

Statepolicyindex.com Update: Changes to Fiscal Variables and State Policy Ideology Measures

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We have now updated the fiscal policy data on statepolicyindex.com through Fiscal Year 2005-06, which has recently been released from the Census Bureau. In doing so, we have added a number of new variables to capture state and local fiscal policies more accurately and have updated our measures of state policy ideology accordingly.

The improvements to our treatments of fiscal policy fall under four headings: 1) adjustments to state GDP (formerly, "GSP"), which are available in the new fiscal policy spreadsheet (a_fiscal.xlsx), and which allow the former fiscal denominator, earnings by place of work, to be deprecated; 2) the use of personal income as a denominator for fiscal policies in addition to adjusted state GDP, which are then used to generate the state policy ideology scores reported in the new summary.xlsx spreadsheet; 3) improved metadata for identifying and using sources, a system we plan to deploy to the other policy spreadsheets in future; 4) adjusting fiscal decentralization (local own-source revenues divided by total state and local spending) for state population.

On the first issue, we found that the state earnings by place of work variable, used in our published study (Sorens, Muedini, and Ruger 2008), dramatically understated the size of the economies of resource-rich states such as Wyoming and (especially) Alaska. The reason is that the return to land and capital is abnormally high in these states. Therefore, we created an "adjusted" measure of state GDP that should net out the corporate headquarters bias identified in our original article. We regressed total state GDP on total state earnings by place of work and total state severance tax revenues (a good proxy for the size of the mineral sector) and obtained predicted values. Both state earnings and severance tax revenues were strong and statistically highly significant predictors of state GDP. By using the predicted values rather than the raw state GDP variable, we screen out the error term, which we assume to reflect largely the BEA's measurement error caused by the corporate headquarters bias.

On the second issue, we have decided that personal income is a valid denominator for state fiscal policies despite the commuter problem identified in the original article. The reason is that income earned by residents working out of state can still be taxed by the state of residence, as well as by the state of employment. State income taxes generally work this way, and the capitalization of income into property values is taxed by the state (or locality) of residence rather than the state of employment. Accordingly, we now measure state taxes and spending in the various categories as a percentage of both adjusted GDP and personal income, and include all variables in the principal components analysis that generates the indicators of state policy ideology.

On the third issue, we have expanded the metadata available on the second worksheet of the fiscal policy spreadsheet. The new metadata include specific Web links and table numbers for researchers' ease of access, rather than simply the name of the source.

The fourth major change has been to regress our fiscal decentralization variable on the log of state population, since larger states are more decentralized in general simply because of scale issues in local government. The residuals were then taken for the adjusted fiscal decentralization variable, which is used in the summary file to generate state ideology scores.