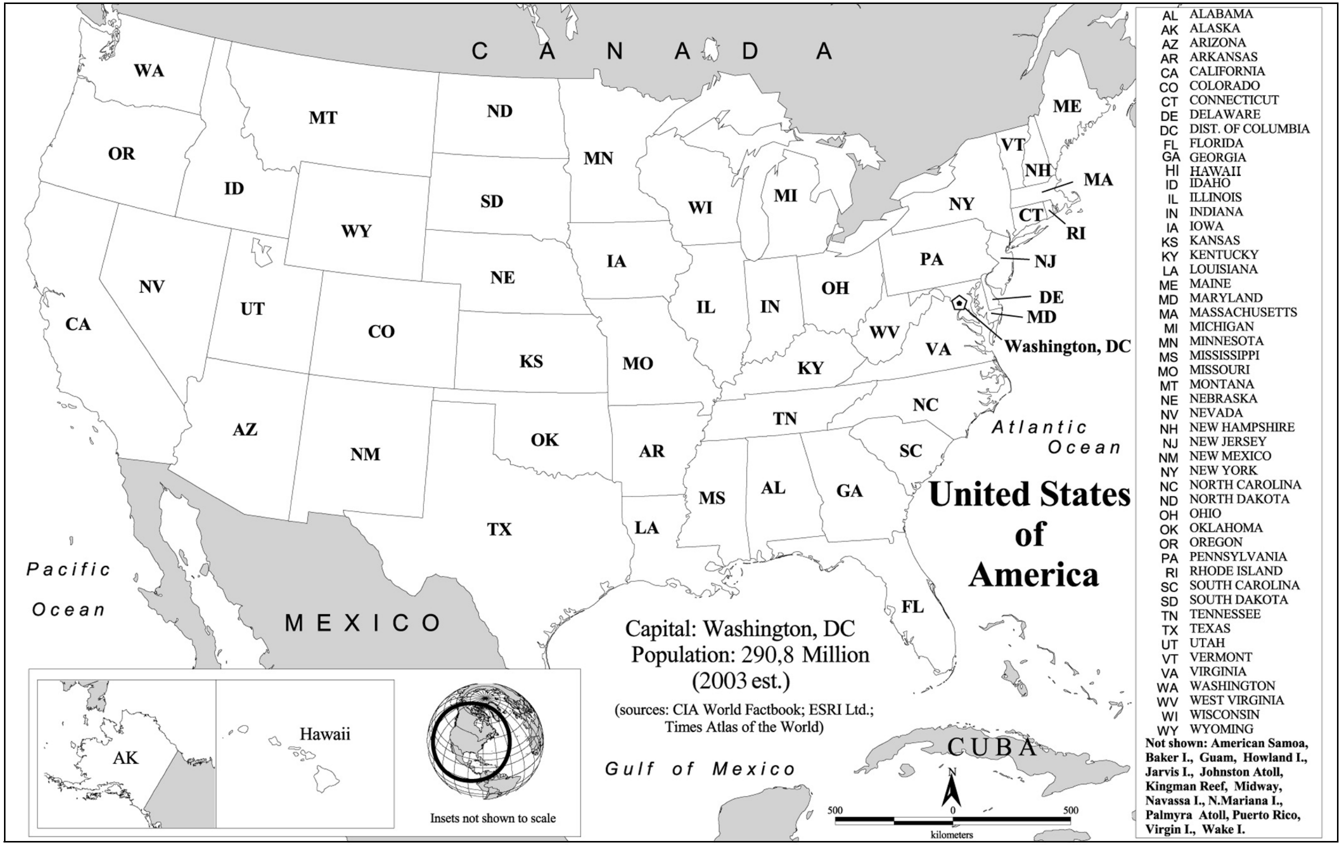
CANADA
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Pacific Ocean
Atlantic Ocean
Gulf of Mexico
CUBA
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FL
SC
NC
VA
WV
PA
NY
VT
NH
ME
MA
CT
RI
NJ
DE
MD
Washington, DC
United States of America
Capital: Washington, DC
Population: 290,8 Million
(2003 est.)
(sources: CIA World Factbook; ESRI Ltd.; Times Atlas of the World)
AK
Hawaii
Insets not shown to scale
N
500 0 500
kilometers
AL ALABAMA
AK ALASKA
AZ ARIZONA
AR ARKANSAS
CA CALIFORNIA
CO COLORADO
CT CONNECTICUT
DE DELAWARE
DC DIST. OF COLUMBIA
FL FLORIDA
GA GEORGIA
HI HAWAII
ID IDAHO
IL ILLINOIS
IN INDIANA
IA IOWA
KS KANSAS
KY KENTUCKY
LA LOUISIANA
ME MAINE
MD MARYLAND
MA MASSACHUSETTS
MI MICHIGAN
MN MINNESOTA
MS MISSISSIPPI
MO MISSOURI
MT MONTANA
NE NEBRASKA
NV NEVADA
NH NEW HAMPSHIRE
NJ NEW JERSEY
NM NEW MEXICO
NY NEW YORK
NC NORTH CAROLINA
ND NORTH DAKOTA
OH OHIO
OK OKLAHOMA
OR OREGON
PA PENNSYLVANIA
RI RHODE ISLAND
SC SOUTH CAROLINA
SD SOUTH DAKOTA
TN TENNESSEE
TX TEXAS
UT UTAH
VT VERMONT
VA VIRGINIA
WA WASHINGTON
WV WEST VIRGINIA
WI WISCONSIN
WY WYOMING
Not shown: American Samoa, Baker I., Guam, Howland I., Jarvis I., Johnston Atoll, Kingman Reef, Midway, Navassa I., N.Mariana I., Palmyra Atoll, Puerto Rico, Virgin I., Wake I.

The United States of America

WILLIAM F. FOX

The United States has operated as a federal country for more than 200 years.[1] Even so, discussion of fiscal federalism, and federalism more generally, attracts less attention in the United States than it does in many other federal countries. Deliberations focused on such issues as tax and expenditure assignment, intergovernmental transfers, and equalization seldom receive serious critical discussion in the political, media, or general public arenas. This may be a sign that many people believe that the system is working pretty well and does not require serious reform. An alternative interpretation is that many issues are perceived as being more important. In any event, the topics in this chapter receive much more attention from analysts than they do from the general public.

Two major themes run throughout this chapter. First, the federal role in the US intergovernmental structure has expanded over the past seventy-five years, although not through a major change in the responsibilities undertaken by state and local governments; instead, the federal government has increasingly imposed limitations on the financing sources available to state and local governments and has mandated the ways in which many services are provided. Second, the ever more open economy, both across states and across the world, has limited the ability of state and local governments to generate revenues through their traditional sources. And the national government, which controls interstate commerce, has been unwilling to enable state and local revenue generation.

THE UNITED STATES: A THUMBNAIL SKETCH

The population of the United States was estimated to be 296.4 million people on 1 July 2005, an 18.5 percent increase since 1990 (Table 1). The population is 68.5 percent non-Hispanic white, 13.4 percent black or African-American, 13.2 percent of Hispanic origin, and 4.9 percent other. The

Table 1
Basic political and geographic indicators

Official name:	conventional long form: United States of America conventional short form: United States abbreviation: US or USA
Population:	296,410,404 in 2005
Area:	total: 9,631,420 sq km land: 9,161,923 sq km water: 469,497 sq km note: includes only the 50 states and District of Columbia
GDP per capita (year)	$42,022 in 2005 (current $)
Constitution:	Constitution-based federal republic 17 September 1787, effective 4 March 1789
Constitutional status of local government:	Each state has its own constitution similar to that of the national Constitution. Laws made in individual states cannot conflict with the national Constitution or national laws.
Official languages:	There is no official language at the federal level, but some states have specified English. Languages spoken in the USA: English 82.1%, Spanish 10.7%, other Indo-European 3.8%, Asian and Pacific Island 2.7%, other 0.7% (2000 census)
Number and types of constituent units:	50 states and 1 district
Population, area and per capita GDP of the largest constituent unit:	California 2005 Population: 36,132,147 Total Area: 423,970 sq km GDP per capita: $44,886 in 2005 (current $)
Population, area and per capita GDP of the smallest constituent unit:	Wyoming 2005 Population: 509,294 Total Area: 253,336 sq km GSP per capita: $53,843 in 2005 (current $)

Sources: US Census Bureau, Bureau of Economic Analysis, CIA World Fact Book.

ethnic mix is changing rapidly as people of Hispanic origin have accounted for about 40 percent of the nation's population growth since 1990. The country is geographically large, comprising 9.6 million square kilometers.

The US government structure is composed of one federal government, fifty states, and 87,525 local governments (in 2002). In addition, the District of Columbia, the US capital, is an autonomous city. The states have a median population of nearly 4.2 million, but they vary widely in geographic and population size. For example, California is the most populous state, with 36.1 million people, and exceeds Texas, the second most populous state, by 13.5 million people. At the other extreme, seven states have fewer than 1 million people, with Wyoming having the fewest people, at 506,500 inhabitants.

The states have powers that are independent of the federal government, and they delegated limited powers to the federal government through the US Constitution. The Tenth Amendment to the Constitution reiterates that the states retain all powers not delegated to the federal government. State constitutions and statutes are the primary determinants of local government structure, which means wide differences exist across the country. Counties are the basic unit of local government in many states, and the 3,034 counties cover the geographic space of the United States. There are an additional 35,933 subcounty general-purpose governments, which are normally called cities, towns, or townships. These general-purpose subcounty governments house 82.5 percent of the US population. The number of general-purpose governments has grown slowly from the 34,009 governments that existed fifty years ago, although the number has not risen over the past ten years.

There are 48,558 special-purpose districts. Some of these districts have the same boundaries as do the counties in which they are located, but most do not. Special-purpose districts are created to undertake only one or a few responsibilities; indeed, 91 percent perform only one function. Special-purpose districts are local governments created to deal with such issues as, for example, education, hospitals, fire protection, housing, water supply, sewerage, highways, air transportation, economic development, flood control and drainage, and soil conservation. The largest number of special-purpose districts occurs with regard to education (15,014), followed by fire protection, water supply, housing, drainage and flood control, and soil and water conservation. The number of school districts fell dramatically because of mergers, reorganizations, and so forth during the 1950s and 1960s, declining from 67,355 in 1952 to 15,781 in 1972. School districts have continued to decline slowly since 1972. Other special-purpose districts, by contrast, have nearly tripled, growing from 12,340 in 1952 to 35,032 in 2002.

Local governments differ radically in population size. Ninety-one counties have more than 500,000 people, while 671 have fewer than 10,000 inhabitants. Municipal and township governments also vary dramatically in size. More than 25,000 have fewer than 2,500 residents, and 61 have more than 300,000 people. The total population of municipal and township governments with fewer than 25,000 people is only 10.7 million, about 3 percent of the US population.

HISTORY OF US FEDERALISM[2]

During the country's first 140 years, there was strong confidence that the private sector and private institutions more broadly could deal with public issues. State governments dominated the very small government structure that characterized the United States during this era. Public service delivery, regulatory control, and taxation by state governments and their local governments were perceived as sufficient. The federal government's role was very limited, except during major wars, including the US Civil War and the First World War, but the pattern always involved a reversion to a smaller prewar federal government. Narrow interpretations of the federal role by both the judiciary and political forces upheld this pattern.

The Great Depression in the 1930s, followed by the Second World War and then the Korean War, created sustained centralizing forces that lasted for the next forty to fifty years. The greater central role existed for so long that it still has not been fully reversed. The courts interpreted the constitutional basis for the federal role much more broadly during this time. Federal finance of a wide range of programs, including Medicaid (health care for low-income individuals), Medicare (health care for the aged), Social Security, and large grant programs for state and local governments, was begun, although some of these specific programs did not start until the 1960s.

The last several decades have witnessed a more balanced federal system, although federal influences remain strong in many areas that have traditionally been in the purview of state and local governments. Shannon gives three explanations for the current federal environment.[3] First, middle-class voters, who dominate the political landscape, will not be sufficiently conservative to move the United States back to where state governments dominate. The population appears to have grown more conservative, and, although there is talk about states' rights, the demand for federal expenditures for defence, security, and other purposes precludes a significant fall in federal spending relative to GDP. Citizens have become accustomed to certain government expenditures and would not be comfortable with a move back to the very small federal (and overall) government structure that existed prior to the Great Depression.

Second, middle-class voters are unlikely to prefer movement back to a larger federal role. Confidence in the federal government's ability to deal with many of the large problems facing the United States has waned. Various crises can precipitate a greater federal role for a period of time, such as the relatively strong support for defence and national security that was stimulated by international terrorism, but the pendulum will probably swing back to a more balanced role between the federal and state and local governments.

Third, going forward, Shannon expects "middle-of-the-road" federalism, with neither the federal government nor the states dominating the government structure. Having said this, the political forces in place could result in slow trends towards either the federal or state governments' playing a larger role. A good bet is that state and local governments will remain the dominant service providers but that the federal government's influence will remain significant (and could become even greater).

ASSIGNMENT OF SERVICE RESPONSIBILITIES

What is true of many countries is also true of the United States: summarizing the relative service delivery roles played by the federal, state, and local governments is not simple because many services have been unbundled, with each arena of government taking responsibility for different components. Data on expenditures and revenues tell part of the story but fail to explain fully the nuances of the intergovernmental relationships. This section summarizes the expenditure responsibilities, while the following section summarizes the revenue structure.

The federal versus state/local role is generally based on history and practice, and most service delivery is not specifically articulated in the US Constitution.[4] Table 2 illustrates the levels at which services are generally assigned. The assignment of service responsibilities at the state versus the local level can vary widely across states based on constitutional and statutory provisions, making generalizations difficult. Some state constitutions provide specific assignments. For example, many state constitutions assign responsibility for education to state governments, but even here every state except Hawaii either assigns or delegates most provision of primary and secondary schools to local governments. The national, state, and local governments frequently share responsibility, at least to some extent, for delivering most services. The federal government generally plays a much smaller overall role in direct service delivery than do the state and local governments, but the federal government often has important influence over service delivery. Federal grants, loans, and cost sharing that come with various restrictions, as well as federal laws and regulations, are frequently used to leverage federal priorities far beyond the narrow area in which the funding is provided.

Federal mandates are also used to assert federal priorities over state and local governments. Unfunded federal mandates can be an important source of expenditure growth for state/local governments. Congress enacted legislation in 1995 requiring the federal government to determine the costs of such mandates, whether by congressional or administrative action, but the costs are seldom financed directly by the federal government. Gallo examines the act and applauds the increased supply of information, but she questions the long-term effect on federal decisions as the legislation is narrowly constructed.[5] The Center for Budget and Policy Priorities estimated that unfunded federal mandates cost the states $73 billion more than was provided between 2002 and 2005 in the areas of election reform, No Child Left Behind education reform, and education of disabled children.[6]

In fact, what are often termed mandates by the states come in two general forms. In some cases, Congress, using its control over interstate commerce, directly requires state or local governments to provide certain services in certain ways. Restrictions on drivers' licences and voter registration are examples. But a number of areas, such as constitutional rights, are specifically excluded from the unfunded mandates legislation. Alternatively, Congress may link conditions to grants, and state/local governments may argue that these are mandates. However, the legislation does not regard conditions on grants to be mandates. The No Child Left Behind legislation is probably best characterized as an example of the latter type of mandate. Federal influence over state behaviour is more likely to come through grants than through direct requirements, and what is listed as a mandate may be *changes* in federal programs that can be costly to subnational governments, in part, because they alter the financing relative to the pre-existing conditions.

The system generally follows the subsidiarity principle, with decisions made at the level of government closest to the people, because the system of government was created with strong state governments and a relatively weak national government. As noted above, the balance of power has shifted dramatically over the years as a result of large growth in federal revenues that are often used to encourage particular state/local behaviour, court rulings that have expanded the federal role relative to the state/local role, and congressional legislation based on expansive interpretations of constitutional provisions, such as the interstate commerce clause.

The national government has exclusive responsibility for several services, including national defence (although state militias exist), international affairs, and the postal service. Shared federal, state, and local responsibility exists for a number of services, including the judiciary, police, environmental protection, parks, and economic regulation, with each level having different responsibilities. For example, with environmental issues, the federal government often has responsibility for interstate regulatory issues while states have responsibility for more localized concerns. State and local governments have nearly exclusive responsibility for a number of services, including fire, education, libraries, solid-waste management, sewerage, water supply, and transit. As noted above, the federal government has an important influence on service delivery, even with these "exclusive services."

Data can provide some evidence on the service-delivery assignments. Interestingly, the US Bureau of the Census provides detailed data on state and local expenditures but does not provide comparable data on federal expenditures.[7] However, the census provides employment data for the federal, state, and local governments, and this can give some indication of service-delivery responsibility.[8] Local governments employ about five-eighths of the 18.2 million public-sector non-military workers in the United States.

Table 2
Legislative responsibility and actual provision of services by different levels of government

Legislative responsibility (de jure)	*Public service*	*Actual allocation of function (de facto)*
State/local	Higher education	State/local
State/local	Primary/secondary education	State/local
Federal	Defence	Federal
Federal/state/local	Police	Federal/state/local
State/local	Fire	Local
Federal/state/local	Corrections	Federal/state/local
Federal/state/local	Health/hospitals	Federal/state/local
State/local	Solid waste	Local
State/local	Sewerage	Local
State/local	Water	Local
Federal	Postal service	Federal
Federal/state/local	Parks and recreation	Federal/state/local
Federal/state/local	Highways	State/local

The majority of local government workers are employed in education, particularly in elementary and secondary schools. States employ nearly one-fourth of total civilian government workers, while the federal government hires the remaining one-eighth.

Exclusive responsibility can be seen in areas where the government has 100 percent or 0 percent of expenditures (see Table 3). For the federal government, examples include defence, the postal service, and space research. The shared roles in the judicial, police, corrections, health and hospitals, parks, natural resources, and air transportation services are readily apparent. Much of health care is provided through the private sector, but public-sector hospitals and clinics are also common, and regulatory responsibility is vested in all three orders of government.

The federal and state governments share responsibility for social insurance. The federal government is responsible for the Social Security pension program and the Medicare program. States provide food stamps, Medicaid, and the major welfare program, Temporary Assistance for Needy Families (TANF). However, the federal government finances TANF (through a block grant) and food stamps and provides between one-half and three-fourths of Medicaid costs (through a matching grant). States are

Table 3
Direct expenditures by function and level of government, percentages

Function	*Federal*	*State or provincial*	*Local*	*All*
Defence	100.0	0	0	100
Interest	65.7	13.8	20.5	100
General administration	40.0	25.9	34.1	100
Law and order				100
Economic services				100
Social services				100
Health	66.8	14.5	18.7	100
Education	4.4	26.4	69.2	100
Subsidies				100
Total	45.7	24.4	29.9	100
Local Public services[1]	8.7	27.0	64.2	100

1. Let "local public services" include: primary and preschool education, secondary education, public health, hospitals, urban highways, urban transportation, drinking water and sewerage, waste collection, electric power supply, fire protection, public order and safety, police.

mostly responsible for administering these programs, but service provision is tightly constrained by federal rules. States have varied to some degree in their Medicaid and TANF programs but must obtain a waiver from federal rules in order to do so. Experimentation by the states with these programs is generally regarded as a good laboratory for identifying better ways, often defined as lower-cost ways, of structuring them.

Water, electricity, gas supply, and sewerage are exclusive state and local responsibilities, although the federal government plays some regulatory and fiscal roles in all of these fields (such as through water quality standards established by the US Environmental Protection Agency). The public sector produces the services in some cases, and the private sector does so in others. State or local governments continue to provide regulatory oversight in places where the private sector produces the services, but most of the employment for delivering these services would not be reflected in Tables 2 and 3.

Overlap and confusion in service delivery responsibilities arise both horizontally between local governments and vertically across levels of government because it is not always transparent which government is accountable or should be responsible for service delivery, although the problems are not generally egregious. The response by all governments to Hurricane

Katrina in 2005, the most severe hurricane to strike the United States in many years, is an excellent example. Elected federal, state, and local officials are all pointing the blame at each other, with the federal government, rightly or wrongly, being perceived by many citizens as having failed the most severely. One possible outcome is that the federal government may effectively become responsible for responding to many localized emergencies that might have been better undertaken by the states.

Individuals who do not fully understand that they are paying separately imposed federal and state income taxes is another source of confusion that can limit accountability for specific taxes. Individuals might wish to voice complaints about service delivery but might not be able to readily determine which office or which government to contact. Overlapping service delivery also occurs, and this leads both to confusion and to potentially higher costs. For example, there is likely to be confusion over environmental regulation at the federal versus state levels. Also, it may be unclear to citizens whether federal, state, county, or city law enforcement officials are responsible for certain tasks.

TAX ASSIGNMENTS

Federal, state, and local governments overlap considerably in their use of revenue sources (see Table 4). The US Constitution imposes relatively few limitations on taxation at the US federal (Article 1 Section 8) and subnational government levels. A prohibition against taxing exports from a state is the only notable explicit restriction in the US Constitution on state taxing authority. The US Constitution of 1788 formerly required direct federal taxes to be apportioned equally across the states, but the Sixteenth Amendment to the Constitution was ratified in 1913 so that an income tax could be imposed consistently across the states.[9] Implied restrictions also arise. The prohibition against state taxes distorting interstate commerce arises from the dormant commerce clause and is a very significant limitation on the ability of states to tax. The inability of one government to impose tax on another government came from an 1819 Supreme Court decision.[10] Federal limitations on state and local taxation are discussed in more detail in the next section.

State constitutions also include some restrictions on states' taxation powers, with the major limitation being that state constitutions cannot impose restrictions that run counter to the national Constitution. In turn, states determine, either statutorily or constitutionally, the authority of local governments to levy taxes. For example, several states have limited the annual growth rate in assessments for property tax purposes.

The federal government raises just over one-half of both total tax revenue and total revenue (see Table 5 for total revenues). A limited form of specialization has developed by tax source, though each order of government uses multiple tax sources. The federal government specializes mostly in the individual income tax, which raises more than 80 percent of federal tax revenue. The federal income tax also collects about 80 percent of total US income taxes. In addition, the federal government collects almost all insurance-trust revenue.

Property taxes are used almost exclusively by local governments and generate nearly three-fourths of local revenues. Most local governments with taxing authority can levy property taxes, although there are frequently some state controls and regulation over the base and rate. Specifically, property tax is often thought of as the main source of education finance, with non-education special districts using the tax much less than school districts. The role of property taxes in local finance has slowly diminished over time; as some states have given local governments tax alternatives and the role of states in financing education has risen. Thirty-four states allow local sales taxes, and thirteen permit local income taxes, which are often wage taxes rather than broad-based income taxes. The heavy reliance on property taxes has generated considerable controversy in a number of states, particularly when property values have risen rapidly (as has occurred in recent years). For example, in 1994 Michigan lowered local property taxes and replaced the revenues with a 2 percent increase in the state sales tax. New Jersey, Texas, and a number of other states are currently debating alternatives for changing local school financing by reducing reliance on the property tax.

On average, states have more balanced tax structures than do the federal or local governments. States raise an approximately equal amount of revenue from sales and individual income taxes. Forty-one states impose a broad-based income tax, and forty-five levy a general sales tax. States are the predominant users of sales taxes and motor vehicle licence taxes, and they are the heaviest users of selective sales taxes.[11] Averages fail to reflect clearly the diversity that exists across states. New Hampshire has neither a broad-based income tax nor a sales tax. Oregon raised 70.0 percent of its state tax revenue with the individual income tax in 2004, while nine states raised essentially no revenues from this tax.[12] Tennessee and Washington State generate more than 60 percent of their collections from the sales tax, while five states raise no revenues from the tax. State and local governments collect almost all user fee revenue, which is consistent with the greater service delivery role played by these governments.

States differ radically in their capacity and willingness to raise tax revenues. Figure 1 illustrates the wide variation across states in capacity to raise tax revenues, using per capita personal income as a proxy for capacity. Per capita income in the highest-income state, Connecticut, is 88 percent higher than in the lowest-income state, Mississippi. Cost-of-living

Table 4
Tax assignment for various levels of government

	Determination of			*Shares in revenue (%)*			
	Base	*Rate*	*Tax collection and administration*	*Federal*	*State*	*Local*	*All levels*
Federal							
Personal income	Federal	Federal	Federal	100			100
Corporate income	Federal	Federal	Federal	100			100
Gasoline[1]	Federal	Federal	Federal	100			100
State or Provincial[2]							
Personal income	State	State	State	0			100
Sales	State	State	State	0			100
Gasoline	State	State	State	0			100
Property	State	State	State/local	0			100
Motor Vehicle Licence	State	State	State	0			100
Alcohol/tobacco	State	State	State	0			100
User fees	State	State	State	0			100
Local[3]							
Property	State/local	Local	Local	0		100	100
Sales	State/local	State/local	State/local	0		100	100
Personal income	State/local	State/local	State/local	0		100	100
Excises	State/local	State/local	State/local	0		100	100
User fees	State/local	State/local	State/local	0		100	100

1. Shared through grants.
2. Often shared by individual state laws.
3. Practices differ widely by state.

differentials probably explain some of the differences in income (no reliable cost-of-living index exists for all states), but significant real income differences exist as well.

Wide differences exist in the extent to which states raise taxes from their own resources. States and their local governments are best combined for cross-state comparisons because of differences in the relative service delivery roles played by states versus local governments across the country. Figure 2 shows that the average state collected 10.4 percent of personal income in taxes during 2002 (the most recent year for which local tax revenue data are available), but the collections varied from 13.1 percent in New York to 8.4 percent in Tennessee and New Hampshire. Per capita tax collections vary even more because there is a positive correlation between per capita income and taxes as a share of personal income. For example, New York has the fourth highest per capita income and Tennessee has the thirty-fifth highest. New York collects $4,684 per capita in taxes, 114 percent more than Alabama (forty-first highest in per capita personal income).

Disparity in the capacity of local governments to raise revenues is significant in every state. For example, New Jersey, the third highest state in terms of per capita personal income, reports that household income varies from $93,432 in Somerset County to $33,858 in Cumberland County – a nearly threefold difference.[13] Similarly, local governments vary widely in the extent to which they choose to tax themselves. For example, the property tax rate imposed in New Jersey varies about 2.5-fold across counties. Relatively poor Camden County has a median effective property tax rate of 3.49 percent, while relatively wealthy Cape May County imposes a median effective rate of 1.37 percent.

FEDERAL LIMITATIONS ON STATE FISCAL ACTIVITIES

The US Constitution imposes two basic constraints on state and local government fiscal actions. First, states are prohibited from discriminating against interstate commerce. This limitation arises from the dormant commerce clause because it is not explicitly mentioned in the US Constitution.[14] Second, states are prohibited from taxing international trade. The limitation on taxation of international trade does not arise as a frequent issue, although it was widely discussed a decade ago when some states sought to use a worldwide unitary approach to tax corporate income. In addition, the US Constitution supersedes the state constitutions when conflicts arise between them.

Limitations arising from states' inability to distort interstate commerce are imposed both by federal court limitations on state actions and by congressional legislation. The US Constitution gives Congress control over interstate commerce, which means that congressional legislation can define when states violate interstate commerce. Many examples of congressional and judicial constraints on states exist, but only a few are given here. No effort is made to describe the long string of court rulings and legislative actions related to interstate commerce. The constraints on state governments almost always prevent states from taking advantage at the expense of other states. There are cases where national and potentially state policies may cause the home state to be disadvantaged relative to others, and the courts have generally ignored these effects.

The US Supreme Court has ruled that states can only require vendors with physical presence in the state to collect the state's sales tax, the largest average state tax source.[15] This limitation allows easy tax planning because vendors can purposely sell into a state from remote locations and avoid the compliance responsibility as well as the tax burden (which is either a legal burden of the vendor or the consumer, depending on the state in question). Combined state and local sales tax rates can be as high as 11 percent, so this can be an important advantage for remote vendors. As a result, rapid growth of Internet and mail-order-based transactions has cost states a significant share of sales tax receipts, amounting to about $19.2 billion in 2006.[16,17]

State taxation of corporate income is increasingly difficult, at least in part because of increasing globalization.[18] States that tax corporate income apportion the corporate tax base for multistate firms. Court rulings have also established the environment within which state corporate income taxes are collected. For example, in 1977 the US Supreme Court set up a framework for determining when a corporation's income can be taxed in any given state.[19] Specifically, the Supreme Court ruled that state taxes must be (1) on activity sufficiently connected to the state, (2) fairly apportioned across states, (3) nondiscriminatory, and (4) related to state services provided. [20] A federal circuit court ruling in 2004 has attracted considerable attention because it potentially would have prevented states in the sixth circuit from adopting many types of tax incentives, specifically incentives that lower a firm's tax burden when it expands in the incentive-granting state but not when it expands the same activity in another state.[21] The US Supreme Court ruled that the plaintiff did not have standing to bring the case to court, but the issue is likely to reappear somewhere for reconsideration by the court system.

The US courts have in some cases also required state and local governments to provide non-residents with equal access to services. Thus, residents can move from one state to another and, within thirty days, can gain access to services such as education, welfare, and health care for the poor. This appears to have limited the extent to which some state and local governments are willing to expand delivery of certain services.

Congressional legislation can preempt state or local governments from imposing taxes in cases where Congress believes that state or local taxation would distort interstate commerce. Such legislation has been important in some cases, and the Federation of Tax Administrators (an association of state revenue departments) has identified twenty-eight examples of preemption.[22] For example, Congress passed the Internet Tax Freedom Act in 1998 and has extended it twice, most recently until 2007. The legislation prevents states from imposing discriminatory taxes on the Internet. It also precludes states from taxing charges for access to the Internet. If interpreted narrowly, the latter does not represent significant foregone revenues for the states, but states continue to be concerned that firms will bundle activities together and define the entire set as access, resulting in a much larger revenue loss. Further, Congress has not acted to require remote vendors to collect the state sales tax, as limited by the *Quill* case, despite the admonition by the Supreme Court in its *Quill* opinion to address the issue. "Temporary" legislation enacted by Congress decades ago (Public Law 86–272) precludes states from collecting corporate income taxes from firms whose only relationship with the state is to solicit for the sale of tangible personal property. This legislation offers significant opportunities for tax planning and results in "nowhere income" – income not taxed by any state.

Congress currently has several pieces of legislation before it that address many of these same issues. For example, legislation has been proposed to (1) allow states to tax corporate income only when firms have physical presence in the state, (2) make the Internet Tax Freedom Act permanent, and (3) allow states to require remote vendors to collect the sales tax on their behalf in cases where the states have simplified their sales tax. Congress seems unlikely to enact any of this legislation during the next year or two because of the different political perspectives within the business community and between the state and local governments and the business community.

Strong constitutional restrictions preventing state discrimination against interstate commerce serve the country well in terms of allowing an unfettered economic union. Labour, capital, and trade are freely mobile both inside the country and, at least from the state and local perspectives, outside the country. While encouraging the mobility of resources helps develop a seamless economic union, state and local governments face significant challenges in raising tax revenues in a very mobile environment. The country continues to grapple with how tax structures should be designed to keep impediments to the open economy small. Similarly, the country still has to determine the best ways for states to raise tax revenues in a very open/mobile economy.

Intergovernmental Financial Relationships

Federal and state governments have independent control over their tax bases and rates, given the limitations described above. The flexibility afforded to local governments varies across states. Governments are not required to coordinate their tax bases or rates, and differences exist in the tax bases used by every state and by the national government. Similar or identical bases are more common for local governments within states, but wide differences exist in some cases. For example, Colorado allows local governments to set their own local sales tax base. In some other states, such as Virginia, the state sets the local sales tax rate and base, making the tax more like a grant program.

Federal, state, and local tax structures are often intertwined, despite their legal and constitutional independence. Most states require individuals and corporations to begin calculation of their income taxes with some variant of the federal definition of taxable activity. For example, thirty-seven states start calculation of their individual income tax base using federal definitions, twenty-seven employ federal adjusted gross income (income before exemptions and deductions), and ten use federal taxable income. Having said this, federal law allows states to piggyback their income tax on the federal income tax, but no state has chosen to do so. State estate and inheritance taxes are also linked to the federal estate tax, although the latter is being phased out over a number of years.

The relationships between federal and state and local personal and corporate income taxes extend to administration as well. Each state has its own tax administration but relies heavily on federal audits and databases to assist in collection.

The institutional linkages between tax bases mean that tax policy decisions made by one level of government frequently have implications for other levels. There is scant evidence that these vertical externalities are given serous consideration when policy decisions are made. The federal government has made numerous tax policy changes in recent years by changing tax bases (frequently narrowing them) and lowering tax rates. Accelerated depreciation provisions and a production credit for manufacturers are two recent corporate income tax base changes. Nonetheless, many national officials (including Larry Summers, former secretary of the US Treasury) have said that they did not consider effects on state and local governments when decisions were made on federal policy.

In many cases, because of the lost revenues, states choose not to conform to federal policy changes. In other cases, states have defined their tax base using the federal legislation that existed at a particular point in time, and the state legislature must act to bring the state tax into conformity with new federal legislation. But, decoupling from the current federal provisions raises compliance costs. For example, nineteen states have chosen not to conform to the production credits that were part of the American Jobs Creation Act passed by Congress in 2004. The result is that firms must calculate their corporate tax liability using different provisions across states and between the state and federal governments.[23] The burdens from tax provisions that differ across the states can be expected to continue growing as the economy opens up to even greater international and interstate activity.

Vertical competition between governments may also exist, and it is an empirical question as to how one level of government responds to policy decisions at another level. The notion is that imposition of a tax by one level of government reduces the tax base available for other governments.[24] The affected local governments could either raise their rate to offset the revenue loss or lower their rate because the tax is less productive. Research has yet to reach a solid conclusion regarding the direction of these relationships. Some evidence suggests that states tend to raise their gasoline and tobacco tax rates in response to federal increases,[25] suggesting that states raised their rates to offset the base decline. Also, research on the US individual income tax has found that states tend to increase their personal income and their sales tax rates in response to federal income tax rate increases.[26] However, there has been too little research to reach a firm conclusion on how federal tax changes affect the states.

Horizontal relationships between states or between local governments can also be important, both in terms of how revenues are distributed across governments and how the governments compete for the tax base. States have considerable flexibility in how they structure their taxes, and this can increase compliance costs. One example of this is the way that revenue from the major state taxes (i.e., individual income, corporate income, and sales) is distributed across states in those cases where the taxpayer or the activity crosses state boundaries. Personal income tax revenue from wages is generally distributed between states based on where the income is earned.[27] Non-labour income is taxed in the state of residence. Sales taxes are due in the state where the goods and services are to be enjoyed or used – that is, on a destination basis. This is normally presumed to be the place where possession of the goods takes place.[28] Corporate income taxes are distributed by formula, although formulas differ significantly across states.

These general approaches suggest much more uniformity than is present in practice as the details of each tax tend to vary by state. As a result, compliance burdens are increased for firms or individuals that operate in multistate environments. Indeed, the US Supreme Court ruling in the *Quill* case was based on the notion that remote vendors, complying with the taxes of many state and local governments, bear higher burdens than does a domestic firm in a single state. Little reliable evidence exists on the compliance burden.

States also cooperate in collecting taxes. Many states participate in compacts with other states to share information on issues such as compliance. The Multi-State Tax Commission is one such organization that also conducts audits of some multistate taxpayers.

More than forty states, in an extraordinary act of cooperation, worked together over the past six years to create the Streamlined Sales and Use Tax Agreement (SSUTA).[29] On 1 October 2005, nineteen states signed on as initial members by enacting the legislation that was developed through the process. The SSUTA is intended to simplify the sales tax and structure it on a destination basis so that states are better able to collect their sales taxes on remote transactions. The SSUTA is a wonderful example of state cooperation, but cartels of this type are difficult to develop and hold together, even when the related structures represent good tax policy (which is generally true of the SSUTA).

INTERGOVERNMENTAL GRANTS

As in nearly every country, the national government finances much more expenditures and services than it delivers. Intergovernmental transfers from the federal government have generally followed the historical pattern of federalism. Federal grants were very small in the early years of the United States, but grants for capital purposes (and, to a lesser extent, for other uses) rose rapidly during the Great Depression of the 1930s, particularly when measured as a share of federal outlays. Grants declined during the centralizing period of the Second World War but afterward proceeded to rise nearly continuously as a share of GDP and of outlays until the late 1970s.[30] Grants fell as a share of GDP and of federal outlays during the initial period of what was described above as balanced federalism through the early 1990s. Grants have risen again over the last fifteen years and, in 2003, were the greatest share in history of both GDP (3.6 percent) and federal revenues (17.9 percent).

Over 600 grant programs exist for state and local governments. The grants are provided in many different forms, including project, categorical, and block grants. Some have matching components and others are structured through formulas. Still, except for a few specific areas, the overall federal-to-subnational intergovernmental grant system is relatively small compared with what we see in US history or in many other countries.[31] As described below, the recent rise in grants has been focused on a narrow set of areas, particularly health care. There is no form of general revenue sharing, although a limited revenue-sharing program existed from 1972 through 1986. The federal intergovernmental grant system is primarily intended to provide a degree of equalization across people, not to equalize subnational government service delivery, with most of the money intended to support low-income people.

The composition of federal grants has changed radically in recent years. Grants to state and local governments for redistribution to individuals have risen, and other types of grants have fallen. In fact, grants for capital and other state and local purposes are the lowest share of GDP (around 1.2 percent) since the late 1960s, while grants for individuals have risen to 11.4 percent of GDP. The rapid rise in health care costs, and therefore in the Medicaid program, has been the driving force behind the growth in transfers for people.

The amount of transfers is decided annually by congressional decisions. However, some programs, such as Medicaid and TANF, have been established as entitlements (with carefully established eligibility requirements), and the basic structure is changed infrequently. Total federal grants in 2003 were $387.3 billion, which represented about 22.0 percent of total state and local revenue. State governments received 88.5 percent of these transfers, but some of the grants are subsequently forwarded to local governments. Two major categories of grants – health and income security – representing more than two-thirds of grant funds, are primarily transferred to state governments so that they can be further transferred to individuals. These funds are transferred as grants because state and local governments administer the programs. Medicaid grants were $160.8 billion of the health-grant programs, and income security is primarily composed of family assistance, housing, and child nutrition. A degree of equalization is built into these programs through the specific grant structures,[32] and this can indirectly influence states' ability to deliver other programs. Strong support for equalizing programs does not exist across states, despite the wide differences across the United States in taxable capacity.[33]

The other large grant categories, transportation and education, are more likely to support state service delivery, but these programs generally do not have strong equalization components. Rather than being "entitlement" payments, the specific amounts are often determined through the annual budget process or by agency decisions. Grant programs are often discretionary at the national level. The interstate highway system is funded with shared federal and state grants. The federal government normally finances 90 percent of the construction cost and the states finance 10 percent. Both governments rely on gasoline taxes that are levied per gallon of gasoline to finance their expenditures.

States have sought to leverage federal grants in a number of ways, as can be evidenced by the Medicaid program. First, some states appear to claim a wide range of expenditures as being appropriate for the Medicaid program and, thus, eligible for the federal matching grant. Second, states have sought to provide their matching component through various creative means. For example, Tennessee created a "services tax" on hospital health care during the early 1990s and used this revenue to finance the state's share of the Medicaid program. Hospitals made the payments but received the money back in Medicaid revenues, allowing the state to draw down the federal funds with no state share. The federal government disallowed this scheme based on the argument that the state was not in fact matching the federal grant, but other states have sought to use similar funding sources in subsequent years. These schemes are generally disallowed.

State and local income, sales (taxpayers can deduct either their income or sales tax but the sales tax deduction was available only during tax years

Table 5
Vertical fiscal gaps, 2003/04

	Total revenue collected (US$000)	*Total revenue available, including net transfers for that level of gov't (US$000)*	*Expenditures (US$000)*
National	1,798,093,000	1,798,093,000	1,900,743,000
Subnational	1,464,058,004	1,889,740,590	2,260,330,261
State/provincial	799,442,877	1,194,055,987	1,016,469,065
Local	664,615,127	1,094,729,372	1,243,861,196
All levels	3,262,151,004	4,086,878,359	4,161,073,261

Author's calculations from http://www.whitehouse.gov/omb/budget/fy2005/pdf/hist.pdf and http://www.census.gov/govs/estimate/0400ussl_1.html.

2004 and 2005), and property taxes are deductible expenses in determining federal individual income tax liabilities. Various interpretations are given to the linkage that this establishes between the federal and state and local governments, one of which is that deductibility is a form of grant to the state and local governments, although it may be better seen as a tax expenditure. Deductibility lowers the cost of paying state and local taxes, but it only saves the average federal income taxpayer about 5 percent of the total liability for these taxes.[34] Some political conservatives oppose deductibility, arguing that it subsidizes government and thereby encourages larger government. In any event, the benefits to state and local governments are poorly targeted to achieve particular objectives.

State Grants to Local Governments

States often provide grants and shared taxes to local governments. State government grants to local governments are nearly of the same magnitude as federal grants, totalling $370.6 billion in 2003.[35] However, some of these grants may be the pass-through of federal grant funds. Federal and state grants together provide 40.6 percent of local government revenue. In addition, shared tax revenue in some states is probably not included in these grant funds, depending on the specific accounting arrangements. In Tennessee, for example, approximately 7 percent of state tax revenue is shared with local governments through a wide range of mechanisms. Some portion of most taxes is shared with local governments, using either situs based distribution of the revenues or some type of formula. Sharing of gasoline tax and state sales tax revenues comprises most of the distribution.

The dominant state transfer program in nearly every state is for financing primary and secondary education. The specific grant structure differs across states, but similarities exist in the basic design. A number of states build the grant around ensuring that local governments have sufficient resources to deliver an adequate level of education. Some degree of equalization is usually built into the grants, along with incentives to achieve certain objectives (such as to meet class-size expectations). Equalization is frequently based on both the capacity to raise revenues locally and the expenditure needs in the community.

State constitutions often have provisions indicating that the state will provide education, although local governments are usually the providers. These provisions have led to court suits in about half the states, based on the argument that the state is not ensuring that equal education is being provided in all local jurisdictions. The suits have been upheld in many states, although in some cases the courts have ruled that the state constitution does not establish a requirement that education be provided equally or adequately across the state. States, such as Texas and Tennessee, have lost multiple cases based on different aspects of equalization.

MACROECONOMIC MANAGEMENT

US government agencies have exclusive control over monetary policy and predominant influence over fiscal policy, although state and local governments undertake some fiscal policy actions. No mechanism exists for coordinating the fiscal policies of federal, state, and local governments.

The Federal Reserve (FED) conducts monetary policy in the United States. An independent board composed of seven members who are appointed by the president and confirmed by the US Senate manages the FED. Board members are appointed for nine-year terms (presidents are elected for one four-year term and may succeed themselves once) and may be reappointed for additional terms. The FED Open Market Committee oversees the direction of monetary policy. The committee is composed of the seven members of the Board of Governors and five presidents from the twelve regional Federal Reserve Banks. The FED appears to see price control as its major goal but is free to consider other goals, such as economic growth and currency exchange rates. Maintaining stable growth appears generally to play a strong secondary role as a policy goal. States have no authority to print money or to engage in monetary policy.

The national executive and legislative branches make most fiscal policy decisions. The national government has full control over its budget composition, expenditure levels, tax levels, and extent of debt. The national deficit was $415.2 billion in 2005, equal to 3.3 percent of GDP.

States also control their budget composition, expenditure levels, and tax levels as described above. Forty-nine states have either constitutional or statutory requirements that their operating budgets be balanced, which would appear to limit their capacity to undertake fiscal policy. However, states have many means of sidestepping the balanced budget requirements, and state economic development policies may have greater potential to influence economic activity than has traditionally been expected.[36] The federal government has no balanced budget requirement and, as noted above, has been running significant deficits in recent years.

State and local governments borrow primarily for capital projects, but they have also borrowed for operating purposes (despite the balanced budget limitations), as is illustrated by California's borrowing $15 billion in recent years. In most cases, state and local governments use debt without any explicit intent to influence macroeconomic conditions. State and local government long-term debt totaled $1.81 trillion in 2003, up 7.5 percent from the previous year.[37] The use of debt has grown at a compound annual rate of 5.8 percent since the early 1990s. Local governments rather than states hold most of the debt (61.5 percent). Almost all of the debt (97.8 percent) is long term, and 38.1 percent of the long-term debt is guaranteed with the "full faith and credit of the government." The remaining 61.9 percent is not guaranteed and often has a specific revenue source pledged for repayment. The debt is used mostly for a wide range of capital projects, with 23.8 percent being public debt, where the revenues were used to finance private-sector activities. Much of the debt is used for construction of schools.

The federal government effectively subsidizes state and local debt since the interest earned on these securities is exempt from the federal personal income tax. Proposals to make the interest taxable are raised from time to time, often based on the argument that the exemption costs the Federal Treasury more than it benefits it. President Bush's Tax Reform Panel did not recommend eliminating the exemption of state and local interest payments.[38]

In terms of macroeconomic management, state and local governments have been much more aggressive in using the tax code to pursue economic development strategies that are linked to individual businesses or economic sectors than in using fiscal policy. State and local governments provide concessions for the sales, property, corporate income, and individual income taxes to recruit businesses. In some cases, the concessions are available to any firms meeting specific characteristics, which are often specified in terms of firm size, industry, or location. In other cases, the concessions are specific to individual firms. Governments also offer a range of spending incentives, such as training, infrastructure, free land, or site development. The greatest attention has focused on incentives offered by state and local governments to recruit automobile plants.

Each level of government is normally left to its own resources to accommodate the effects of cyclical macroeconomic slowdowns. Two cases in the past several decades where the national government stepped in to assist states during fiscal stress can be noted. The first involved loans to a number of state unemployment insurance systems during the very strong economic downturn of the early 1980s. Most states are precluded by constitution or statute from carrying shortfalls across fiscal years, and a series of loans were made to rescue unemployment insurance programs that were in serious fiscal difficulty. Second, Congress provided $20 billion to states during 2003 and 2004 to soften the blow of the sharp downturn in tax revenues experienced by many states between 2001 and 2003.[39] In addition, states often have rainy day, or budget stabilization, funds to help smooth over economic transitions. These funds are generally relatively small, amounting to much less than 5 percent of expenditures.[40] Local governments seldom have rainy day funds, but they do have year-ending balances that can, to some degree, serve a similar role.

CONCLUSION

The US system of federalism has evolved over the years in response to various economic, political, and international forces, and the likely scenario is that it will continue changing in future years. The major shift has been towards a much larger role for the national government relative to that which existed in the first two-thirds of the country's history. Having said this, general service delivery responsibilities and major own-source revenue categories across levels of government have not changed radically during the last thirty to forty years and, in many cases, for much longer.[41] Instead, the changes are more subtle in terms of growing limitations that the national government places on state and local governments' ability to raise revenues and increased mandates on the ways in which they deliver services. Forecasting the future is always fraught with risks, but the most likely outcome is for the national role to remain strong and more likely to expand than to contract.

The growing degree of economic mobility, both around the world and within the United States, poses the greatest threat and largest issues for state and local governments. In particular, the forces arising from mobility (such as greater difficulty in monitoring taxable activities, easier tax planning, and greater tax competition) significantly limit the ability of state and local governments to raise revenues using some of their traditional sources. Raising revenue is particularly problematic since US Constitutional rulings leave much of the control in the hands of Congress. Congress has been reticent thus far to enable the states to levy effective taxes, particularly because it receives political benefits from narrowing the capacity of state and local taxation without suffering from the revenue consequences of its actions. Effectively, this means that Congress has paid relatively little attention to the sustainability of state and local fiscal systems, while focusing on national political issues and national revenue systems.

NOTES

1 Other chapters on the United States of America in the series "A Global Dialogue on Federalism" include Ellis Katz, "United States of America," in *Distribution of Powers and Responsibilities in Federal Countries*, ed. Akhtar Majeed, Ronald L. Watts, and Douglas M. Brown, 295–321 (Montreal and Kingston: McGill-Queen's University Press, 2006); and G. Alan Tarr, "United States of America," in *Constitutional Origins, Structure, and Change in Federal Countries*, ed. John Kincaid and G. Alan Tarr, 381–408 (Montreal and Kingston: McGill-Queen's University Press, 2005).

2 This section draws heavily from John Shannon, "Middle Class Votes Bring a New Balance to U.S. Federalism," the Urban Institute, The Future of the Public Sector, Policy Note no. 10 (February 1997).

3 Ibid.

4 The power of the US Congress to deliver national services beyond a narrowly set of enumerated authorities was articulated in an early court decision (*McCulloch v. Maryland* [1819]). This opinion also limited the states' ability to tax the national government.

5 See Theresa Gallo, "History and Evaluation of the Unfunded Mandates Reform Act," *National Tax Journal* 57 (2004): 559–70.

6 See Iris Lav and Andrew Brecher, "Passing Down the Deficit: Federal Policies Contribute to the Severity of the State Fiscal Crisis," Center for Budget and Policy Priorities, 18 August 2004.

7 Federal expenditure data are available through the White House Office of Management and Budget, but developing the data in a manner consistent with the census data is a daunting task.

8 Federal employment shares may be somewhat understated because the federal data are for full-time employees and the state and local government data are for full-time equivalent workers. Thus, part-time federal employment may be excluded.

9 This amendment may have been instrumental in allowing the role played by the federal government to grow relative to state governments because it dramatically expanded the federal government's ability to generate resources.

10 In *McCulloch v. Maryland*, 17 US 316 (1819) the Supreme Court established the doctrine of intergovernmental tax immunity.

11 Selective sales taxes are excises that are generally levied on oil, tobacco, and alcohol products. The rates are normally, but not always, imposed at unit rates. The federal government levies the tax on various oil products.

12 Also, New Hampshire and Tennessee raise small shares of their tax revenue with income taxes on interest and dividend income.

13 See Annual Report, New Jersey Department of Taxation, 2003.

14 The United States Constitution gives Congress the power to regulate interstate commerce but does not explicitly say what states can do in the absence of congressional action. The dormant commerce clause refers to the Constitutional limitation on the inability of states to impose taxes on interstate commerce. It is termed "dormant" because the limitation is implied by other aspects of the Constitution rather than being explicitly provided for in the Constitution. See Walter Hellerstein and Jerome Hellerstein, *State Taxation*, 3rd ed. (Warren, Gorham, and Lamont, 1998 [supplemented semi-annually]).

15 *Quill v. North Dakota*, 112 US 298 (1992).

16 All sales-taxing states levy corresponding use taxes that require the buyer to remit the tax if it was not collected by the vendor. Individuals have extremely poor compliance with the use tax. Businesses are more responsive to the use tax, but non-compliance is still more than 25 percent.

17 See Donald Bruce and William F. Fox, "State and Local Tax Revenue Losses from E-Commerce: Estimates as of July 2004," *State Tax Note* 33 (2004): 511–18.

18 See William F. Fox and LeAnn Luna, "State Corporate Tax Revenue Trends: Causes and Possible Solutions," *National Tax Journal* 55 (2002): 491–508.

19 *Complete Auto Transit Inc. v. Brady* 430 US 274 (1977).

20 See Hellerstein and Hellerstein, *State Taxation.*

21 *Cuno v. Daimler-Chrysler, Inc.*, 386 F.3d 738 (6th cir. 2004).

22 Federation of Tax Administrators, June 2003.

23 See http://www.taxadmin.org/fta/rate/B-2505.html

24 Other relationships could also exist, such as leader/follower responses or demonstration effects.

25 See Timothy Besley and Harvey Rosen, "States' Responses to Federal Tax Setting: Evidence from Gasoline and Cigarettes," *Journal of Public Economics* 73 (1998): 383–98.

26 See Alex Esteller-More and Albert Sole-Olle, "Vertical Income Tax Externalities and Fiscal Interdependence: Evidence from the US," *Regional Science and Urban Economics* 31 (2001): 247–72.

27 This is achieved by the residence state giving a deduction for income taxable in the work state.

28 Some states have traditionally taxed services based on the place of production.

29 The SSUTA was formed primarily as a state response to the Supreme Court ruling in the *Quill* case and in light of the rapidly growing extent of cross-border shopping.

30 See http://www.whitehouse.gov/omb/budget/fy2006/hist.html.

31 For some comparisons across countries, see Richard M. Bird and Francois Vaillancourt, "Fiscal Decentralization in Developing Countries: An Overview," in *Fiscal Decentralization in Developing Countries*, ed. Richard M. Bird and Francois Vaillancourt, 1–48 (Cambridge: Cambridge University Press, 1998).

32 For example, Medicaid is a matching program with the state contribution inversely related to state per capita personal income.

33 See Daphne A. Kenyon and John Kincaid, "Fiscal Federalism in the United States: The Reluctance to Equalize Jurisdictions," in *Finanzverfassung im Spannungsfeld zwischen Zentrslstaat und Gliedstaaten*, ed. Werner W. Pommerehne and George Ress, 34–56 (Baden-Baden: Nomos Veglagsgesellschaft, 1996).

34 This benefit is only available to people who itemize certain expenditures when calculating their federal income tax liability rather than using the standard deduction.

35 See the US Bureau of the Census at http://www.census.gov/govs/estimate/03sloous.html

36 See William F. Fox and Matthew Murray, "Intergovernmental Aspects of Growth and Stabilization Policy" in *Intergovernmental Fiscal Relations: Perspectives and Prospects*, ed. Ron Fisher, 241–288, (Boston: Kluwer Press, 1997).

37 See US Bureau of the Census, Census of Governments.

38 See http://www.taxreformpanel.gov/final-report/

39 See William F. Fox, "Three Characteristics of Tax Structures have Contributed to the Current State Fiscal Crises," *State Tax Notes* 29 (2003): 375–83.

40 See Corina Eckl, "States Broaden the Scope of Rainy Day Funds," National Conference of State Legislatures, 21 February 2006.

41 Perhaps the largest change is that state reliance on the individual income and sales taxes has tended to grow, and dependence on selective sales taxes has tended to fall.