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COULD TAX REFORM DEFUND THE "BLUE STATE MODEL"?

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EXECUTIVE SUMMARY

The federal government must reduce the deficit to arrest its unsustainable debt trends. How might this affect state and local governments? This issue brief considers the case of capping itemized deductions, a tax-reform proposal supported by Democrats as well as Republicans. While the impact would be more indirect than, for example, cuts to federal grants-in-aid programs, the pain to state and local governments could still be significant.

Hardest-hit will be New York, New Jersey, California, and other so-called blue states known for their high taxes, high costs, extensive public services, and large public-sector workforces. Current federal tax policy benefits blue-state taxpayers disproportionately. The home mortgage-interest deduction subsidizes their high home values, and the deduction for state and local taxes paid provides relief from their high tax burdens. Because incomes are higher in blue states, their taxpayers make use of itemized deductions at a much higher rate than in other states.

But this may all be coming to an end. In the near term, capping deductions would dramatically raise taxes on high earners, soften home prices, and call into question the ultimate sustainability of the

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blue-state model. However, in the longer term, such caps could simply cause blue states to shift toward a more nonblue model of lower taxes, lower spending levels, and greater reliance on economic growth to expand the tax base.

INTRODUCTION

Capping itemized tax deductions now enjoys bipartisan support as a way to raise revenues and reduce the federal deficit. Because it would target high earners, Democrats see it as complementary to their efforts to increase top marginal tax rates. For Republicans, capping deductions appeals as a pro-growth alternative to rate increases.

A cap could raise over $1.5 trillion in new revenues over ten years. Many important details remain unresolved, such as the size of the cap, and what and who will be exempt from it. But in any version, a cap on itemized deductions would hit blue-state[1] high earners disproportionately hard because they benefit the most from current policy. Blue-state tax filers itemize deductions at a rate above that of filers in other states (38.4 percent versus 30.3 percent), and the average deduction among blue states is $5,680 higher. Compared with other states, blue states' home values and state and local tax burdens are high; thus their taxpayers receive more relief from the deductions for home mortgage interest and state and local taxes paid. The latter reduces blue states' real cost of government by almost 20 percent and their overall tax burden by almost 30 percent.

Capping deductions would trigger a painful tax increase for some blue-state taxpayers, and it also has implications for blue states themselves. For decades, federal tax law has enabled the blue-state model of high taxes and high spending. This combination has contributed to a range of problems, including excessive debt, stagnant population growth trends, and fiscally distressed municipalities. Something will have to give, as capping deductions seems to be a question not of if but of when and how much. A fundamental reassessment of the blue-state model may therefore be at hand.

HOW IT WORKS

The federal deficit now stands at over $1 trillion, and the nation's debt burden is the highest it has been since shortly after World War II.[2] Growing concern about the deficit has provoked a wide-ranging debate over how to reform federal fiscal policy. All recent proposals, by both parties and various independent groups and commissions, have recommended tax reform as an essential element of fiscal reform.[3]

In the classic, nonpartisan sense, tax reform means closing loopholes that benefit special interests in order to finance a tax-rate cut for all. The model is the famously revenue-neutral 1986 Tax Reform Act.[4] But a repeat of 1986 now seems unlikely. Personal income-tax rates probably won't be going down, at least not soon, because of the sheer magnitude of the current deficit and Democratic control of the presidency and Senate. At present, the overriding motivation of tax reform is to generate new revenues, which was not the case in 1986.

Tax reform's revenue potential is, in principle, massive. The U.S. Treasury annually forsakes over $1 trillion through various exclusions, deductions, deferrals, and credits (Table 1).

Eliminating every tax expenditure could generate enough revenues to balance the budget or finance a 44 percent across-the-board rate reduction, meaning a top marginal income-tax rate of less than 20 percent.[5]

But tax reform is much easier said than done[6] because the costliest exemptions happen also to be extremely popular. Many have been in existence since the beginning of the tax code, outlasting several rounds of reform, including 1986—hence the appeal of capping itemized deductions. Though it would not close any loopholes, a cap would narrow significantly at least two of the largest ones: the home mortgage-interest and taxes-paid deduc-

Table 1: Top Ten Largest Federal Tax Expenditures (figures in millions)	
Exemption	**FY12 Cost**
Exclusion of employer contributions for medical insurance premiums and medical care	$170,650
Net exclusion of contributions to, and earnings of, retirement plans (employer plans, 401(k)s, IRAs, "savers' credit," and Keogh plans)	$138,100
Deductibility of mortgage interest on owner-occupied homes	$86,910
Accelerated depreciation of machinery and equipment (normal tax method)	$76,280
Capital gains (except agriculture, timber and coal)	$66,210
Exclusion of net imputed rental income	$50,640
Deductibility of state and local taxes	$49,330
Deferral of income from controlled foreign corporations (normal tax method)	$42,000
Deductibility of charitable contributions (including education and health)	$40,960
Exclusion of interest on public purpose state and local bonds	$29,080
Source: Office of Management and Budget	

tions.[7] The tax code would become more efficient (the less revenue lost through tax breaks, the less that must be captured through higher rates) and also more neutral. The IRS would exercise less influence over households' decisions on whether to buy or rent or, more realistically, whether to buy a $500,000 house or a $600,000 house. As for state and local governments, current policy incentivizes them to rely on revenue sources that can be deducted from federal income taxes. Were state income taxes and local property taxes no longer a fully deductible expense, governments would be freer to consider more reliance on fees, charges, and sales taxes.[8]

Tax deductions reduce taxable income; deductions are the IRS's way of recognizing reductions in a filer's ability to pay taxes. Individuals and households may claim either the standard deduction ($5,800 for single filers in 2011; $11,600 for married couples) or itemize certain authorized expenses. The big three are state and local taxes paid, home mortgage interest, and charitable contributions. When the sum of these three expenses, multiplied by a filer's top marginal tax rate, exceeds the value of the standard deduction, that filer will itemize deductions.

Only 30 percent of filers itemize.[9] Itemization rates increase with income because home values and state and local tax bills increase with income and because the value of a tax deduction is a function of filers' marginal tax rate. For filers now in the top 35 percent marginal tax bracket, $10,000 in authorized expenses would yield $3,500 in deductions but only $2,800 for those in the 28 percent bracket.

Table 2 summarizes Tax Policy Center estimates on how capping deductions, under a few different scenarios, would hit various different taxpayers. What is important to note is that, the more aggressive the proposal (i.e., the lower the cap), the more it affects the middle class. Whereas almost half of filers making $50,000–$75,000 would see their taxes go up if all deductions were eliminated, a $50,000 cap would hit less than 2 percent of them. In other words, the politics of capping deductions can be complicated because the more narrowly a cap targets high earners, the less revenue it will generate (Chart 1).[10]

Revenue estimates depend significantly on what baseline is used to calculate them. For example, if the Bush tax cuts expire and top marginal tax rates rise to 39.6 percent, as they are expected to do under current law, capping deductions would save more money than under current policy because deductions are more valuable to a taxpayer at a 39.6 percent rate than at a 35 percent rate.

Just to give some context to these numbers, the Obama administration is seeking $1.6 trillion over

Table 2: Capping Itemized Deductions: How will Taxpayers be Affected?

	Repeal all Itemized Deductions (Current Law)		Repeal all Itemized Deductions (Current Policy)		Cap Itemized Deductions at $17,000 (Current Law)		Cap Itemized Deductions at $17,000 (Current Policy)	
Income level (thousands of 2012 dollars)	% of Tax Units with Tax Increase	Average Tax Increase	% of Tax Units with Tax Increase	Average Tax Increase	% of Tax Units with Tax Increase	Average Tax Increase	% of Tax Units with Tax Increase	Average Tax Increase
Less than 10	0.0	0	0.0	0	0.0	0	0.0	0
10-20	2.0	443	1.9	309	1.0	330	1.0	238
20-30	6.3	753	5.9	607	3.6	683	3.6	525
30-40	14.6	887	12.4	787	7.8	800	8.1	708
40-50	26.6	1,014	21.6	953	14.6	905	15.4	832
50-75	45.8	1,586	36.8	1,474	25.4	1,377	27.0	1,292
75-100	70.0	2,416	56.1	1,924	34.0	1,948	41.1	1,753
100-200	82.6	3,664	75.1	3,149	48.7	2,856	61.0	2,714
200-500	93.9	7,556	92.0	7,150	65.6	6,354	78.0	6,063
500-1,000	92.3	20,623	95.2	14,887	83.7	20,086	79.9	14,818
More than 1,000	88.7	95,688	93.6	94,881	84.5	98,477	88.8	98,096
ALL	35.0	4,016	30.4	3,902	20.1	4,338	23.3	3,951

	Cap Itemized Deductions at $25,000 (Current Law)		Cap Itemized Deductions at $25,000 (Current Policy)		Cap Itemized Deductions at $50,000 (Current Law)		Cap Itemized Deductions at $50,000 (Current Policy)	
Income level (thousands of 2012 dollars)	% of Tax Units with Tax Increase	Average Tax Increase	% of Tax Units with Tax Increase	Average Tax Increase	% of Tax Units with Tax Increase	Average Tax Increase	% of Tax Units with Tax Increase	Average Tax Increase
Less than 10	0.0	0	0.0	0	0.0	0	0.0	0
10-20	0.2	193	0.2	141	0.0	0	0.0	0
20-30	1.6	608	1.6	432	*	**	*	**
30-40	3.6	705	3.6	640	0.3	320	0.3	207
40-50	6.8	845	7.1	790	0.9	717	0.9	585
50-75	12.5	1,304	13.7	1,191	1.6	1,137	1.9	1,019
75-100	18.1	1,922	21.4	1,759	2.5	2,380	3.2	2,041
100-200	25.0	2,830	35.3	2,491	4.7	3,534	6.1	2,919
200-500	44.8	6,330	59.1	5,433	12.6	8,524	15.8	6,537
500-1,000	76.9	18,836	71.3	13,962	52.7	16,468	41.2	13,874
More than 1,000	81.4	99,411	87.0	97,524	71.2	104,193	80.8	96,944
ALL	10.8	5,863	13.3	4,993	2.3	16,775	2.7	14,252

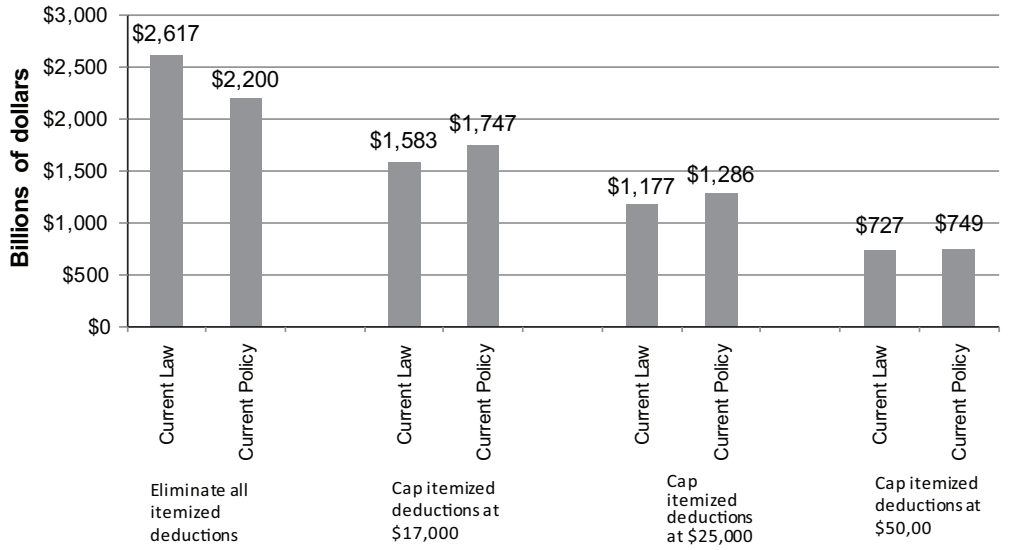
Source: Tax Policy Center Tables "T12-0249," "T12-0251," "T12-0255," "T12-0257," "T12-0261," "T12-0263," "T12-0267," "T12-0269"; *= less than 0.05; **=insufficient data; calculations are for calendar year 2015; "Current Law"=if all of fiscal cliff's tax changes go into effect; "Current Policy"=if none go into effect

the next ten years in the current fiscal-cliff negotiations, and Speaker Boehner has proposed $800 billion. Eliminating the Bush tax cuts for the top two income-tax brackets (raising rates from 33 percent and 35 percent to 36 percent and 39.6 percent) would yield about $500 billion.[11]

THE PUSHBACK

Capping itemized deductions is not a foregone conclusion. But two truths are certain: the higher the cap and the more qualifications that are placed on it, the less revenue will be generated; and blue-state taxpay-

Chart 1: Projected Revenues from Capping Itemized Deductions, FY12-22



Source: Tax Policy Center; "Current Law"=if all of fiscal cliff's tax changes go into effect; "Current Policy"=if none go into effect

ers would bear the biggest burden. Due to blue states' high wages,[12] housing prices,[13] and state and local tax burdens, blue-state taxpayers itemize at a higher rate than in other states, and their average itemized deductions are greater (Table 3).

Thus there would be losers. Capping deductions may be less controversial than many other varieties of tax reform, but it has its critics. Former New York senator Daniel Patrick Moynihan strongly defended the taxes-paid deduction as a cornerstone of American federalism. To avoid double taxation, either state or federal government deserves first claim on a taxpayer's income, and Moynihan believed that it should be state government. To repeal the deduction would undermine states' power to tax and would commit "a profound constitutional error."[14] Moynihan also objected to claims about greater "neutrality," asserting that neutrality "sounds good but it does not happen. Any tax affects the economy and changes society to some degree."

The main argument for protecting the home mortgage-interest deduction is based less on principle than on the practical consideration that its elimination would threaten the still-fragile housing market's recovery. Evidence is not strong that this deduction increases homeownership rates (its purported aim),[15] but it does seem to boost prices, an effect most pronounced in dense and expensive blue-state markets

Table 3: Itemized Deductions, Blue States vs. Nonblue States (2010)

	Blue-State Average	Nonblue-State Average
Itemization rate	38.4%	30.3%
Average total itemized deduction	$28,562	$22,882
Home mortgage-interest deduction	$11,951	$9,263
State and local income-tax deduction	$8,332	$5,932
State and local real-estate tax deduction	$4,992	$3,001
State and local general sales-tax deduction	$1,054	$1,319

Source: IRS

such as New York City and San Francisco.[16] The National Realtors Association predicts a 15 percent drop in prices should the home mortgage-interest deduction be fully eliminated.[17]

Other estimates have been more modest,[18] and, of course, capping the deduction is much less radical than eliminating it altogether. Moreover, while elevated home prices may brighten local governments' revenue outlook, they come at a cost beyond even that of the $20 billion-plus in lost federal revenues from the property-tax deduction. Blue states' population growth rates have underperformed in recent years (Table 5 below), and their nation-leading housing costs may have played a role.[19] Hence, though bad for property taxes, capping the home mortgage-interest deduction may be good for blue-state families and blue states themselves, by contributing to population growth.

Nor are Moynihan's arguments decisive. While a perfectly neutral tax code may be impossible, the same could be said of the principles of fairness, efficiency, and simplicity. Surely a fairer, simpler, and more efficient tax code is a better one. Neutral tax codes are more narrowly aimed at the basic purpose of raising revenues to fund basic government services and are much more likely to benefit the whole rather than the few. Indeed, low-tax states gain little benefit from the taxes-paid deduction. This is not to say that low-tax states necessarily "subsidize" blue states (although critics have often made that claim),[20] but it is unquestionable that the federal tax code encourages some state and local fiscal policies over others. Economists are not confident that the taxes-paid deduction, on its own, motivates states to tax and spend more than they otherwise would, but the deduction does seem to have encouraged states to rely more on certain deductible revenue sources.[21]

As for federalism, it's difficult to see why the stakes are so high as Moynihan believed. For one thing, 70 percent of filers already derive no benefit from the taxes-paid deduction because they don't claim it. Blue states boast higher itemization rates, but itemizers are still a minority in nearly all cases. It should also be understood that, over the course of recent decades, the federal government has gradually weakened the deduction's effect through the alternative minimum tax, the so-called Pease limit on deductions, and other measures.[22] During this same span, federalism has indeed been undermined, but this has been far more the result of larger battles over civil rights, environmental regulations, and federal grants-in-aid programs. Federalism's fate does not now hinge on the survival of the taxes-paid deduction.

The most basic and persuasive argument for capping itemized deductions has already been alluded to: the federal deficit needs to be reduced, and that can't be accomplished by spending cuts alone; tax reform can complement or offset revenues produced by rate increases; and capping deductions is the most politically viable way to achieve tax reform.

THE IMPACT

Local governments in blue states will feel the most direct pressure from capping deductions because their position is already weak. In recent years, most of the severest cases of municipal fiscal distress have been found in blue states, primarily California and Rhode Island. National economic conditions have improved since 2008, but the condition of fiscally distressed cities has, if anything, worsened. Of California's four municipal bankruptcies over the past four years, three occurred in the summer of 2012.

Local governments nationwide have still not recovered from the housing market's collapse:[23] 48.4 percent of all local governments' general (tax) revenues come from property taxes, 58.6 percent in blue states. Housing values stabilized only very recently, and local governments' assessments generally lag by a year. Recent revenue trends among state governments, by contrast, have been much healthier.[24] Local government unemployment is now 521,000 jobs below

its August 2008 peak (a 3.6 percent decline); state governments are down 128,000 jobs (-2.5 percent).[25]

Thus, blue-state local governments are not particularly well positioned to withstand any softening in the housing market, which would likely result from curbing the home mortgage-interest deductions as well as the deduction for local property taxes. Through these two deductions alone, the federal government devotes over $100 billion annually to prop up housing markets, the health of which is vital to local finances. Capping deductions would significantly cut this indirect spending program, and therefore extend the age of austerity for blue-state local governments.

Of course, local governments' problems are also state governments' problems. If and when the pressure on local budgets intensifies, blue states' state governments will be inevitably drawn into ensuing controversies over local aid distributions, bailouts, interventions, and bankruptcies.

Capping deductions will also restrict state governments' revenue options, particularly when combined with other imminent federal tax increases associated with the expiration of the Bush tax cuts and Affordable Care Act. In recent years, several blue states (California, New Jersey, New York, Maryland, Connecticut, Delaware, Hawaii)[26] have raised taxes on high earners to balance their budgets. In some cases, such as California, excessive tax-code progressivity has produced severe problems with revenue volatility.[27] Some have argued that this problem could be remedied through eliminating or capping the deduction for state income taxes.[28] Regardless of its soundness as an approach to fiscal policy, increasing taxes on the wealthy was a much more convenient option in the years following the Bush tax cuts and while taxpayers in the top brackets could deduct a third or more of their state income taxes. Now high earners will be tapped out, or close to it. In 2013, high earners in California, New York City, and Hawaii realistically could face all-in top rates of over 50 percent.[29] This will put states under more pressure to find alternatives to the income tax or to cut spending.

CAPPING DEDUCTIONS

No argument is being made here that a cap on deductions will happen or should happen. But if it does—which could come even after the "fiscal negotiations" are resolved—it will affect blue states disproportionately. Near-term pain for blue-state taxpayers will be unavoidable, as will disruptions to blue states' fiscal policies.

Using Census Bureau data on state and local revenues and state-level data from the IRS on totals claimed from the taxes-paid deduction, it is possible to calculate how much this deduction reduces states' real cost of government and overall tax burden. The figures are much higher for blue states (Table 4).

Should the taxes-paid deduction be capped, blue-state taxpayers could find the same level of government services to be up to 20 percent more expensive. They would then experience the full effect of the high-tax, high-spending blue-state model, which already shows signs of strain (Table 5).[30]

Should a cap on deductions provoke a reassessment of the blue-state model and greater fiscal discipline, what is painful in the near term may prove eventually benefi-

Table 4: How Much Does the Taxes Paid Deduction Reduce the Real Cost of Government?

	Blue-State Average	Nonblue-State Average
Total claimed from taxes paid deduction as a % of total state and local revenues (2010)	18.5%	10.6%
Total claimed from taxes paid deduction as % of state and local general revenues (i.e., taxes, not fees, and not federal grants) (2010)	28.8%	17.9%

Source: IRS and Census Bureau

Table 5: Blue States' Blues		
	Blue-State Average	Nonblue-State Average
2000–2010 Population growth	5.8%	10.7%
Total state debt per capita	$19,164	$11,906
2012 "Best/Worst State for Business" ranking, CEO Magazine (1=best)	41	22
Tax Foundation 2010 "State-Local Tax-Burden Ranking" (50=best)	11	30
Change in tax burden, 2005–2010 (state and local taxes paid as a share of income; D.C. excluded)	3.7%	2.8%
Change in total state and local per capita taxes paid, 2005–2010 (D.C. excluded)	$578	$314
Per-capita state and local expenditures (2010)	$12,535	$9,627
Per-pupil expenditures (K–12)	$14,510	$9,970
Percent of public sector workers covered by a collective bargaining contract	53.6%	32.9%

Source: Census Bureau (population, per-capita expenditures and K–12 per-pupil expenditures), Unionstats.com (unionization rates), State Budget Solutions (total debt figures, which include pension and retiree health-care liabilities), CEO Magazine (business-friendliness rankings), and Tax Foundation (tax-burden rankings, recent changes in tax burdens, and recent changes in state and local taxes paid).

cial. Two specific benefits have already been mentioned: limiting the deduction for state income taxes may encourage blue states to consider less volatile revenue bases; and capping the mortgage-interest deduction may bring down housing prices and make blue states more accommodating to middle-class families.

No discussion of the blue-state model and its flaws could ignore the issue of public-employee unions. Unions are major backers of high taxes and high spending because this model provides concentrated benefits to them while diffusing costs throughout the taxpaying population. Unions' success has produced high and rising personnel costs that now overwhelm state and local budgets and have driven several cities into fiscal collapse. Even among the many governments that have avoided insolvency, expensive collective bargaining contracts restrain them from adapting to changing economic conditions and continue to crowd out other vital state and local services.

Capping deductions could easily increase tension between unions and taxpayers in blue states. Spending on pensions and employee health benefits remains on an upward trajectory. At the same time, as Table 5 shows, blue-state tax burdens have also been increasing—and at a faster clip than those of nonblue states. Public awareness of the link between higher personnel costs and higher taxes has been growing for years. If revenues will now be more limited, something will have to give.

Finally, and perhaps most obviously, lower tax burdens may make blue states more business-friendly and economically competitive. Unlike the federal government, state and local governments cannot run deficits. Restricting available revenues will force blue states to consider lowering taxes and/or cutting spending. Might blue states be forced to become less blue? Difficult decisions lie ahead.

ENDNOTES

[1] In what follows, "blue states" refer to the ten states that voted for Obama by the widest margins in 2012: Hawaii (70.6%), Vermont (67%), Rhode Island (62.7%), New York (62.6%), Maryland (61.7%), Massachusetts (60.8%), California (59.3%), Delaware (58.6%), Connecticut (58.4%), and New Jersey (58%); as well as Washington, D.C. (91.4%).

[2] "An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022," Congressional Budget Office, August 2012.

[3] "The Moment of Truth," National Commission on Fiscal Responsibility and Reform, December 2010; "Domenici-Rivlin Debt Reduction Task Force Plan 2.0," Bipartisan Policy Center, December 3, 2012; "Fiscal Year 2013 Analytic Perspectives Budget of the U.S. Government," Office of Management and Budget, pp. 193–222; Roger Altman et al., "Reforming Our Tax System, Reducing Our Deficit," Center for American Progress, December 2012; and "Raising Revenue from Higher Earners through Base Broadening," Committee for a Responsible Federal Budget, November 15, 2012.

[4] For a summary of the 1986 Tax Reform Act's provisions, see Jeffrey H. Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch* (New York: Random House, 1987), appendices A and B.

[5] Leonard Burman, Eric Toder, and Christopher Geissler, "How Big Are Total Individual Income-Tax Expenditures, and Who Benefits from Them?," Tax Policy Center Discussion Paper No. 31.

[6] "On the drive to La Guardia Airport later that day, [former N.Y. Rep. Thomas] Downey compared tax reform to an impressionist painting: 'The further away from it you go, the clearer it gets. The closer you get, the more it looks flawed,' " Birnbaum and Murray, *Showdown at Gucci Gulch*, p. 109.

[7] The third major tax deduction is for charitable contributions, which will not be discussed in this report for two reasons. First, unlike the other two deductions, blue states don't benefit any more from this deduction than do other states. Second, there's a strong chance that charitable contributions would somehow be held harmless by any cap, such as by exempting them from the cap or converting what is now a deduction into a tax credit. Incidentally, many believe that a cap on deductions would have only a mild effect on charitable giving. See Jane G. Gravelle and Donald J. Marples, "Charitable Contributions: The Itemized Deduction Cap and Other FY2011 Budget Options," Congressional Research Service, March 18, 2010; and Bruce Bartlett, *The Benefit and the Burden* (New York: Simon & Schuster, 2012), chap. 14.

[8] Technically, sales taxes are deductible; filers may choose to deduct either income or sales taxes. But because it's far less generous than the income-tax deduction (see Table 3 below), and—unlike the income- and property-tax deductions—it has not been continuously in effect, the sales-tax deduction has exercised much less influence over states' fiscal policy. In other words, although federal tax law grants relief from both income and sales taxes, the bias is still toward the income tax. For more discussion of the history and character of the state sales-tax deduction, see "The Deductibility of State and Local Taxes," Congressional Budget Office, February 2008.

[9] Benjamin H. Harris and Daniel Baneman, "Who Itemizes Deductions?," Tax Policy Center Tax Notes, January 17, 2011.

[10] This is the essence of Democrats' argument why capping deductions should complement, and not replace, tax-rate hikes on high earners. See Chye-Ching Huang, Chuck Marr, and Joel Friedman, "Restraining Tax Expenditures Should Complement, Not Replace, Letting High-Income Bush Tax Cuts Expire," Center on Budget and Policy Priorities, November 29, 2012; and Jason Furman and Gene Sperling, "Limiting Tax Deductions: The Reality of the Math," White House Blog, November 29, 2012.

[11] "Raising Revenue from Higher Earners through Base Broadening," Committee for a Responsible Federal Budget, November 15, 2012.

[12] According to the Bureau of Economic Analysis, 2011 per-capita income among blue states was $51,042; among nonblue states, $39,295.

[13] According to Trulia.com, the current average listing price of a home among blue states is $569,891; among nonblue states, $278,326.

[14] Daniel Patrick Moynihan, "Constitutional Dimensions of State and Local Tax Deductibility," *Publius* 16, no. 3, 1985 (summer 1986): 71–77. The quotes are on p. 73 and 77, respectively.

[15] Eric Toder et al., "Reforming the Mortgage Interest Deduction," Tax Policy Center, April 2010; Edward Glaeser and Jesse Shapiro, "The Benefits of the Home Mortgage Interest Deduction," NBER, 2002; and "Encouraging Home Ownership through the Tax Code," Tax Policy Center, June 2007.

[16] Todd Sinai and Joseph Gyourko, "The (Un)changing Geographical Distribution of Housing Tax Benefits: 1980 to 2000," 2003.

[17] Lawrence Yun, "Rethinking Mortgage Interest Deduction?," presentation at Tax Policy Center forum, Washington, D.C., July 28, 2011.

[18] Dean Stansel and Anthony Randazzo, "Unmasking the Mortgage Interest Deduction: Who Benefits and How Much?," Reason Foundation, July 2011.

[19] Tom Gray and Robert Scardamalia, "The Great California Exodus: A Closer Look," Manhattan Institute, Civic Report No. 71, September 2012, pp. 21 and 29.

[20] "The President's Tax Proposals to the Congress for Fairness, Growth, and Simplicity," Reagan administration, May 1985, pp. 3, 62–63; "Simple, Fair and Pro-Growth: Proposals to Fix America's Tax System," President's Advisory Panel on Federal Tax Reform, 2005, chap. 5, pp. 83–84.

[21] Martin Feldstein and Gilbert Metcalf, "The Effect of Federal Tax Deductibility on State and Local Taxes and Spending," NBER, 1986; and Gilbert Metcalf, "Assessing the Federal Deduction for State and Local Tax Payments," NBER 2008.

[22] See discussion in "The Deductibility of State and Local Taxes," Congressional Budget Office, February 2008.

[23] Ryan Holeywell, "City Revenue Drops for the 6th Consecutive Year," *Governing*, September 13, 2012.

[24] Idem, "Report: State Revenue Returns to Pre-Recession Levels," *Governing*, June 12, 2012.

[25] BLS.

[26] Tax Foundation "State Tax Changes" reports (2009, 2010, 2011).

[27] Legislative Analyst's Office, "Revenue Volatility in California," January 2005; David Block and Scott Drenkard, "Governor Brown's Tax Proposal and the Folly of California's Income Tax," Tax Foundation Fiscal Fact No. 324, August 1, 2012; Robert Frank, *The High-Beta Rich* (New York: Crown Business, 2011), chap. 8; and "State Budget Crisis Task Force: California Report," September 2012, pp. 6 and 12.

[28] Kirk Stark, "The Federal Role in State Tax Reform," *Virginia Tax Review*, 2010.

[29] Gerald T. Prante and Austin John, "Top Marginal Effective Rates by State and Source of Income, 2012 Tax Law vs. 2013 Scheduled Tax Law," November 15, 2012.

[30] Census Bureau (population, per-capita expenditures and K–12 per-pupil expenditures), Unionstats.com (unionization rates), State Budget Solutions (total debt figures, which include pension and retiree health-care liabilities), *CEO Magazine* (business-friendliness rankings), and Tax Foundation (tax-burden rankings, recent changes in tax burdens, and recent changes in state and local taxes paid).