

from the May 28, 2003 edition - <http://www.csmonitor.com/2003/0528/p01s02-usec.html>

As US cuts taxes, states hike them

New York's \$2 billion-plus tax hike is just the latest of several overhauls that could recast the social safety net.

By **Abraham McLaughlin** | Staff writer of The Christian Science Monitor

In Washington, this may be the era of tax cuts and more tax cuts. But in statehouses around the nation, it's increasingly a time of big tax increases.

Faced with budget shortfalls and mounting pressure to avoid cutting social services during economic doldrums, more state lawmakers are abandoning their usual reluctance and raising taxes, some boldly enough to risk their political futures in the process. Alabama, New York, California, and Nevada are moving to raise taxes by record amounts.

The growing gap between Washington and states on taxes stems partly from the requirement most states face to balance their budgets - a mandate Washington doesn't have. But it also highlights an increasing division - including within the Republican Party - over the role of government in a weak job climate. In fact, the trend may herald the rising role of states as key providers of America's social safety net.

In most states "we're going to see big tax increases this year. It almost seems inevitable," says Nicholas Jenny, a tax analyst at The Rockefeller Institute of Government in Albany, N.Y.

This doesn't mean states are boosting income taxes across the board. They're targeting higher-wage earners instead. But the magnitude of the increases in some states is stunning. In many cases, sales taxes are going up, affecting whole state populations.

Consider what happened in Mr. Jenny's home state of New York this month: The Republican-controlled Senate overrode Gov. George Pataki's veto of a tax increase of more than \$2 billion. By one measure, it's the largest hike in state history.

How is it that a Republican-led senate championed a giant tax increase? First of all, at the state level, "Ideology matters less than you would think," says Mr. Jenny. New York faced an \$11.5 billion budget gap. Something had to be done.

But in passing the hike, the legislature also undid roughly \$1.3 billion in cuts to education and healthcare that Governor Pataki had planned. Raising the sales tax and income taxes for those making more than \$100,000 clearly aims to ensure the state provides for its citizens during tough economic times. "New Yorkers expect government to serve them," says John Zogby, an independent pollster in Utica. "We're the original welfare state."

That's far less true in Alabama, a famously tax-averse place. But even there, a conservative Republican rookie, Gov. Bob Riley, recently shocked many by proposing a \$1.2 billion increase in sales, income, and other taxes - mostly aimed at boosting education.

Observers say the plan has decent public support. Following roughly two years of official kvetching about state budget woes - in Alabama and across the nation - the public knows there's a problem.

"People are saying, 'If this [tax money] goes to education, then it may be OK,'" says David Lanoue, a political scientist at the University of Alabama at Tuscaloosa. There's also an echo of Nixon going to China in Governor Riley's proposal. Before winning the governorship, he was a conservative member of Congress who never voted for a tax increase, says Dr. Lanoue. "So there's a sense that if someone as conservative as Bob Riley is saying taxes need to be raised, then it's really needed."

Riley's plan would significantly boost the state's commitment to education. And it would require far fewer of the state's poor residents to pay taxes.

Other governors are aiming for fundamental changes, too. Nevada's Republican Gov. Kenny Guinn is the primary cheerleader for the state's biggest-ever tax increase - a \$1 billion package aimed at noncasino businesses. "With this package, we're ending the era in which the hotel casinos and the tourists pay all the taxes," says Richard Siegel, a political scientist at the University of Nevada, Reno.

So far, these tax-raisers don't appear to be paying political consequences. In fact, the timing of these hikes works well for many state executives. "Many governors are in the first year of their term, which gives them three years to recover," says Lanoue. "And three years is a lifetime in politics."

Then there are "lame duck" governors who have little to lose from backing tax hikes. California Gov. Gray Davis (D), a second-termer who can't run again, proposed an \$8.3 billion tax increase, including hikes in sales, automobile, and (higher-end) income taxes.

For state office-holders who see taxes as too risky, another option is to pass along budget woes to towns. But that often forces property taxes up. "There are school districts in upstate New York voting on 47-percent property-tax hikes," says Zogby. In fact, passing the buck to states may be the effect of Washington's tax cuts, he says. President Bush and others see tax cuts - and smaller government - as key to

jumpstarting the economy. But as Washington slashes taxes and focuses spending on the military, states are left to shoulder a larger share of the social-service load.

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