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The Biggest Issues to Watch in 2023.

State coffers are overflowing, but inflation could put a pinch on spending plans and tax cuts. The labor market remains tight just when the demand for more teachers is skyrocketing. And then there are the ongoing culture wars. Welcome to 2023.

Regardless of any policy preferences lawmakers may have, they will face challenges in terms of achieving them in 2023 in two key ways — figuring out how much to pay and finding enough workers to implement their ideas.

Last year, state lawmakers were able to have their cake and eat it too, vigorously cutting taxes and substantially increasing spending, while still able to rack up record savings in their rainy-day funds. The good times are still around — most states are seeing surpluses — but there are reasons to be nervous. Inflation may have slowed a bit, but it's still eating into real revenue growth. And the prospect of a struggling economy — what economist Mark Zandi is calling a “slowcession,” if not a full-blown recession — is also making some legislators wary.

Still, there's a considerable appetite both for new spending and continued tax cuts. “No doubt, 2022 will go down in the record books as one of the most successful tax-cutting years in history,” says Jonathan Williams, chief economist at the conservative American Legislative Exchange Council. Given sizable surpluses, he expects to see more. As the year begins, there are promises of major cuts coming not only in the capitols of red states, including Iowa and Texas, but from Democratic governors in states such as Connecticut, Kansas and Wisconsin.

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