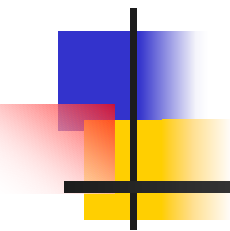


Is the U.S. Decentralizing?



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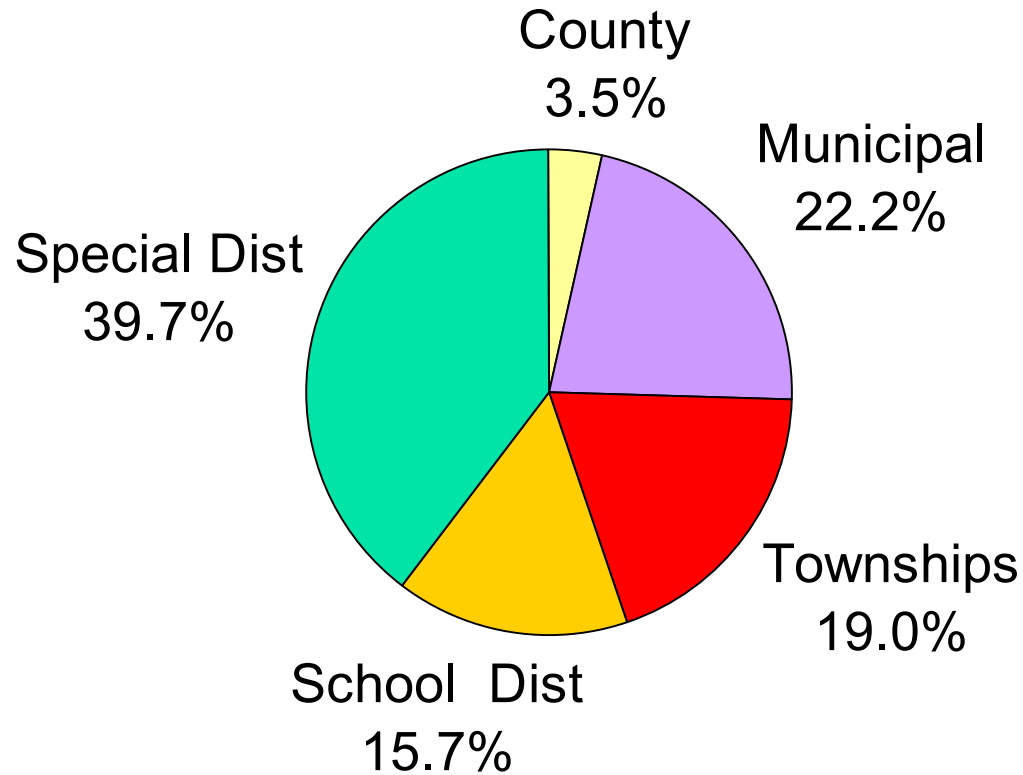
October 28, 2002



U.S. Government Structure

- 50 States
- 87,504 Local Districts

Distribution of Local Governments, 1997

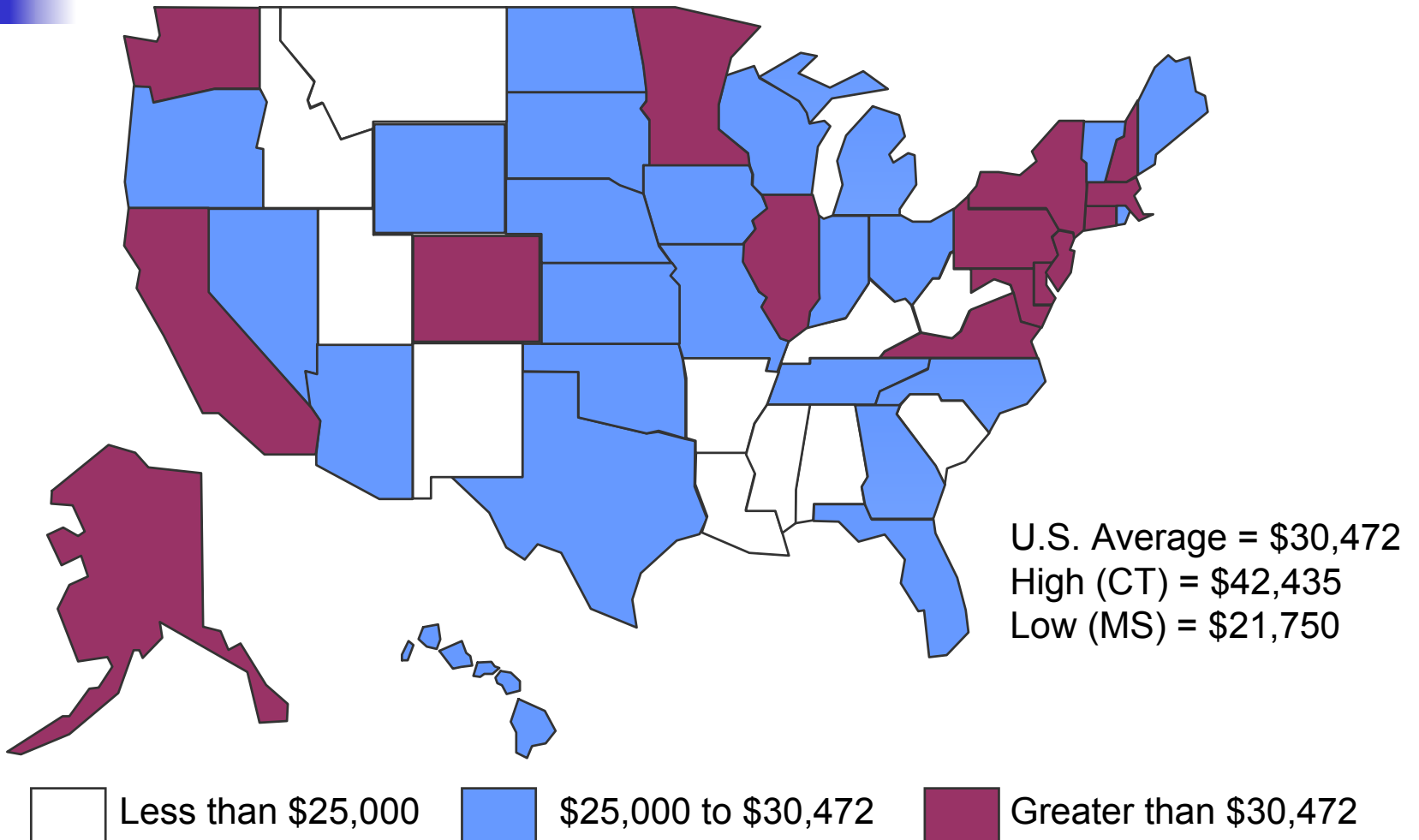




U.S. Government Structure

- 50 States
- 87,504 Local Districts
- Decentralization at the local level --
Fewer School Districts, More Other
Special Districts, More Cities

PER CAPITA PERSONAL INCOME, 2001

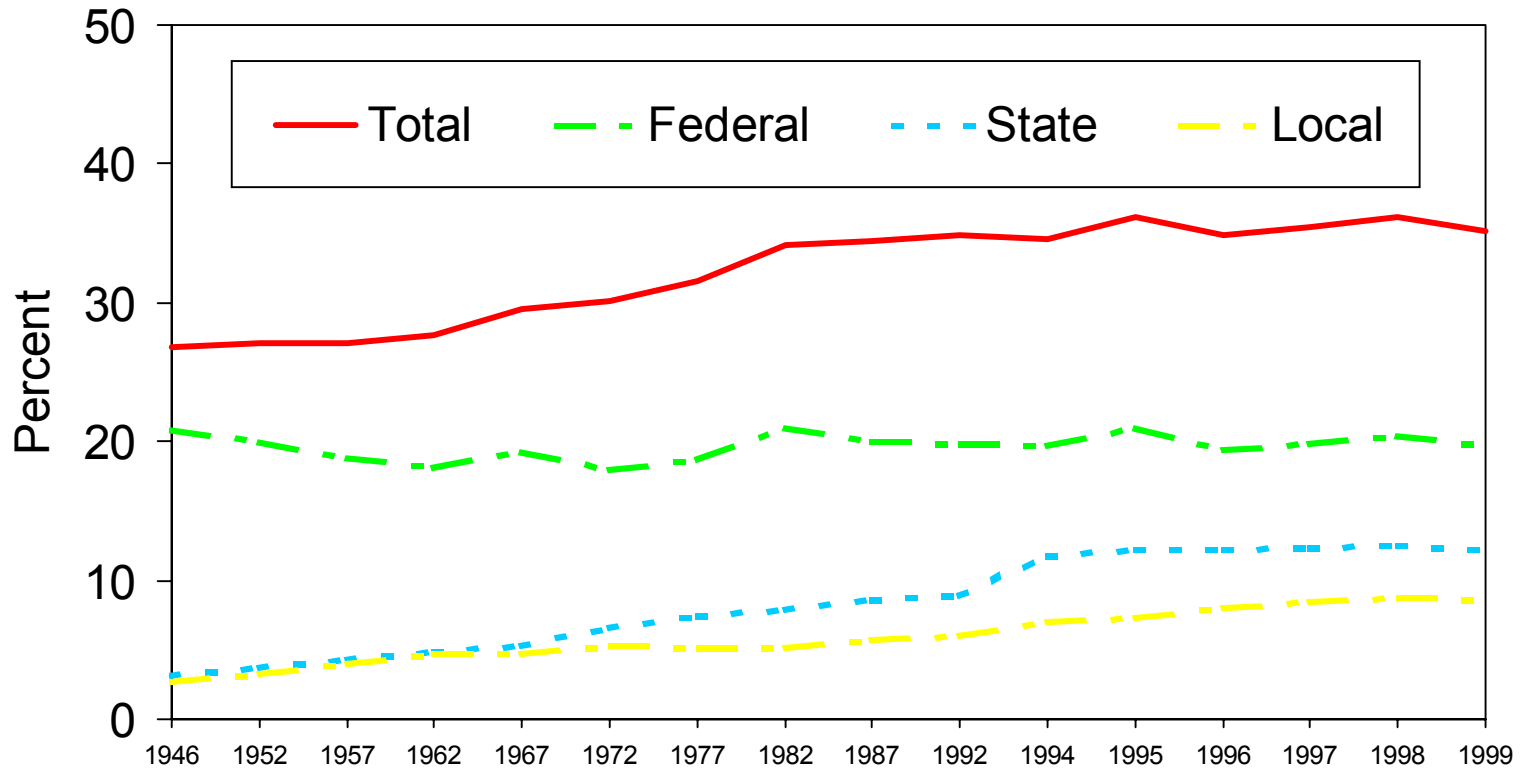




Size of Government Rising

- Share of tax revenues in GDP has risen slowly, but continuously since WWII. The pattern has slowed since the early 1980's but has been sustained.

Government Revenue as a Percent of U.S. GDP





Federal Share has Stayed Steady

- Federal revenues were increased in WWII.
- The share has varied within a narrow range in the intervening years, the personal income tax has grown as the primary revenue instrument.
- The revenue share has been maintained as federal expenditures slowly moved from defense to social programs.
- Bush tax cuts and stimulus package, if retained, will reduce the share of GDP paid in federal taxes.



State and Local Governments' Revenue Shares have Risen

- Result is that state and local governments are generating a larger share of total government revenue
- Caused by S&L growth rather than shift from federal
- Much of the revenue is necessary to finance match on federal programs



Does the Revenue Side Suggest a Pattern of Greater Devolution?

- Greater share of revenue at the sub-national level – much of the state growth result of high elasticity
- States have considerable capacity to tax what they choose, except they are precluded from taxing interstate commerce
- Congress determines the meaning of interstate commerce



Interstate Commerce

- Interstate mobility makes S&L revenue generation more difficult and Congress has not facilitated state revenue collection
- Growing rapidly and has important implications for S&L sales and corporate income taxes
- National government gets all of the political gains from not facilitating S&L revenue collection but has no revenues at stake
- Congressional decisions are pushing S&L towards property and individual income taxes



Interstate Commerce

- Congress has limited S&L ability to tax
 - Internet Tax Freedom Act
 - Local taxation of DBS
 - Taxation of interstate travel
- Supreme Court rulings have limited some federal steps to define interstate commerce expansively.



Other Controls over State & Local Revenues

- General political climate
- Tax Competition
 - Effects tax levels
 - Effects choice of tax instruments
 - Often negotiated tax structures
 - Makes it harder to tax high income individuals

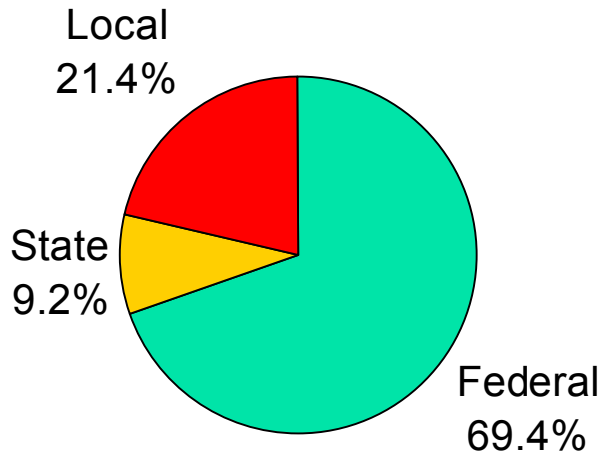


Expenditure Patterns Tell a Similar Story to Revenues

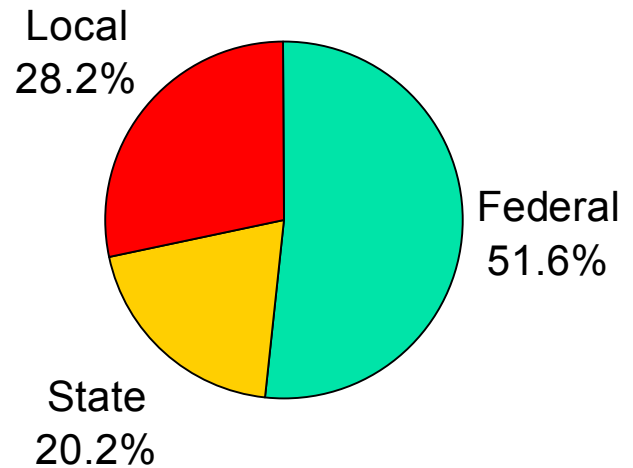
- Federal expenditures have fallen as a share of GDP
 - Defense spending down
 - Federal government is financing much of the entitlement expenditures, but is not delivering the services

Distribution of Government Expenditures

1952



1998





State and Local Expenditure Patterns

- Role of state versus local differs by state
- There has not been a significant shift in programs that state and local governments control
- State spending has grown because of responsibility for delivering medicaid, TANF, and food stamps
- These are federal programs with matching state dollars, but limited state control
- Court rulings often important
- Is this devolution?



Federal contributions to state/local finance

- Big increase in federal aid in the 1960's and 70's. Reduced significantly during late 1970's and 1980's. Revenue sharing was eliminated.
- Pattern has reversed in the 1990's. The main factor has been Medicaid (health care for low income recipients), which has grown very rapidly. New federal programs have not been the main factor.

Intergovernmental Revenue from the Federal Gov't as a Percent of S&L Direct General Expenditure

