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## [7 State and Local Fiscal Lessons from a Year Like No Other.](#)

**The COVID-19 pandemic recession has revealed major cracks in our systems of public finance, from the way we tax to the limits of fiscal federalism. We need to get to work on repairs.**

As 2020 winds down, it's the time to look back on lessons learned from the unique experience we've all had in the COVID-19 era, which has challenged and stressed our systems of public finance in ways not experienced since the Great Depression. For state and local governments, there are some important takeaways that should be remembered for years to come:

**Progressive taxation has its drawbacks when the economy tanks.** Modern public finance theory typically favors progressive taxation, in which wealthier citizens pay a larger share of their incomes, as the most equitable way to raise revenues. This is a conventional credo among Democrats and moderate Republicans, and some states have reacted by shifting their income tax structures from a flat rate to a graduated schedule. California taxes its millionaires at a 13.3 percent marginal rate that takes in capital gains on investments. With movie and sports stars, corporate execs, beachfront billionaires and Silicon Valley fat cats contributing a big chunk of revenues, the state's progressive income tax produces huge budget surpluses whenever the stock market hits new highs.

It's no surprise that each time that happens, advocacy groups and unions line up with laundry lists of spending proposals to share the budget surplus by trickling that money down to needy residents and public employees. But the downside of this tax structure, with its over-reliance on taxing income as opposed to stabler revenue sources such as property, is that revenues collapse every time there is a recession or market crash, and the state quickly plunges into a budget deficit. That shortfall in turn ignites campaigns to raise income taxes yet further to avoid layoffs and cutbacks in an endless cycle of ratcheting and spending.

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