

ECONOMICS, LABOR, & BUSINESS*The Fiscal Policy
Of the States*

"State and Local Governments: An Assessment of their Financial Position and Fiscal Policies" by Peter D. Skaperdas, in *Federal Reserve Bank of New York Quarterly Review* (Winter 1983/84), 33 Liberty St., New York, N.Y. 10045.

Most economists' eyes now are on the river of budgetary red ink gushing from Washington, D.C. Forgotten is the fiscal importance of America's state and local governments.

In 1983, their combined outlays totaled \$430 billion, as compared to Washington's \$796 billion, notes Skaperdas, a New York Federal Reserve Bank economist. While the federal government ran up a \$195 billion deficit that year, its state and local counterparts registered a \$15 billion surplus (and will probably do far better this year).

Historically, state and local governments have functioned as one of the nation's major economic "shock absorbers." Their spending for schools and roads cushions economic downturns; in boom times, they help curb inflation by raising taxes to rebuild their budget surpluses. Now, however, there are signs that this old pattern may not hold up.

During the "tax-revolt" years of 1978-80, 32 states cut taxes. Total state and local government outlays dropped just as the nation was entering the 1980 recession. A second economic downturn in 1981-82 occurred as 26 states were enacting big tax *increases* needed to keep their budgets balanced. Their purchases of goods and services, however, rose by only \$.2 billion, not enough to stimulate the national economy. (The Reagan tax cuts amounted to \$39 billion during the 1981-82 recession, but state and local tax increases offset 37 percent of the reductions.)

Today, the state and local governments' combined budget surplus is at an all-time high: Taxes (as a percentage of personal income) are steeper than they have been in years while outlays (as a percentage of gross national product) are at a 21-year low. A similar combination spurred the tax revolt of the 1970s, Skaperdas recalls. His guess is that the state and local surpluses that now partially offset federal red ink are not likely to last much longer.

SOCIETY*Paying More for
Medical Care*

"The Monetization of Medical Care" by Eli Ginzberg, in *The New England Journal of Medicine* (May 3, 1984), 1440 Main St., P.O. Box 9140, Waltham, Mass. 02254-9140.

Next to the legendary "military-industrial" complex, make room for the "medical-industrial" complex.

According to Ginzberg, who teaches at Columbia University, Americans' outlays for health care grew from 4.5 percent of the gross