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TAX CUTS AND CONTINUED CONSEQUENCES

States That Cut Taxes the Most During the 1990s Still Lag Behind

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KEY FINDINGS

- When states cut taxes too much, they undermine and destabilize the revenue streams necessary to pay for education, transportation, health care, and other public services.
- During the economic boom of the middle and late 1990s, many states enacted tax cuts, some of them quite large. Proponents argued that big tax cuts would improve a state's fiscal and economic performance.
- Those improvements did not occur. When the economic boom ended six years ago, states with big tax cuts had larger budget problems and larger job losses than states that had shown more fiscal restraint.
- Even as the economy has recovered, the top tax-cutting states continue to lag behind.

With some states contemplating tax cuts in 2007, this is a useful time to examine the effects of the last major round of state tax cuts, during the 1990s. Some 44 states enacted tax cuts in the middle and late 1990s. Many states were restrained in their tax-cutting, but a few were not.

During that period, six states reduced their annual revenue by more than 10 percent: Colorado, Connecticut, Delaware, Massachusetts, New Jersey, and New York. Another ten states reduced revenue by 7 percent to 10 percent: Arizona, California, Georgia, Iowa, Maine, Maryland, Michigan, Minnesota, Pennsylvania, and Washington. In dollar terms, those 16 states together accounted for most of the nation's state tax cuts during the 1990s.

Contrary to the promises of tax-cut proponents, the tax cuts failed to improve those states' fiscal and economic health, particularly after the U.S. economy ran into trouble in 2001. In fact, the big tax-cutting states generally faced *larger* fiscal problems, and have had *worse* economic performance, than other states that were more cautious about tax cuts.

A comparison of the states that cut taxes the most during the 1990s with other states shows that:

- *Large tax cuts led to larger budget shortfalls when the economy weakened.* In the 16 states that cut taxes by at least 7 percent during the economic expansion, fiscal year 2004 budget deficits averaged 14.9 percent of spending. This compares to budget deficits of "only" 8.9 percent of spending for the other 34 states. Despite strong revenue growth after 2004, 10 of the 16 largest tax-cutting states still face documented budget problems, compared to only 14 of the remaining 34 states.

- *Large tax cuts were followed by sharper tax* *__increases__* *during the economic downturn.* The top 16 tax-cutting states raised taxes in 2002 and 2003 by 3.4 percent of revenue, compared to tax increases of 2.7 percent of revenue for the other 34 states.

- *Large tax cuts were often followed by credit rating downgrades.* Eight of the 16 top tax-cutting states received general obligation bond downgrades from the three major rating agencies in 2001, 2002, or 2003, compared with only seven of the other 34 states. Those downgraded credit ratings have not yet been restored.

In addition to experiencing larger fiscal problems, the biggest tax-cutting states also fared worse economically during the period of increasing unemployment that began with the 2001 recession. Even as the economy has slowly recovered, the top tax-cutting states of the 1990s still lag behind the more fiscally responsible states.

Between 2001 and 2006, the states that had cut taxes most:

- *Created fewer jobs.* Total payroll employment in the 16 states with the largest tax cuts grew by just 0.4 percent per year, less than half as much as in the 34 other states. The six states that cut taxes by over 10 percent fared even worse, adding less than 0.1 percent more jobs per year.

- *Had a larger jump in unemployment.* The average unemployment rate increased by 0.9 percentage points in the top 16 tax-cutting states, three times as much as the 0.3 increase in the other 34 states.

- *Had slower income growth.* The top 16 tax cutters experienced annual personal income growth of 1.5 percent, below the 1.9 percent growth in the other 34 states.

Policymakers who supported large tax cuts during the 1990s relied on two major arguments: that the tax cuts were affordable, and that they would improve the state's economic performance. (The latter argument ignored a body of literature showing that taxes have only modest, if any, impacts on business activity and economic growth; see the box on page 4.) The findings of this report suggest that both justifications were questionable at best.

- It is now clear that the tax cuts of the 1990s seemed affordable at the time only because of the unusual, overheated economy. Capital gains, stock options, and other forms of executive compensation grew to inflated — and unsustainable — levels. Consumption peaked because paper stock-market gains led people to feel wealthier and because consumer debt soared.

  Most states based their tax cuts on the assumption that the revenue from the bloated income and consumption levels would continue into the future. It did not; the level of revenues experienced in the late 1990s was a "bubble." When the stock market declined and the economy went into recession, state revenue also declined sharply. The states that cut taxes deeply found they had overshot the mark of affordability by a significant margin.

- It is impossible to know how states' economies (and budgets) would have performed had policymakers made different decisions regarding tax cuts. However, the fact that the biggest tax-cutting states had worse economic and fiscal performances than other states during the economic slowdown and beyond suggests that the tax cuts did not achieve their desired results.

Tax Cuts: Rhetoric vs. Reality Many claims by leading tax-cut advocates in the 1990s proved incorrect. For example:		
State	**Claim**	**Outcome**
New York cut taxes by 24 percent.	*"We've proven over and over again that tax cuts create the financial freedom that creates new jobs and new opportunities for New Yorkers."* Governor George Pataki	New York lost 0.2 percent of its jobs over the last five years, compared to an average national *gain* of 0.7 percent.
New Jersey cut taxes by 17 percent	*"Together we will unshackle that economic engine from the restraining chains of high taxes."* Governor Christine Todd Whitman	Personal income in New Jersey has risen 1.1 percent per year since 2001, less than half the rate of inflation and lower than the national average.
Michigan cut taxes by 10 percent.	*"Long term, state budget needs are dramatically lessened when we improve the family budget by raising incomes and cutting taxes."* Governor John Engler	In Michigan, despite yearly real per-capita spending cuts averaging 3.5 percent for four years, the state still faces a projected budget deficit for FY 2008.

To be sure, some of the big tax-cutting states enjoyed strong economies during the late 1990s, but not because of their tax cuts. For example, New Jersey, which cut taxes by over 10 percent between 1994 and 1996, created roughly 350,000 new jobs between 1996 and 2000. Tax-cut advocates, including Governor Christine Todd Whitman, were quick to credit the tax cuts (see box). But researchers from the University of Oklahoma found that region-wide economic growth, not tax cuts, spurred New Jersey's employment gains.[1]

Moreover, the economic gain by tax-cutting states during good times to a great degree was wiped out by the deep economic distress these states experienced during the downturn (in terms of low employment and income growth). For example, Massachusetts cut taxes by over 10 percent of revenue between 1996 and 1998. At the end of the 1990s the state's economy, like the nation's as a whole, performed well; Massachusetts gained about 145,000 jobs between 1998 and 2000. However, between 2001 and 2003 Massachusetts lost 143,000 jobs, virtually wiping out the job gains of the late 1990s. Since 2003, only about 10,000 of the jobs lost have been recovered.[2]

Today, states are in danger of making the same mistake that many states made during the 1990s. In some states, the run-up in real-estate prices of the last few years produced a capital-gains boom that led to budget surpluses and a sense that tax cuts were easily affordable. Indeed, nine states in 2006 enacted substantial tax cuts with delayed — and quite possibly unaffordable — fiscal impacts.[3] But the past year's cooling of the real-estate market, and the potential softening of the economy heading into 2007 and 2008, suggest that continued strong state revenue growth is far from certain.

[1] W. Robert Reed and Cynthia L. Rogers, "Tax Cuts and Employment Growth in New Jersey: Lessons from a Regional Analysis," *Public Finance Review*, Vol. 32 No. 3 (May 2004), pp. 269-291.

[2] *State and Area Employment, Hours, and Earnings,* Bureau of Labor Statistics, www.data.bls.gov.

[3] Nicholas Johnson and Sarah Farkas, "Tax Cuts on Layaway: The Short- and Long-term Fiscal Implications of 2006 State Tax Actions," Center on Budget and Policy Priorities, October 10, 2006, http://www.cbpp.org/10-10-06sfp.htm.

Substantial Body of Academic Literature Questions
Role of State Taxes in Economic Development

A large body of academic literature has found that state and local taxes have, at best, a modest impact on economic development. In a recent study, economist Robert G. Lynch analyzes the existing research on the impact of state and local taxes on economic development.[a] Lynch's study confirms that the costs of taxes are much less important to businesses than other location specific costs such as qualified workers, proximity to customers and quality public services. Some other key findings of the study include:

- There is little evidence that state and local tax cuts — when paid for by reducing public services — stimulate economic activity or create jobs. There is evidence, however, that increases in taxes, when used to expand the quantity and quality of public services, may promote economic development and employment growth.
- A review of the hundreds of survey, econometric, and representative firm studies that have evaluated the effects of state and local tax cuts and incentives makes clear that these strategies are unlikely to stimulate economic activity and create jobs in a *cost-effective* manner.
- Even with optimistic assumptions, for each private-sector job created by state and local tax cuts, governments may lose between $39,000 and $78,000 or more in tax revenue annually. This substantial revenue loss can force governments to lay off public employees in numbers that probably exceed the number of jobs created in the private sector.

[a] Robert Lynch, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, Economic Policy Institute, 2004.

Unlike the federal government, which can run large operating deficits when necessary, states have few palatable options when their fiscal and economic circumstances turn down. These results suggest a need for more prudent state fiscal policies. When contemplating tax reductions, states should carefully consider their multi-year revenue projections, as well as the potential risks of revenue shortfalls. In addition, states should assure that their rainy-day funds are adequate before embarking on significant tax cuts.

The Tax Cuts of 1994-2001

As the economy emerged from the recession of the early 1990s and entered the remarkable boom period of the middle and late 1990s, many states enacted dramatic tax cuts. Beginning in 1994 and continuing all the way into 2001, states in aggregate enacted net tax cuts that by the end of the period were costing them roughly $33 billion, or about 7.6 percent of their revenue. Although some 44 states enacted tax cuts, the bulk of the tax cuts occurred in 16 states in which tax cuts exceeded 7 percent of tax revenue. The deepest tax cuts occurred in the six states — Colorado, Connecticut, Delaware, Massachusetts, New Jersey, and New York — that reduced state taxes by more than 10 percent of revenue. See Table 1.

The tax cuts were premised on the unusual level of revenues states were collecting in the boom years of the economy, and on the assumption that those revenue levels would continue indefinitely into the future. This turned out not to be the case. For example, taxable capital gains realizations rose from 2.4 percent of GDP in 1995 to 6.6 percent of GDP in 2000. But this increase was unsustainable; when the stock market declined, these realizations plunged to 2.2 percent in 2002.[4] This decline, coupled with rising joblessness, declining wage and salary income, and flagging consumption growth combined to cause state fiscal and economic troubles. State revenues declined in inflation-adjusted terms for nine consecutive quarters.[5]

As states now rebound from the 2001 recession, policy-makers should be wary of calls for more unaffordable tax cuts. Two factors that prompted the tax cuts of the 1990s, rising capital gains realizations and surging state revenues, may once again give the appearance that there is room for large tax cuts. Capital gains realizations once again are at historically unusual levels — 4.2 percent of GDP in 2006 compared to the 30-year average of 3.4. In addition, inflation-adjusted state tax revenues have increased for 11 straight quarters. These signs could tempt policy-makers to enact another round of excessive tax cuts. This paper gives evidence that, even in seemingly prosperous economic times, large tax cuts can be damaging economically and fiscally.

Table 1: Cumulative Tax Cuts as a Percent of Prior Years' Revenue, 1994 - 2001

New York	24%	Pennsylvania	9%
New Jersey	17%	Arizona	9%
Massachusetts	17%	Georgia	8%
Delaware	14%	California	8%
Connecticut	13%	Washington	8%
Colorado	12%	Minnesota	8%
Iowa	10%	Maryland	8%
Michigan	10%	Maine	7%
Average of all other states with tax cuts: 3.5%			

Source: Center on Budget and Policy Priorities analysis of data collected by the National Conference of State Legislatures, State Tax Actions, various years, supplemented with data from state fiscal offices. See also *The State Tax Cuts of the 1990s, the Current Revenue Crisis, and Implications for State Services*, November 2002, at http://www.cbpp.org/11-14-02sfp.htm.

Tax-Cutting States after the Recession

This report considers all of the tax cuts enacted between 1994 and 2001. It finds that the states that enacted the biggest tax cuts in the 1990s suffered *worse* fiscal outcomes between 2001 and 2003 (the time period during which state revenues were in the worst shape) and worse economic outcomes throughout the recession and recovery. Adjusting for tax changes and inflation, state revenues increased for the first time in over two years during the fourth quarter of 2003. Tax increases and the strengthened economy then ushered in a multi-year period of sustained state revenue growth which allowed states to get back in control of their fiscal situation.[6] Economically, however, the states with the largest tax cuts were not able to undo the damage. These states still lag

[4] "The Budget and Economic Outlook: Fiscal Years 2007 to 2016," Congressional Budget Office, January 2004, p. 92, www.cbo.gov.

[5] Brian T. Stenson with Nai-Ling Kuo, "State Tax Revenue Rebounds on Strength in South and West," *State Revenue Report No. 64*, The Nelson A. Rockefeller Institute of Government, June 2006.

[6] Some argue that the tax increases that were enacted during the fiscal crisis exacerbated job losses. The timing of the tax increases relative to the job losses, however, suggests this cannot be true. The job losses that occurred at the beginning of the economic downturn were not influenced by the tax increases that have resulted from the downturn, because the job losses mostly predated the tax increases. Nationally, from the start of the recession in March 2001 until the job losses bottomed out in August 2003 the nation lost 2.7 million jobs. Two-thirds of the job loss, 1.8 million jobs, occurred between March 2001 and December 2001. Only Alabama and North Carolina enacted significant tax increases during 2001. The vast majority of job losses occurred before most states started raising taxes.

Table 2: Economic Performance of Tax-Cutting States		
Indicator	Sixteen states with tax cuts greater than 7% of revenue in the 1990s	Other 34 states
Jobs gained: Percent change in average annual payroll employment, 2001 to 2006	0.4%	0.9%
Unemployment: Change in annual unemployment rate, 2001 to 2006	0.9 percentage points	0.3 pct. points
Personal Income: Average annual change in total state personal income, 2001 to 2006	1.5%	1.9%
	Six states with tax cuts greater than 10% of revenue in the 1990s	Other 44 states
Jobs gained: Percent change in average annual payroll employment, 2001 to 2006	<0.1%	0.8%
Unemployment: Change in annual unemployment rate, 2001 to 2006	1.3 percentage points	0.4 pct points
Personal Income: Average annual change in total state personal income, 2001 to 2006	1.3%	1.9%

Sources: Center on Budget and Policy Priorities calculations of data from Bureau of Labor Statistics and Bureau of Economic Analysis. The unemployment rate data and the payroll employment data are based on state fiscal years. The personal income data is based on calendar years.

behind in income growth, job growth, and unemployment, compared to the more fiscally responsible states.

Economic Performance

Table 2 compares the economic performance of the 16 states that cut taxes substantially between 1994 and 2001 — those that cut taxes by 7 percent of revenue or more — to the 34 states that enacted smaller tax cuts or none at all. It also compares the economic performance of the six states that cut taxes by 10 percent of revenue or more between 1994 and 2001 to the 44 states that enacted smaller tax cuts or none at all. The 16 tax cutting states represent about 85 percent of the net tax cuts for the 1994 to 2001 period; the top six tax cutting states represent almost half of the net tax cuts. (For detailed data on the 16 states, see Appendix Tables A & B). Since 2001:

- The 16 states with the largest tax cuts saw payroll employment increase by 0.5 percentage points less per year than the other 34 states.

- Only two of the top 16 tax-cutting states have a lower unemployment rate now than before the recession, compared to twelve of the other 34 states.

- The top 16 tax-cutting states have also had a larger increase in unemployment (0.9 percentage points versus 0.3 percentage points) and slower annual personal income growth (1.5 percent versus 1.9 percent) compared to the other 34 states.

Table 3: Fiscal Performance of Tax-Cutting States		
Indicator	**Sixteen states with tax cuts greater than 7% of revenue in the 1990s**	**Other 34 states**
Reserves when the boom ended: Total ending balance as a percent of expenditures, FY 2001.	9.5%	11.5%
Budget deficits in the downturn: Highest projected FY 2004 budget deficit as a percent of spending.	14.9%	8.9%
Tax Changes: Net tax changes as a percent of collections, 2001 to 2003	3.4%	2.7%
Bond Downgrade: Downgraded by at least one rating agency in 2001, 2002 or 2003	8 downgrades	7 downgrades
Continuing deficits: Had to close a budget deficit for 2007 or face projected deficits in future fiscal years	10 deficits	14 deficits
	Six states with tax cuts greater than 10% of revenue in the 1990s	**Other 44 states**
Reserves when the boom ended: Total ending balance as a percent of expenditures, FY 2001.	9.3%	11.1%
Budget deficits in the downturn : Highest projected FY 2004 budget deficit as a percent of spending.	14.3%	10.5%
Tax Changes: Net tax changes as a percent of collections, 2001 to 2003.	6.3%	2.4%
Bond Downgrade: Downgraded by at least one rating agency in 2001, 2002 or 2003	4 downgrades	11 downgrades
Continuing deficits: Had to close a budget deficit for 2007 or face projected deficits in future fiscal years	4 deficits	20 deficits

Sources: Center on Budget and Policy Priorities calculations of data from National Conference of State Legislatures, National Association of State Budget Officers, Moody's, Fitch, Standard and Poor's.

- In 14 of the 16 top tax-cutting states, personal income has grown slower than the rate of inflation.

The disparities are even greater for the six states with tax cuts exceeding 10 percent of annual revenue. Since 2001:

- The top six tax-cutting states added less than 0.1 percent to total payroll employment per year, compared to 0.8 percent for the other 44 states.

- The unemployment rate among the top six tax-cutting states has grown by 1.3 percentage points, compared to 0.4 percentage points for the other 44 states.

- In five of the six largest tax-cutting states, personal income has grown slower than the rate of inflation.

Fiscal Performance

By cutting taxes in the 1990s, the large tax-cutting states reduced the ability of their revenue system to generate sufficient revenue during the economic downturn. In some cases, they also were unable to save as much as they needed in reserve funds. As a result, states that cut taxes the most during the 1990s had lower reserve levels at the start of the fiscal crisis, faced larger deficits during the fiscal crisis and had to raise taxes more to close deficits. Table 3 compares the fiscal performance of the 16 states that enacted tax cuts in the 1990s exceeding seven percent of annual state tax revenue to the 34 states that enacted smaller tax cuts or none at all. It also compares the fiscal performance of the six states that enacted tax cuts exceeding 10 percent of revenue to the other 44 states. The data show that:

- Budget deficits in the top 16 tax-cutting states in fiscal year 2004 averaged 14.9 percent of spending, compared to "only" 8.9 percent of spending for the other 34 states.

  California is one of the top 16 tax-cutting states and its deficit was dramatically larger than any other state at 36.7 percent of spending. However, even when California is removed from the analysis, the remaining 15 large tax-cutting states had average deficits of 13.4 percent compared to 8.9 percent for the other 34 states. Four out of the six largest tax-cutting states had larger deficits than the national average state deficit.

- The top 16 tax-cutting states had reserve levels of 9.5 percent of expenditures at the start of the fiscal crisis, compared to balances of 11.5 percent of expenditures for the other 34 states.

- Because the states that cut taxes had smaller reserves and larger deficits, they were forced to raise taxes more than the states that cut taxes less. The top 16 tax-cutting states raised taxes in 2002 and 2003 by 3.4 percent of revenue compared to 2.7 percent for the other 34 states.[7]

- The bond rating agencies have recognized the fiscal risks of large tax cuts. The 16 top tax-cutting states received more than half of the 15 general obligation bond downgrades from the three major rating agencies in 2001, 2002 and 2003.

- Even now, the tax-cutting states of the 1990s still appear to face larger fiscal problems than other states. The National Conference of State Legislatures reports that 10 of the 16 tax-cutting states had to close a deficit in the current fiscal year (2007) or are facing potential deficits in future fiscal years, compared with 14 of the other 34.

The Six States with the Most Tax Cuts

The results for the six states with the very largest tax cuts in the 1990s, exceeding 10 percent of annual revenue, tell a similar story. The top six tax-cutting states had larger deficits and smaller reserves at the start of the crisis and larger tax increases than the other 44 states. Four of the six top tax-cutting states (67 percent of the states in the category) received bond downgrades, compared to 11 bond downgrades among the other 44 states (25 percent of states). Each of the large tax-cutting

[7] Note that some of these tax increases were temporary in nature and have since expired or will expire soon. In one case, California, the tax increase was structured in such a way that over a period of several years, including the period of the tax increase and its subsequent expiration, the net impact is expected to be revenue-negative.

states has experienced varying degrees of fiscal and economic hardship over the last few years, and a majority (four of six) are facing continued budgetary challenges.

- **Colorado** made large personal income tax cuts during the 1990s, and also cut the state sales tax rate and provided substantial tax rebates. During the fiscal crisis, Colorado cut spending by more than twice the national average and saw its credit rating downgraded in 2002.[8] Despite a number of natural economic advantages, such as its location in the fast-growing Rocky Mountain region, between 2001 and 2003 Colorado experienced the largest unemployment rate increase in the nation.

- **Connecticut** cut personal and corporate income taxes during the 1990s. Between 2001 and 2003 Connecticut's growth in unemployment was second only to Colorado's. Connecticut faced a budget deficit in excess of 15 percent of its budget in 2004 and received a bond downgrade in 2003.

- **Delaware** also cut its personal income tax significantly during the 1990s, a time in which the state's economy performed slightly better than average. During the economic downturn, Delaware's job losses exceeded the U.S. average.

- **Massachusetts**, which cut its personal income tax rate during 1990s, had a budget deficit equal to 13 percent of spending during the fiscal crisis and cut real per capita spending by 4.8 percent, more than double the US average (it also enacted a substantial package of temporary tax increases that have expired or will expire over the next several years). Massachusetts lost over 140,000 jobs between 2001 and 2003, a 4.3 percent decline — the largest proportional decline in the nation. Between state fiscal year 2001 and 2003, personal income in Massachusetts grew at a rate that was less than one-third the rate of growth of inflation.

- **New Jersey** cut personal income tax rates and other taxes during the 1990s. New Jersey's budget situation during the fiscal crisis was one of the worst in the nation, with a 2004 deficit equal to nearly 20 percent of the budget. In 2002, New Jersey's bond rating was downgraded. Between 2001 and 2003, New Jersey experienced above average growth in unemployment and below average growth in personal income.

- **New York** was the largest tax-cutting state in the 1990s, with tax cuts exceeding 20 percent of revenues. New York faced deficits in excess of 20 percent of the budget during the fiscal crisis, had above average tax increases, and received a bond rating downgrade. New York's personal income growth from 2001 to 2003 was less than one-third of the national average.

Why Is This Relevant Today?

This analysis serves as a caution to state policymakers who may be tempted to begin another round of tax cuts now that tax revenues are growing more rapidly. Booming capital gains realizations and sustained state revenue increases - two signs that prompted the damaging tax cuts of the 1990s - could give the false appearance that there is room for large tax cuts. States would do

[8] Colorado does not utilize general obligation bonds, but it does utilize "transportation revenue anticipation notes," a form of government debt.

well to assess carefully their long-term revenue projections and the assumptions behind those projections. Claims that tax cuts might boost jobs and wages should be scrutinized with a great deal of skepticism. An alternative to tax cuts, in light of this analysis, would be for states to increase their "savings" by increasing the size of their rainy day funds, reducing pension-fund and other shortfalls, and otherwise preparing for the next economic slowdown.

Appendix

Table A: Economic Performance of Large Tax-Cutting States from 2001 to 2006			
	Jobs Added /(Lost)	Unemployment Rate Change	Personal Income Change
States with Tax Cuts of 10% to 25% of Revenue, 1994 to 2001			
Colorado	0.2%	1.9	1.1%
Connecticut	(0.1%)	1.6	0.9%
Delaware	0.5%	0.3	2.7%
Massachusetts	(0.8%)	1.6	0.7%
New Jersey	0.4%	1.4	1.1%
New York	(0.2%)	0.8	0.9%
States with Tax Cuts of 7% to 10% of Revenue, 1994 to 2001			
Arizona	3.0%	0.5	3.9%
California	0.3%	(0.1)	1.7%
Georgia	0.5%	1.2	1.7%
Iowa	0.5%	0.7	1.8%
Maine	0.2%	1.7	1.2%
Maryland	0.9%	0.7	2.5%
Michigan	(1.1%)	2.3	< 0.1%
Minnesota	0.6%	0.3	1.3%
Pennsylvania	0.1%	0.4	1.3%
Washington	1.1%	(0.4)	1.3%
Top 16 Tax Cutters	0.4%	0.9	1.5%
Other 34 States	0.9%	0.3	1.9%
Top 6 Tax Cutters	<0.1%	1.3	1.3%
Other 44 States	0.8%	0.4	1.9%
US Average	0.7%	0.5	1.8%

Tax Cuts: Sum of annual net tax changes in each year, 1994-2001, as a share of previous year's revenue,.
Jobs Added / Lost: Percent change in average annual non-farm payroll employment, 2001 to 2006.
Unemployment: Change in annual unemployment rate, 2001 to 2006.
Personal Income: Average annual change in total state real personal income, 2001 to 2006.
Note: U.S. averages are unweighted averages because each state is considered an equal unit of analysis. Using a weighted average would bias the analysis in favor of large states.

Sources: Center on Budget and Policy Priorities calculations of data from National Conference of State Legislatures, National Association of State Budget Officers, BLS, BEA.

Table B: Fiscal Performance of Large Tax-Cutting States Since the Recession					
	Fiscal Indicators				
	Reserves at Start of Fiscal Crisis	Budget Deficits During Crisis	Tax Increases	Bond Downgrades During Fiscal Crisis*	Remaining Structural Budget Deficits After Crisis
States with Tax Cuts of 10% to 25% of Revenue, 1994 to 2001					
Colorado	7.0%	7.1%	0.0%	Downgrade	
Connecticut	5.2%	15.6%	9.3%	Downgrade	Deficit
Delaware	21.0%	8.0%	6.6%		
Massachusetts	13.6%	13.1%	8.5%		Deficit
New Jersey	6.2%	19.2%	7.5%	Downgrade	Deficit
New York	2.8%	22.8%	5.8%	Downgrade	Deficit
States with Tax Cuts of 7% to 10% of Revenue, 1994 to 2001					
Arizona	6.1%	23.6%	1.8%		
California	3.9%	36.7%	1.8%	Downgrade	Deficit
Georgia	16.9%	4.5%	0.8%		
Iowa	8.3%	9.2%	-0.1%		Deficit
Maine	6.9%	19.0%	0.8%		Deficit
Maryland	13.9%	8.3%	1.3%		Deficit
Michigan	10.5%	14.1%	0.1%	Downgrade	***
Minnesota	12.4%	17.0%	0.0%	Downgrade	
Pennsylvania	6.9%	11.4%	7.9%		Deficit
Washington	9.8%	8.4%	1.8%	Downgrade	Deficit
Top 16 Tax Cutters	9.5%	14.9%	3.4%	8 downgrades	10 deficits
Other 34 States	11.5%	8.9%	2.7%	7 downgrades	14 deficits
Top 6 Tax Cutters	9.3%	14.3%	6.3%	4 downgrades	4 deficits
Other 44 States	11.1%	10.5%	2.4%	11 downgrades	20 deficits
US Average**	10.9%	10.9%	2.9%	15 total	24 total

Reserves at Start of Fiscal Crisis: FY2001 ending balance as a percent of FY2001 expenditures.
Budget Deficits During Crisis: Highest projected FY 2004 budget deficit as a percent of spending.
Tax Changes: Net tax changes as a percent of collections, 2002 to 2003. Includes temporary tax increases that have since expired.
Bond Downgrades During Fiscal Crisis: Downgraded by at least one rating agency in 2001, 2002 or 2003.
*All states with bond downgrades remain below their pre-recession level.
Remaining Structural Budget Deficits: Any FY2007 deficit that had to be closed or 2008-09 structural deficit.
**US average budget deficit is the average deficit among the 47 states that reported deficits, all but Alabama, Nevada and Tennessee.
***Michigan did not report a projected budget deficit in the NCSL survey on which this column of data is based. However, the governor and others have indicated that the state faces a substantial projected deficit for FY2008.
Note: US averages are unweighted averages because each state is considered an equal unit of analysis. Using a weighted average would bias the analysis in favor of large states.
Sources: Center on Budget and Policy Priorities calculations of data from National Conference of State Legislatures, National Association of State Budget Officers, Moody's, Fitch, Standard and Poor's, BLS, BEA.