

**MACROECONOMIC VERSUS RTS
MEASURES OF FISCAL CAPACITY.**

high of 142.0 for Alberta, where 100
represents the average capacity of the nation

economies and public finance systems
(especially the tax systems) of the individual
provinces, as well as the relevant economic

distinguish analytically between a province's
ability to generate revenue (fiscal capacity)
and its ability to absorb such revenues to

[The remainder of the page is redacted with multiple thick black horizontal bars.]

Drawing on the framework above, I assess the theoretical validity and conceptual soundness of both RTS and macroeconomic indicators in terms of the following criteria:

argument was over whether PCPI should be replaced by either a broader macroeconomic indicator or an RTS index like the one Canada uses now. The outcome in the U.S. was a victory for the status quo. PCPI is still the

Stephen M. Barro, *Macroeconomic vs RTS Measures of Fiscal Capacity*

1. The first measure is the ratio of the debt to the GDP. The second measure is the ratio of the debt to the tax revenue.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DTIC

DTIC

The Logic of the RTS

preferences for untaxed food, savings, and public services, on one hand, versus sav.

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

[Redacted line]

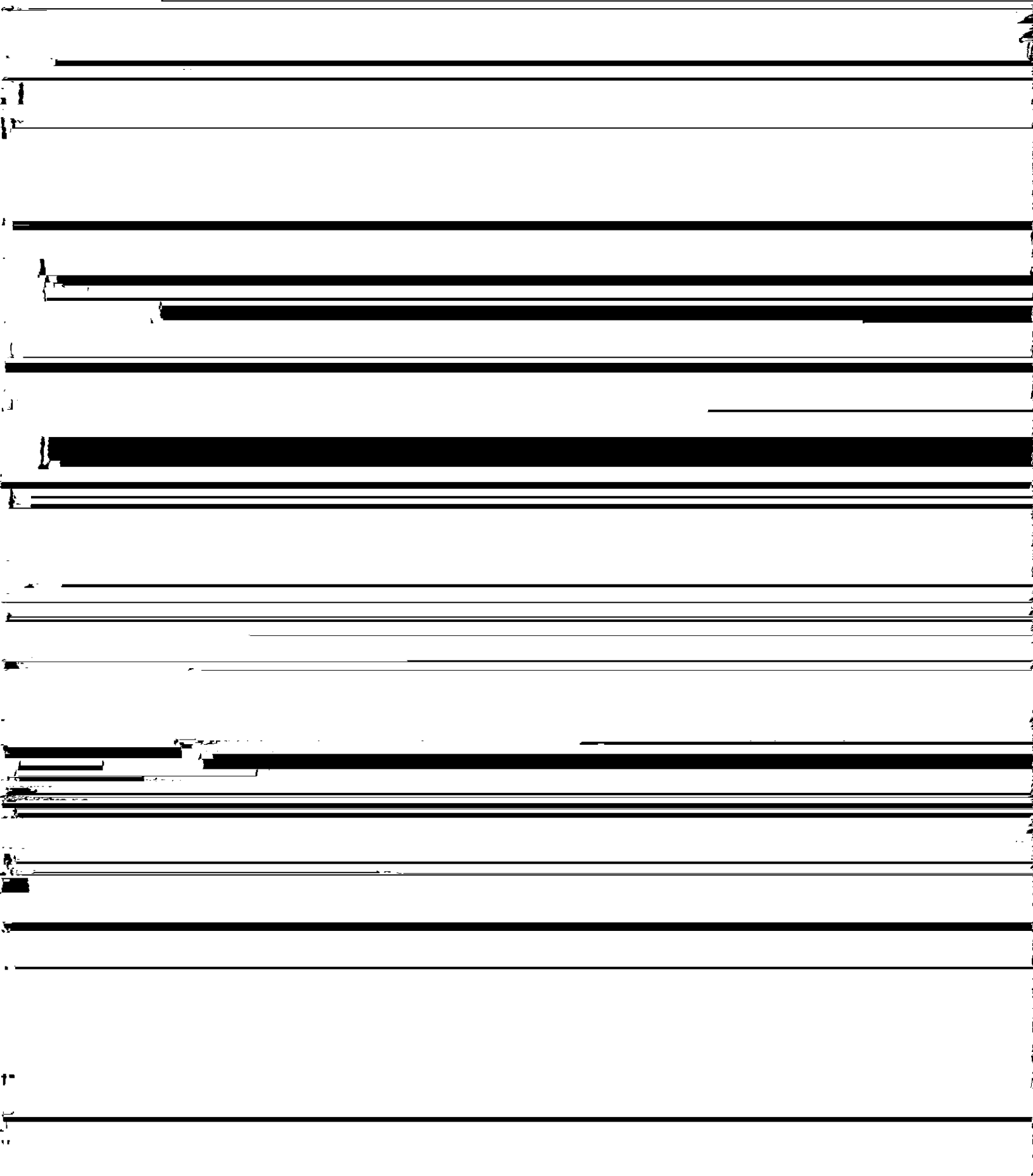
than proportionately higher in places with high measured personal income, the general effect

Saskatchewan, to take exportation of energy taxes into account and, in other cases, to

federal transfer payments to persons, which makes them not entirely suitable as is for the

Gross Domestic Product and Other Measures of Income Produced

Copyright © 2011 by the Board of Governors of the Federal Reserve System



Total Taxable Resources

Recognizing that neither an indicator
of income received nor an indicator of income

Initially, the U.S. Treasury Department
did not use either of these methods but relied
instead on a crude proxy measure, constructed
by averaging each state's shares of national

standard fraction of income devoted to the

future development not a near-term candidate

NOTES

... certain constraints) to the difference between its RTS score and that standard. The details

REFERENCES

Barro, Stephen M., *State Fiscal Capacity: An Assessment of Measurement Methods*, report to the U.S. Department of Housing and Urban Development, SMB Economic Research, Inc., Washington, D.C., 1985.

Barro, Stephen M., "State Fiscal Capacity Measures: A Theoretical Critique," in H. Clyde Reeves (ed.), *Measuring Fiscal Capacity*, Cambridge, Massachusetts, Oelgeschlager, Gunn & Hain, 1986.

Boucher, Edith, and Arndt Vermaeten,

"Changes in Federal Tax Capacity,"

and Territories in 1999," in Harvey Lazar