States ask 'what recovery?'

Unemployment and depressed retail sales add up to revenue shortfalls and a new round of tax increases.

Thirty-one state legislatures took action this year to raise $7.7 billion in new taxes, a record sum. The largest chunk of this total was derived from $2.9 billlion in personal income taxes, of which Michigan's personal income tax boost alone contributed an estimated $1 billion.

This year's rounds of tax increases and heavy borrowing are considered by most to be "desperation measures." As local employment drops, or changes from higher-paid industrial employment to badly paid, often part-time service employment, personal income tax revenues decline. States remedy this by, among other things, increasing the rate of taxation.

And as personal spending stagnates or declines, sales tax revenues follow suit. Legislators loath to increase this rate substitute cigarette, gas, and liquor tax hikes. Eventually sales tax increases occur anyway. Eleven of the 31 states have now raised such taxes.

The largest increases in new tax levies occurred in the industrial states of Illinois, Ohio, Michigan, and New York, reflecting the failure of the economy in these locations to provide adequate revenue from existing—and already high—taxes.

As these tax increases were passed, states and municipalities also borrowed record amounts, increasingly at short term, to finance the day-to-day operations of government. If this continues at the level of the first three quarters of 1983, total state and local borrowing for the year will hit $119.3 billion, far exceeding last year's record $74.9 billion.

Of that $119.3 billion in new state and local borrowing, $38 billion will be for less than one year, according to the Municipal Finance Officers Association. Most short-term borrowing is "revenue anticipation" borrowing to tide over a state or municipal government until the next tax collection date comes around.

Perhaps the state most spectacularly in financial trouble is Michigan. Beset with unemployment estimated to be twice the "official" 12.5 percent, despite the modest revival of auto manufacturing, Michigan legislators hiked the personal income tax rate by more than one-third (from 4.6 percent to 6.35 percent) to bring in an additional $1 billion revenues. The new rate was made retroactive to Jan. 1, 1983 so that the full billion will be taken out of pay checks before the end of this year.

To make the bullet a little softer, legislators agreed to consider a reduction *if* there is a reduction in the unemployment total and a rise in sales tax collections.

Hopes that sales taxes would rise led neighboring Ohio to a revenue debacle this year which prompted the state to enact byzantine increases and decreases. The net effect was to raise the personal income tax rate by 90 percent. According to the state's Office of Budget and Management, the 1983 sales tax revenue projections collapsed while corporate taxes slumped below 1982 levels.

"The revenues just don't reflect a recovery," declared one Ohio tax planner.

Illinois lawmakers enacted the largest aggregate revenue package: $1.3 billion. The revenue raising, which hit the wage-earner's wallet almost exclusively, included a half percent hike in personal income taxes, a 1 percent rise in the sales tax, and a motor fuels tax escalation from 7.5 cents to 11 cents per gallon.

New York, Arkansas, and Nevada took the lead in hiking liquor, gasoline, and cigarette taxes. New York's cigarette tax went from 15 to 21 cents, alcoholic beverages taxation went up 25 percent, to which was added a 3.5 percent petroleum gross sales levy.

Arkansas's cigarette tax went up 3.5 cents a pack, and liquor taxes rose 17 percent. Even the state of Nevada was forced to substantially hike its "sin taxes" and impose a tax on hotel occupancy.

The largest general tax increase occured in North Dakota—again, nearly all of it falling on the wage-earner. Cigarette taxes went up 6 cents a pack, gasoline taxes 5 cents a gallon, alcoholic beverage taxes 2 percent, and the state's personal and corporate income taxes took big jumps.

Despite the hefty new taxes, states and municipalities are not expected to turn to public works spending, the traditional remedy for depression-born joblessness. State and local public works spending is expected to decline next year as governments practice autsterity to preserve existing services and pay debt contracted at the record high interest levels of the past three years.

Last year local government spending was a quarter less than the 1979-80 levels, which in turn was a quarter less than peak spending levels of the early 1970's.