intergovernmental Relations, *1988 State Fiscal Capacity and Effort*.

better health, education, and welfare services. The story for the 1980-1989 period was pretty much the same as for 1970-1975—expenditure growth rather than revenue constraints dominated budgetary planning. The result of this poor fiscal planning was three successive general fund deficits in the state budget at the end of the 1980s.

New York in the 1990s will face some tough fiscal choices. On the one hand, the state has made a concerted effort to provide better than average health, welfare, and education services. The socio-economic changes of the 1980s, particularly the large increase in poor households with children, may significantly increase the future cost of providing these social services. However, New York's high expenditure levels do not come without a price—high tax burdens, which may adversely affect economic growth in the 1990s. The recent slowdown in the regional economy, with its severe effects on state tax collections and deficits, is an indication of the effect of poor fiscal planning. It is imperative that policy makers in New York and other states learn from the lessons of the 1980s, if states are to avoid a rash of similar financial emergencies in the next decade.

What does the future hold for the New York economy? Do the trends of the 1980s signal a healthy New York economy with a competitive advantage that can sustain its growth into the 1990s? These are perhaps the most important questions to be answered by the governor and state legislature in planning New York's fiscal program for the next decade.

One view is that the primary reason for the New York economic turnaround in the last decade was the strong growth in the metropolitan New York City economy, mainly in the areas of finance and international business. The "opening" of the U.S. economy, the strong dollar and the federal deficit, prolonged national economic growth, and a booming securities market all conspired to help New York rediscover what may be its uniqueness and comparative advantage. This view supported the growth orientation in the state budget.

The budget deficit problems [states] face are due primarily to a combination of (a) underlying policies and external events that have slowed revenue growth, and (b) discretionary expenditure increases which have become uncontrollable.

Another view would support a very conservative fiscal stance and perhaps even retrenchment. Advocates of this position would hold that despite the better economic performance of the 1980s, there is no strong evidence that New York has gained a new general advantage over other states or that it has removed the important bottlenecks to growth. The relative cost of doing business has not declined, and New York's market share (national income earned in New York) has not increased significantly. In short, there is no reason to expect a general flow of jobs back to New York in the 1990s. There are a great many uncertainties and weaknesses that must be accounted for in New York fiscal planning: the state is vulnerable to external forces (e.g., the international economy, federal budgetary policy), perhaps more than ever before; New York continues to lose population to the other states and to have an employment base that grows more slowly than that in other states; and there is a heavy concentration of the poor in New York.

Given this list of uncertainties and weaknesses, what policy agenda should the state consider? The first order of business is for the state government to undertake a program of long-term planning and to establish some objectives to guide budgetary decisions. Perhaps at the top of the list is the determination of a target level of public expenditures that is affordable, i.e., that can be sustained by expected growth in the state economy and federal aid, that is commensurate with a desired level of taxation, and that can withstand any shocks that might result from federal macropolicy or the adverse performance of the national economy. There are four important lessons that policy makers can learn from New York's experience in the 1980s.

Long-Term Fiscal Planning

New York's fiscal problems in the last several decades have stemmed primarily from the same root cause: a virtual absence of long-range economic and fiscal planning. The New York state governments of the past two decades have not been willing to ask themselves where the fiscal situation was headed or, more importantly, what level of public expenditures could be afforded. Although most of the annual budget crises could easily have been predicted, each has been treated as a holiday surprise with resolution coming out of a mad scramble for eleventh-hour solutions. This is the antithesis of sound fiscal planning. The fact is that the seeds for New York's current fiscal problems were sown several years ago.

Certainly a part of the problem is that the state government has been unwilling to make the hard choices required, but,

more importantly, the state has not institutionalized its capability to do economic and fiscal planning.¹³ That is, it has not set up a mechanism to tell it what the hard choices are. There is no shortage of good revenue-modeling work in New York, but it is neither long term in outlook nor is it coordinated. On the expenditure side, there is virtually no long-term planning. One cannot find a thorough analysis of the long-run implications of annual discretionary expenditure decisions. Careful expenditure forecasting in New York does exist, but it is essentially a one-year exercise.

The lesson that New York, and other states, can learn from the 1980s is this: The budget deficit problems they face are due primarily to a combination of (a) underlying policies and external events that have slowed revenue growth, and (b) discretionary expenditure increases which have become uncontrollable. Such a deficit problem will not be solved with quick annual fixes, and it will continue to recur unless long-run revenue constraints and the longer-run implications of current expenditure decisions are taken into account.

The Budget Has Two Accounts

The second lesson is that the budget has both a revenue and an expenditure account, and fiscal planning and discretionary fiscal actions cannot approach these as though they are independent. This seems so obvious, but it is a violation of this principle that got New York City into fiscal trouble in the 1970s and that has caused the state new problems in the 1980s. The reason this lesson is not easily learned—in New York or in most states—is that it forces politicians to make hard and, therefore, unpopular choices between higher taxes and lower public expenditures. Now, with both federal aid and the federal income tax deductibility subsidy down and, consequently, the price of state and local government expenditures up, governments in New York are under more pressure than before to match their expenditure desires with the revenues they can raise.

New York politicians as well as those in most states have shown a decided preference for lower taxes by their discretionary actions in recent years. If higher taxes are not to be the fiscal choice in New York, then a lower rate of growth in government expenditures must be planned. Expenditure retrenchment is not easy medicine to take, or to sell, because there is a backlog of infrastructure needs that must be covered and great pressures on state resources to provide better services for low-income families. Problems such as the cost of medical insurance are on the horizon as big ticket items, which most states must face up to. Finally, there are the uncontrollables in the state budget, such as debt service, pensions, and federal mandates (corrections), that cannot be backed away from.

With these kinds of claims on New York's public revenues, it is clear that expenditure austerity cannot occur overnight. Where this could lead state planning is in the direction of a program of long-term and gradual expenditure retrenchment. Such opportunities exist, but they must be planned for and phased in slowly.

The State and Local Sector

The third lesson is that long-term fiscal planning in New York has to take into account the entire state and local

government sector. The past decade has too often seen the implementation of policies to resolve one level's fiscal problems at the expense of another. The federal government did this to the state and local government sector during the 1980s, New York State proposed to do it to the local governments during the fiscal crisis of 1989-90, and the New York City bailout in the mid-1970s was dumped in the lap of the state government. Offloading is not a good route to fiscal soundness.

The other, better route that the state government can take is to share its financing base and expenditure responsibilities and find the right role for the state and the local government sectors. Traditionally, this was the New York approach. It was one of the early states to recognize city-suburban fiscal disparities and to enact a program of municipal overburden aid. Local governments have authority to use the state general sales tax base, and the legislature has given New York City a broad range of taxing powers. In the 1980s, the state government seems to have moved away from the ideal of encompassing the entire state and local government sector in its fiscal planning to move toward a more competitive mode.

Do Not Waste Windfalls

The fourth lesson is to not squander windfalls. They come along too infrequently. New York entered the 1980s with an overdeveloped public sector with per capita expenditures 35 percent above the national average, per capita taxes 51 percent above and per capita personal income only 8 percent above. Looking ahead from 1980, the prospects were for an income growth at or below the national average rate and for substantial reductions in federal aid, with no New York favors from the Reagan administration.

In fact, the 1980s brought New York a windfall. Per capita personal income grew at a rate significantly above the national average, and federal aid to New York State did not decline as much as in the rest of the country. The state was presented a golden opportunity to begin to bring its public sector into line with that of the rest of the country, while minimizing the hardships imposed on public service recipients and on state and local government workers. In fact, the state chose to spend the fruits of this windfall, and, instead of reducing its fiscal position relative to other states, it widened the disparity.

The problem to be faced now is that the windfalls probably will not continue. Should that happen, an important part of New York's fiscal "cushion" will be removed, and the annual budget crises of the next few years will be even worse. One cannot say whether personal income will continue to grow above the national rate in New York, but the changes in the macroeconomy and the international economy will eliminate some of the advantages that fell to New York in the 1980s. Likewise, the reductions in federal aid are almost certain to spread more proportionately to New York in the coming years, especially if new cuts in social service assistance are in the offing.

Conclusions

The 1980s were good years for the New York economy. Population and employment increased, reversing the declines

of the 1970s, although neither grew as fast as in the rest of the country. Personal income did increase at a higher rate than in other states and per capita income grew to 18 percent above the national average, returning New York to about the same advantage it held in 1972.

Despite the strong economic performance of the 1980s, New York and most northeastern states found themselves in the midst of a fiscal crisis at the end of the decade. Why? One part of the explanation is that the socio-economic changes that underlaid the aggregate economic growth were less favorable for fiscal stability. Population growth was concentrated in lower income households with a greater need for social services. Employment and personal income growth were primarily in the service sector and in the form of capital income which are more difficult for the present tax system to reach.¹⁴ In other words, the economic changes resulted in rising demand for social services without a commensurate increase in the underlying tax base.

In addition, New York continued to let expenditure demands rather than revenue capacity dictate fiscal policy. Even with the admirable economic growth, New York had expanded its public sector to the point where per capita taxes and expenditures were 50 percent above the national average by the end of the decade. By spending its economic windfall, New York left itself vulnerable to the economic downturn of 1990, resulting in the present fiscal crisis. The problem has been made arguably worse by discretionary tax rate reductions that lowered the long-term elasticity of the tax system.

New York, and other states, can learn from the experience of the 1980s. The lessons can help the state and its local governments reach a more sustainable fiscal position in the 1990s. The state needs to establish a fiscal target for the level of state and local government expenditures that can be supported by the growth in the state economy, a realistic expectation about federal aid receipts, and an acceptable tax burden for state residents. New York's fiscal problems are partly the result of the virtual absence of long-range fiscal planning in the state. State policy makers have not been willing to ask themselves where the fiscal situation was headed, and, in particular, what level of public expenditures could be afforded.

New York, and most states, needs to reform its tax structure to reflect the more complex economy that now exists in the state. Instead of continuing to force a 1960 tax system through a 1990 economy and income distribution, it may be time to consider a comprehensive overhaul of the tax structure. This reform needs to broaden the state's tax base to more effectively capture the service sector and non-wage income. The state might also consider the option of dropping its economic development strategy of preferential tax treatment of certain industries and locations in favor of a general reduction in tax rates.

At the top of the reform agenda, however, is public expenditure policy. In the last analysis, New York state and local governments tax too much because they spend too much. A commitment to reduce government expenditures in New York, however, implies undertaking long-range planning,

establishing priorities, and making some hard choices. Among the choices are: lowering the quality of certain services closer to national levels, reducing its strong commitment to provide services for the poor, slowing the growth in public employee compensation, and privatizing some services and financing others with user or benefit charges. A review of the long-term implications of the fixed commitments, including debt, pensions, and entitlements, should be undertaken. This estimate could play an important role in helping the state to define the kind of expenditure discretion it has in planning for its longer-term budgetary retrenchment.

As state and local governments enter the 1990s, they would do well to remember four important lessons from the New York experience in the 1980s: (a) long-term fiscal planning, and not the annual management of budget crises, is the route to fiscal stability; (b) the revenue and expenditure side of the budget must be considered in planning state fiscal policy; (c) the proper role of both the state and local government sectors must be

taken into account; and (d) fiscal windfalls ought not to be squandered because they come along much too infrequently.



Roy Bahl is a professor of economics and public administration and director of the Policy Research Center at Georgia State University. He has authored numerous books and articles on subjects related to state and local finance. His research on the New York economy dates back to the early 1970s, and he and William Duncombe are the authors of *Economic Growth & Fiscal Planning: New York in the 1990s* (New Brunswick, NJ: Center for Urban Policy Research, Rutgers University, 1991).

William Duncombe is an assistant professor of public administration and senior research associate, Metropolitan Studies Program, at The Maxwell School of Syracuse University. He has published articles in the area of fiscal health, government costs, and budgeting in state and local governments.

Notes

The authors would like to acknowledge the helpful comments of Steven Gold and an anonymous reviewer for *Public Administration Review*.

1. These income comparisons are based on personal income estimates for New York and national income estimates for countries. This comparison slightly understates the relative size of the New York economy because total personal income is lower than national income for the total United States (U.S. Bureau of Economic Analysis 1991 and International Monetary Fund, 1991).
2. A thorough discussion of the state's budgetary position may be found in State of New York, "Official Statement: 1990 Tax and Revenue Anticipation Notes" (June 8, 1990). The combined balance sheet of all governmental funds showed an accumulated deficit of \$1.6 billion in March 1989.
3. Ten states had deficits exceeding 15 percent of the original budget including all northeastern states except New Jersey. These estimates were made by the National Conference of State Legislatures and reported in "States and Cities with Deficit Woes May Slow Rebound," *New York Times*, May 21, 1991.
4. Nontraditional households include family households headed by single parents, nonmarried parents, and nonfamily households. In 1980, over 50 percent of black and 40 percent of Hispanic family households were headed by a single parent, compared to 15 percent for white families in New York. For an excellent analysis of changes in the New York State population, see Alba and Trent (1986).
5. Much of the debate has centered around whether America is deindustrializing and what the industrial transformation means for long-term economic growth and income distribution. For a discussion by advocates of the deindustrialization hypothesis, see Bluestone and Harrison (1982), and for a counter argument, see Lawrence (1984).
6. The gap (per family member) between the average income of families below the poverty line and the poverty line increased from \$1,041 in 1980 to \$1,086 in 1986 (in 1986 dollars). The increase was considerably more for families headed by women. In addition, the percent of poor persons below 50 percent of the poverty line grew from 33.5 percent in 1980 to 39.2 percent in 1986 (Littman, 1989).
7. The impact of a state's tax burden on industry location is a subject of much debate. Whereas the tax variables by themselves are not usually the most important factors affecting industry location, they can be important if a state is very much out of line (Wasylenko, 1991). New York, with tax and expenditure levels well above the national average and its neighboring states, may be too far out of line.
8. The measures examined include SAT scores, graduation rates, and pupil-teacher ratios (Bahl and Duncombe, 1991).
9. The growth rates in recipients by type are based on changes among Medicaid recipients from 1980 to 1985 (U.S. Department of Health and Human Services, 1988 and 1983). In 1984, New York ranked fourth nationally in terms of the ratio of Medicaid recipients per capita. (12 percent) (Holahan and Cohen, 1986).
10. The slow growth in capital outlays occurred despite the passage during the 1980s of several major bond issues in New York to fund highway construction. The Rebuild New York Bond Acts of 1983 and 1988 authorized sale of long-term bonds for \$1.25 billion and \$3 billion for highway and bridge construction and repair. The latter bond issue was undoubtedly influenced by the collapse of the Schoharie Creek Bridge on Interstate 90 in April of 1987, killing ten people and resulting in millions of dollars of damage.
11. In an early descriptive analysis of the effect of court mandates on state correctional expenditures, Harriman and Straussman (1983) found a strong association between states under court mandates and growth in state capital and operating expenditures for corrections. Using regression analysis to control for other factors (including growth in prison populations), Taggart (1989) found only a moderate effect of mandates on capital spending in half of the states he looked at.
12. During 1983 and 1984, 19 states increased their general sales tax rates. Unlike the income tax, all but one of these increases have remained in effect (Gold, 1987). Between 1987 and 1990, 16 states raised sales taxes, 12 raised personal income taxes; however, 6 states lowered personal income taxes, while only 1 lowered the general sales tax (Gold, 1991).
13. New York is a state with a long tradition of engaging in careful study of fiscal activities. Despite the good work of these various commissions, New York has no fiscal planning process. Nor is there an organized forum at the state level where business, labor, academic, and government communities can come together to openly discuss alternative policy strategies. One such forum is that organized by Charles Brecher and Raymond Horton (1988) concerning priorities for New York City.
14. For an example of an analysis of the impact of a changing economy on the revenue structure of a community, see Bahl and Greytak (1976). A fairly wide disparity exists among states on the level of services that they tax. New York actually taxes a broader range of services than many states; however, most services still go untaxed. For a review of state taxation of services, see Due and Mikesell (1983).

References

- Advisory Commission on Intergovernmental Relations (ACIR), 1990. *Significant Features of Fiscal Federalism*, vol. 1. Washington DC: U.S. Government Printing Office.
- Alba, Richard and Katherine Trent, 1986. *The People of New York: Population Dynamics of a Changing State: New York State Project 2000. Report on Population*. Albany: Rockefeller Institute of Government.
- Armstrong, Regina, 1989. "Immigration." *Citizens Budget Commission Quarterly*, vol. 9, p. 5.
- Bahl, Roy, 1979. "The New York Economy: 1960-1978 and the Outlook." Metropolitan Studies Program Occasional Paper No. 37, The Maxwell School. Syracuse, NY: Syracuse University.
- Bahl, Roy and William Duncombe, 1991. *Economic Growth and Fiscal Planning: New York in the 1990s*. New Brunswick, NJ: Center for Urban Policy Research, Rutgers University.
- Bahl, Roy and David Greytak, 1976. "The Response of City Government Revenues to Changes in Employment Structures." *Land Economics*, vol. 52 (November), pp. 415-434.
- Bawden, D. Lee and John Palmer, 1984. "Social Policy: Challenging the Welfare State." In J. Palmer and I. Sawhill, eds., *The Reagan Record*. Cambridge, MA: Ballinger Publishing Company.
- Bluestone, Barry and Bennett Harrison, 1982. *The Deindustrialization of America*. New York: Basic Books.
- Brecher, Charles and Raymond Horton, 1988. *Setting Municipal Priorities*. New York: New York University Press.
- Chall, Daniel, 1985. "New York City's 'Skills Mismatch'." *Federal Reserve Bank of New York Quarterly Review*, vol. 10 (Spring), pp. 20-27.
- Coleman, James et al., 1966. *Equality of Educational Opportunity*. Washington DC: U.S. Government Printing Office.
- Danziger, Sheldon and Peter Gottschalk, 1986. "Work, Poverty, and the Working Poor: A Multifaceted Problem." *Monthly Labor Review*, vol. 109 (September), pp. 17-21.
- Due, John and John Mikesell, 1983. *Sales Taxation: State and Local Structure and Administration*. Baltimore: Johns Hopkins University Press.
- Gold, Steven, 1987. "Developments in State Finances, 1983 to 1986." *Public Budgeting and Finance*, vol. 7 (Spring), pp. 10-12.
- _____, 1991. "Changes in State Government Finances in the 1980s." *National Tax Journal*, vol. 44 (March), pp. 1-19.
- Hanushek, Eric, 1986. "The Economics of Schooling: Production and Efficiency in Public Schools." *Journal of Economic Literature*, vol. 3 (September), pp. 1141-1177.
- Harriman, Linda and Jeffrey Straussman, 1983. "Do Judges Determine Budget Decisions? Federal Court Decisions in Prison Reform and State Spending for Corrections." *Public Administration Review*, vol. 43 (July/August), pp. 343-351.
- Holahan, John and Joel Cohen, 1986. *Medicaid: The Trade-Off Between Cost Containment and Access to Care*. Washington D.C.: The Urban Institute Press.
- International Monetary Fund, 1991. *International Financial Statistics*, vol. 44 (July).
- Ladd, Helen and John Yinger, 1989. *America's Ailing Cities: Fiscal Health and the Design of Urban Policy*. Baltimore: The Johns Hopkins University Press.
- Lawrence, Robert, 1984. *Can America Compete?* Washington, DC: The Brookings Institution.
- Littman, Mark, 1989. "Poverty in the 1980s: Are the Poor Getting Poorer?" *Monthly Labor Review*, vol. 112 (June): pp. 13-18.
- New York State Assembly, Ways and Means Committee Staff, 1990. *New York State Economic and Revenue Forecasts: 1989-90 & 1990-91*. Albany: New York Assembly.
- New York State, 1990. Monograph
- Personick, Valerie, 1989. "Industry Output and Employment: A Slower Trend for the Nineties." *Monthly Labor Review*, vol. 112 (November), pp. 25-41.
- Plotnick, Robert, 1989. "How Much Poverty Is Reduced by State Income Transfers?" *Monthly Labor Review*, vol. 112 (July), pp. 21-26.
- Public Citizen Health Research Group, 1987. *Poor Health Care For Poor Americans: A Ranking of State Medicaid Programs*. Washington DC: Public Citizen Health Research Group.
- Rymer, Marilyn and Gerald Adler, 1987. "Children and Medicaid: The Experience in Four States." *Health Care Financing Review*, vol. 9 (Fall), pp. 1-20.
- Schwartz, Joe and Thomas Exter, 1989. "All Our Children." *American Demographics*, vol. 11 (May), pp. 34-37.
- Silvestri, George and John Lukasiewicz, 1989. "Projections of Occupational Employment, 1988-2000." *Monthly Labor Review*, vol. 112 (November), pp. 42-65.
- Taggart, William, 1989. "Redefining the Power of the Federal Judiciary: The Impact of Court-Ordered Prison Reform on State Expenditures for Corrections." *Law & Society Review*, vol. 23, pp. 241-270.
- U.S. Bureau of the Census, 1989. "Money Income and Poverty Status in the United States, 1988." *Current Population Reports*, Series P-60, no. 166. Washington DC: U.S. Government Printing Office.
- U.S. Bureau of Economic Analysis, 1991. *Survey of Current Business*, vol. 71 (April).
- U.S. Department of Health and Human Services, Health Care Financing Administration, 1988 and 1983. *Medicare and Medicaid Data Book*. Washington DC: U.S. Government Printing Office.
- U.S. Immigration and Naturalization Service, 1989. *1988 Statistical Yearbook of the Immigration and Naturalization Service*. Washington, DC: U.S. Department of Commerce.
- Wasylenko, Michael, 1991. "Empirical Evidence on Interregional Business Location Decisions and the Role of Fiscal Incentives in Economic Development." In H. Herzog, Jr., and A. Schlottmann, eds., *Industry Location and Public Policy*. Knoxville, TN: University of Tennessee Press.