

Recent research indicates that thoughtfully designed civic education efforts in schools can be effective. The big obstacle to their succeeding may be that adults disagree about “the kind of citizenship they want our schools to foster.” Should education emphasize loyalty to existing institutions or criticism of them, national unity or demographic and ideological diversity? Galston is hopeful that there’s enough flexibility in America’s radically decentralized education system to accommodate a variety of views.



Civics lessons were once a staple of American classrooms.

What Ails the States

“State Government Finances: World War II to the Current Crises” by Thomas A. Garrett and Gary A. Wagner, in *Review* (March–April 2004), Federal Reserve Bank of St. Louis, Research Division, P.O. Box 442, St. Louis, Mo. 63166–0442.

Feverish California, running an estimated \$17.5 billion deficit last year, may have been the sickest state in the Union, but it was hardly the only patient in the fiscal ward—during what was probably the worst year for state budgets since World War II. And this year isn’t expected to be much better. How did so many states fall into this lamentable condition? Short answer: by cutting taxes when the going was good. But according to economists Garrett, of the Federal Reserve Bank of St. Louis, and Wagner, of Duquesne University, simply hiking taxes again as a one-time quick fix is no real cure.

Over the past half-century, states have become much more dependent on the personal income tax and the general sales tax, both of which are very responsive to the boom-and-bust business cycle. By 2001, income taxes supplied about 37 percent of states’ revenue, up from only 9 percent in the early 1950s. Over the same period, revenue from general sales taxes increased from 22 percent to about 32 percent. So, during the boom years of the 1990s, states’ coffers

filled with revenue, and many governors had the pleasant task of announcing budget surpluses—and huge tax cuts, mostly in the rates on personal and corporate income. Then came the stock market collapse, and the recession that began in March 2001.

“Over the past decade,” say the authors, “state budgets have been under considerable pressure from rapidly rising Medicaid expenditures, unfunded federal mandates in the area of health and human services, and a growing prison population.” Roughly half the states have made or are making drastic cuts in spending on education, Medicaid, and corrections. But fear of voters’ opposition has kept all but a few states from raising taxes significantly.

Inevitably, an economic rebound will restore fiscal health to the states, at least until the next bust. But the authors doubt that the basic problem—the states’ increasing dependence on taxes tied to the business cycle and their refusal to save enough for the inevitable rainy day—will change, so long-term fiscal solvency remains only a dream.