

# THE WALL STREET JOURNAL.

The Wall Street Journal Blog, July 1, 2008

*States Going From Bad to Worse*

*By Conor Dougherty*

**Falling sales and income taxes, combined with rising energy costs, continue to erode state finances according to a [report released today](#) by the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York. Most states are required by law to balance their budgets, so weak tax revenues have already resulted in budget cuts in states across the country, from less frequent trash collection to teacher layoffs.**



Source: Federal Reserve Bank of Philadelphia.

Courtesy of the Nelson A. Rockefeller Institute of Government

State budgets are poised to get worse, and further cuts almost a certainty. Much of the revenue collected in the first quarter reflects last year's much better economy, rather than this year's lackluster economy. Also, while withholding taxes are collected over time, taxes on other income such as investments, stock sales or corporate bonuses are often paid in the first part of the year. That resulted in a revenue spike that isn't likely to carry over into the current fiscal year.

**"It's likely that the second quarter will be worse for states," says Robert B. Ward, deputy director of the Rockefeller Institute.**

States are being squeezed from both ends. Corporate profits are down; so goes corporate income taxes. Consumers are also spending less: Sales taxes were flat in the first quarter compared to the same period a year ago. Overall state revenues increased 1.7% in the first quarter of 2008, the weakest in five years. Revenues declined about 5.3% after adjusting for inflation and tax changes (that could be tax cuts or tax increases, but most of the decline is due to inflation).

At the same time the cost of government expenditures (everything from gas for fire engines to health care and pension plans) are rising faster than prices in other sectors of the economy. Inflation is running around 6% for state and local government, compared with a little over 2% for the broader economy.