Chapter 2

Political Institutions for Sustainable State Budgets

Irene S. Rubin
Northern Illinois University

Roy T. Meyers
University of Maryland, Baltimore County

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Introduction

The Richard Ravitch-Paul Volker State Budget Crisis Task Force concluded that the financials of the states are unsustainable (State Budget Crisis Task Force 2012). The study focused on six states—California, Illinois, New Jersey, New York, Texas, and Virginia—but suggested that other states are confronting similar problems. Expenditures are growing too quickly and revenues too slowly. The effects of prior underfunding of long-term obligations are coming home to roost. Further, the study argued that state budget laws and practices hinder fiscal stability and mask imbalances.

What institutional arrangements or budget rules might be most helpful in restoring or maintaining sustainability? Among many possibilities, this chapter examines only two: stronger budgetary powers for the governors and supermajority requirements to pass a tax increase. We explore the extent to which they have enhanced budgetary sustainability in places where they have been adopted. We conclude with some suggestions about how political institutions can lead to more sustainable budgets.

The research question requires a historical perspective, to track effects over time. The richness and detail required here limit the scope of our study of governors’ powers; we have focused on three states with some of the strongest gubernatorial powers. For the states with supermajority requirements to pass a tax increase, we looked primarily at states that passed their requirements a number of years ago and whose laws cover a range of revenue sources and not just one. For both governors’ powers and supermajorities, we picked the more extreme cases that should have had the most obvious outcomes. That is, if the expected positive outcomes have not occurred in these states, then the suggested reforms are not likely to work in other states either. We have relied on a variety of sources, including referenda results, tax analyses, opinion surveys, studies by advocacy groups and think tanks, news stories, law cases, and reform proposals. Though most of the academic studies on governors’ powers and supermajorities have not dealt explicitly with sustainability, where they were relevant, we have included them in the discussion.

The Meaning of Sustainable Budget

The analysis turns initially on what is meant by sustainable (Schick 2005; Chapman 2008; Dothan and Thompson 2009; Ward and Dadayan 2009; Ward 2012; Bifulco et al. 2012). State governments have long had sustainable budgets, if that term means states fulfill their promises to bondholders; the last state that lacked the ability to do so was Arkansas in 1933. That only one state reached this nadir during the Great Depression implies that state budgets can handle a level of economic stress that is much greater than that of the recent Great Recession.

Yet there is more to sustainability than being able to pay back borrowing in a timely fashion. Sustainability requires that over the long run, the growth of spending does not exceed the growth of revenues. Over the business cycle, it means that states save enough during good times to cover financing gaps during recessions. Debt service should not increase over an extended period faster than the growth of the state’s tax base. Borrowed funds should be dedicated to effective infrastructure investments, and long-lived liabilities should be substantially prefunded.

Unfortunately, not all states have followed widely recognized practices of good budgeting, and their budgets are unsustainable as a result. Many states have failed to adequately fund postemployment benefits such as pensions and retiree health insurance, and have cut taxes below what is needed to finance future spending for Medicaid. Many states have also failed to build sufficiently large rainy-day funds, and then responded to recessions by adopting policies that pushed obligations into future years, thus worsening their structural deficits.

The concept of budget sustainability should also include more than financial balance. Balancing a budget by failing to make necessary investments, allowing roads to deteriorate, failing to fund public education, or cutting public health spending may reduce productivity and make the state unattractive to residents and businesses, as well as increase future costs. A budget that relies on taxes or fees that are heavier than citizens or businesses can afford, or an unproductive tax system that does not match the changing economy, is ultimately unsustainable as well.

Strong Governors

The colonial experience in the United States left the new country with a profound mistrust of strong executives. State constitutions gave legislatures budgetary powers, and executives were intentionally weak. This pattern began to change around the time of the Civil War, as a perception emerged that stronger executive control could temper the excesses of legislative bodies. At first, the reform thrust was to arm state governors with strong veto powers, so that legislatures proposed, but executives disposed. However, in the early 1900s, a second approach was utilized, called executive budgeting, which reversed the pattern, so that executives proposed and legislatures disposed.

Executive budgeting means that the chief executive and his or her budget agency gather spending proposals from the departments and programs, review them, trim them back, possibly adding some expenditure or revenue, and then present the combined proposals to the legislature. A particularly strong form of executive budgeting was adopted by Maryland in 1916 and New York in 1927. In this form, the governor reviews and adjusts agency budget requests before the legislature considers them, and the legislature can reduce but not increase proposed amounts.

Adoption of executive budgeting in many other states left more room for legislative discretion, and in some cases, for public participation. In California,
The progressive governor Hiram Johnson set in motion a movement that led the state in 1922 to give future governors a weaker form of executive budgeting power. But California was also one of the many noneastern states that implemented direct democracy approaches such as the initiative and referendum. Widespread concern that the economic elite already had too much control over state government limited the extent to which centralization of budgetary powers in the governor's office would be acceptable.

The main argument for giving the governor the power to propose budgets was that states would realize more prudent budgetary outcomes. Instead of a diverse legislature often at odds with itself, one person would be in charge. Concentrated power would enable rapid decision making in times of crisis. The governor, relying on a staff in the executive budget office, was expected to have more expertise and could be held accountable by the public if the budget got out of control. The governor was supposed to act for the public at large, while it was expected that the legislature would act on behalf of individual districts and narrow interest groups.

Those arguments from a century ago can be heard today, for some contemporary budgeting experts have supported the idea that further centralization in the executive is a prerequisite for good budgetary decision making (Poterba 1996; Poterba and von Hagen 1999). On the other hand, their opponents have observed that governors also have constituencies, and may favor selected interest groups rather than the general public. And while executive budgeting advocates assert that budget transparency is guaranteed by putting one person in charge, executive decision making often takes place behind closed doors, whereas legislative decision making is often more visible and open to the public. Moreover, unlike during the early 20th century, when spending was almost entirely discretionary and thus subject to gubernatorial proposal and veto powers, the majority of state spending today is considered mandatory—it takes legislation to change the path of spending. Even in strong executive budgeting states, governors cannot realistically control this spending simply by requesting less and imposing those levels on legislatures. Instead, they must propose complicated changes to, for example, maintenance-of-effort and equity formulas for elementary and secondary education.

There have been no definitive studies that have validated the arguments made by proponents of stronger gubernatorial budgetary powers. Much academic work has been about who wins between the governor or legislature based on incumbents' preferences rather than on any measure of policy effects, such as sustainability (e.g., Kossler and Phillips 2012; Rosenthal 2013). Other research has suffered from problems of measurement, shortcomings in available data, and underspecified models. For example, Sharkansky's (1968) widely cited study of agency acquisitiveness—whether agencies asked for and received large budget increases—found that gubernatorial support for agencies' ambitious requests helped to predict legislatively approved levels. This was the flip side of the executive budgeting argument that strong governors are needed to control excessive spending. The utility of the research was compromised by the sampling procedure, as it included only those states that published agency budget requests. That is, in most strong governor states, such requests were not published, but rather sent to the governor's budget office for review and likely reduction.

Another challenge is how to accurately measure gubernatorial budgetary power. Numerous studies have constructed index variables composed of measures drawn from the Book of the States published by the Council of State Governments (CSG) and from Budget Processes in the States published by the National Association of State Budget Officers (2008, e.g., Beyle 1992; Barrilleaux and Berkman 2003). The value of these indexes has been limited given the changes made to index composition over time, inclusion of measures of powers that appear tangential to gubernatorial power, or inability to capture potential interactions between a diverse range of powers available to governors across the 50 states.

Since the executive budgeting model relies heavily on the assumption of electoral accountability over state finances, one relevant finding is that voters, upset with poor economic conditions, have a record of punishing governors (Hansen 1999). Governors thus have a motive for obscuring fiscal stress. Recessions lead to state revenue declines, necessitating spending cuts that are more easily made by strong governors, but also exposing them to blame from those who bear the brunt of cuts. Research suggests that stronger governors are more likely to be viewed by voters as responsible for the economic condition of the state (Rudolph 2003, 204–206). Strong governors also bear the implicit responsibility for proposing taxes, adding another count to potential indictments from voters. Accountability in practice may make it more difficult to raise taxes or cut spending to resolve a financial crisis, because the public holds the governor responsible for such actions, and the more powerful the governor, the more likely he or she is to be held accountable in this manner.

Alt and Lowry (1994, 2000; Lowry et al. 1998) have made the accountability argument richer and subtler by adding the different expectations voters have of Democratic or Republican governors. Republican governors are punished by voters if the budget increases, and Democratic governors are punished for cuts. A drawback of this study for our purposes is that Alt and Lowry used no measure of the variance in governors' institutional powers. One can only guess that a stronger Republican governor would be punished more severely than a weaker one for raising taxes, while a stronger Democratic governor would be punished more severely for cutting programs. To the extent that this guess is accurate, strong governors are more accountable to the public, as reformers argued, but the effect may be to narrow the options available for budget balancing, making balance more difficult to achieve.

For a more complete understanding of gubernatorial budgetary powers and sustainability, it is necessary to draw as well on case studies (Stonecash 1991). The best sources are two edited books from Clynch and Lauch (1991, 2006). With chapters written by budgeting scholars with strong local knowledge, these cases provide many
examples of how gubernatorial and legislative budgeting powers and behaviors have changed over time. Our conclusion after reading these essays is that the diversity of state practices cannot be summarized with law-like statements about the impact of formal budgetary powers.

**Study States with the Executive Budgeting Model**

We focus here on three states that adopted most or all of the executive budgeting model at the beginning of the reform era, roughly a century ago: Illinois, New York, and Maryland. Our intent is to apply something approaching an acid test to the assertions of advocates of strong executive budgeting. If budgetary outcomes in these three states do not meet the model’s expectations, then the model deserves doubt.

Recent events in these three states suggest that strong gubernatorial powers can help states manage their fiscal problems. Each current governor proposed tax increases and pension savings that were adopted by the legislature. But a closer look reveals that many of the financial problems these states addressed resulted not just from the most recent Great Recession, but were structural, that is, at least partially created by or at least not prevented by strong governors in the past. Sometimes programs were adopted or expanded without sufficient revenue to finance them over the long term, or taxes were cut far below expected spending. Structural deficits were often covered up for years by internal and external borrowing and by misleading accounting practices.

**Illinois**

In Illinois, the governor has strong veto powers, but the legislature can increase the governor's budget or cut it. If the legislature adds to the governor's budget, the governor can reduce the extra spending through various forms of the veto: regular, line item, reduction, and amendatory. For the latter, however, the governor must resubmit the legislation to the legislature. Legislative threats to cut the governor's proposed budget give legislators the power to force negotiations.

Illinois could be a poster child for bad budgeting and chronic fiscal crisis, despite relatively strong executive budgeting powers. General fund deficits have been common and chronic. Some governors have behaved exactly the opposite of the executive budget movement's hopes. For example, former governor Rod Blagojevich (the most recent of four Illinois governors to end up in prison) used the amendatory veto to force the legislature to accept his proposal that the Chicago mass transit system provide free rides to seniors, despite the lack of funding for this benefit. The larger problem is that absent gubernatorial leadership, the state failed to modernize its tax structure, and instead financed structural deficits through explicit borrowing in the bond market, implicit borrowing through underfunding of pensions, and delayed payments to vendors for services rendered (Bunch 2010).

**New York**

In New York, the governor also has strong veto powers. The legislature can add to the governor's budget proposals, but only if each addition appears separately, which the governor can then veto. The legislature rarely passes the budget by the April 1 start of the state's fiscal year. The legislature uses budget delay as a tool to force the governor to negotiate; such negotiations are generally successful from the legislature's perspective.

The New York State legislature is rated as one of the most dysfunctional in the nation. Rank-and-file members have relatively little say in legislation, or over the budget. The governor and the leaders of both houses together make most of the important decisions. According to an insider account from a senate backbencher, these three officials sort through the various budget proposals and come to decisions with little public debate (Lachman 2006). One goal of executive budget reforms was to make it clearer who was responsible for what, but given that New York’s budget has often been determined behind closed doors in negotiations between the governor and legislative leadership, the goal of transparency has not been met (Bifulco and Duncombe 2010).

New York has experienced structural deficits for years. According to one author, “for decades, regardless of the strength of the economy, recurring revenues have been insufficient to sustain ongoing spending” (O’Ceireagáin 2010). The state’s fiscal problems stem from spending expansions adopted during periods of economic growth that were unsustainable when the economy declined. These expansions were sponsored by or approved by the governor, and the state made routine use of techniques for obscuring the size of the resulting deficits. These included one-time revenues, internal and external borrowing, delaying of payments into the following year, pushing up revenues from future years to the present one, and other manipulations. These supposedly temporary solutions made the next year’s budgets even harder to balance (Brecher et al. 1994). The state’s comptroller, quoted by Ward (2010, 2012), said: “This ‘deficit shuffle’ reduces budget transparency, creates funding instability for critical State programs and allows the State to avoid making the difficult decisions needed to effectively align spending with available revenue.”

When Governor Andrew Cuomo took office in 2011, the picture changed, with some real reforms to bring spending and revenues back in line. But, a strong governor able to make positive changes in the finances of the state has been the exception, not the rule, in New York.

**Maryland**

Maryland’s fiscal condition is considerably better than that of Illinois and New York. In 1916, prompted by a deficit after a period of spending growth, Maryland’s constitution was amended to create the first state-level executive budget in the United States. No other states had such a budget at the time of the amendment, but the idea soon spread. But the amendment provided for both an executive budget and a legislative budget, and the legislature generally dominates the process (Weintraub 1991).
United States, and the nation’s strongest one. The legislature could reduce but not increase the governor’s budget proposals (Meyers and Pilkerton 2003). But in fact, the legislature was not as radically disempowered as it appeared. If the legislature chooses to reduce an item, or to condition how an agency may spend the funds, the governor can neither add the item back nor easily ignore legislative directions on how the money may be spent. Legislators’ threats to cut the governor’s budget are thus a real source of power in negotiations with the chief executive about what will go into the budget. Legislators may also initiate spending appropriations if they include a source of revenues. Most important, a 1978 constitutional amendment clarified that the legislature may propose mandatory spending in bills that, if passed, require the governor to fund these programs in future budgets (Friedman 2006). This legislative adaptation to constitutionally strong gubernatorial budgetary power thus encourages dedicating funds and spending mandates. As a consequence, the state budget is far less flexible and transparent than would have been expected by proponents of executive budgeting.

While financial management in Maryland has been better than in most states, that has not prevented the state from incurring structural imbalances. The Democratic governor Parris Glendenning approved a massive expansion of local education aid at the same time income tax cuts were implemented, even though this would produce a structural deficit. These policies were ratified by his successor, Republican Robert Ehrlich. And while Maryland has avoided excessive borrowing, it has significantly underfunded its pension plans in the past. The state is now addressing these structural deficits, with leadership from both the governor and legislature; the legislative leadership’s Spending Affordability Committee has required a three-year plan for eliminating the deficits.

Based on the experiences of Illinois, New York, and Maryland, we doubt that additional gubernatorial strengthening in other states—in the forms of stronger veto powers, less authority for legislatures to modify gubernatorial budgets, less time for legislative consideration, and extensive reprogramming powers for governors—would improve state budget sustainability. Legislatures have not been the sole engines of increased spending with chief executives guarding the public purse. Importantly, giving governors more formal powers does not guarantee that such powers will be used or used well. Also, empowering governors does not preclude adaptations to these powers by legislatures. When formal budgetary power becomes too one sided, dysfunctional countermoves begin to be implemented, which can then distort state finances and make budgeting less transparent and accountable (see also Abney and Lauth 1989, 1998).

Supermajority Requirements

Executive budgeting reforms address the balance of power between the legislature and the governor; supermajority requirements to pass a tax increase often shift decision-making power from legislative majorities to minorities because minorities can block a tax increase. Sixteen states now have some kind of supermajority requirement. Advocates claim that a supermajority requirement limits the scope of government by “starving the beast”—that capping revenues prevents spending expansions that could create structural imbalances. The states generally have requirements for annual balance and are disciplined by the credit markets, so holding down revenue growth might, in fact, result in slower growth of spending.

Study States with Supermajority Track Records

Some state supermajority requirements are relatively recent, so they do not have a track record of consequences, and others have supermajority requirements that apply only to selected revenues or only for emergency bills. One would not expect to see slow revenue growth or more sustainable budgets as a result of such rules. Consequently, we focus on the 12 states with supermajority requirements that apply to several major tax and revenue sources and that have had such limits for a number of years. If supermajority requirements have a positive effect on sustainability, it should be apparent in these cases. The states with a three-fifths requirement are Delaware, Kentucky, Mississippi, and Oregon. The states that have, or in Washington State’s case had, a two-thirds requirement are Arizona, California, Louisiana, Missouri, Nevada, South Dakota, and Washington. Oklahoma is the only state that requires a three-fourths majority.

The first question about supermajorities is whether they work to keep taxes lower than would otherwise be the case. In a widely cited study, Brian Knight (2000) concluded that supermajority requirements do keep down the level of taxes, though he did not address the impact of these rules on fiscal sustainability. However, according to the Tax Foundation (Drenkard 2013), two of the top five highest sales tax rates in the country were supermajority states (California and Mississippi). Also, of the five states that had the highest combined state and local sales tax rates, four of them were supermajority states (Arizona, Louisiana, Washington, and Oklahoma) (Drenkard 2013). For income taxes, the effect was split—two of the supermajority states had the highest top brackets in the country, but three had no income tax at all. Regarding state and local taxes as a percentage of personal income, the averages for supermajority states and simple majority states are close over time (Leachman et al. 2012).

Part of the reason for the similarity of tax burdens between supermajority and ordinary majority states is that states without supermajority requirements have

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many other reasons not to raise taxes (Jordan and Hoffman 2009). Some states have legislative or constitutional revenue limits. Many elected officials are ideologically committed to not raising taxes and have publicly pledged not to do so. Most importantly, fear of getting kicked out of office makes elected officials hesitant to raise taxes. Who needs a supermajority requirement when a simple majority cannot be mustered for a tax increase?

It is not only that simple majority states are reluctant to increase taxes, but also that some supermajority states raise taxes despite the procedural hurdle. When there is a supermajority of support for revenue increases—as when Democrats dominated Delaware and Oregon in 2009—the hurdle is not restrictive. And in some states that have supermajority requirements, the legislature may refer a tax measure to public referendum with passage by a simple majority vote. Both Arizona and Arkansas increased taxes in this manner.

An important limitation of supermajority requirements is that it has been difficult to define tax and increase in a sufficiently airtight way to avoid evasions. In some of the 12 states, fee increases do not require a supermajority. California relied on changing fees until a 2010 citizen initiative defined fee increases as tax increases. States have also bent the rules by reinterpreting them, such as in 2011, when California changed the tax code’s definition of merchants so Internet sales could be included in the tax base without invoking the supermajority requirement for a change in taxes.

Getting around the rule is not just a matter of redefining revenue so it does not count against the rule. It also depends on how the rule is worded. In 2007, Washington State voters had passed Initiative 960, which required a two-thirds vote of the legislature to raise taxes or approval of the public by referendum. But after two years, the legislature could rescind this initiative by a simple majority vote. In February 2010, desperate for new revenue, the legislature did so, making it legal to pass a tax increase with a simple majority, which subsequently happened on a party-line vote.

Supermajority requirements do not prevent tax increases. Seljan (2011) found that while states with supermajorities are less likely to raise taxes in boom times, they are more likely than other states to raise taxes during recessions. It may be that raising taxes in a down economy is especially needed because of the effects of supermajority requirements during economic growth; starving the beast during good times may make service levels so threatened during recessions that voters are willing to support tax increases to preserve them.

While supermajority states do raise taxes during recessions, the barriers to raising taxes slow down the response and often take some options off the table. The result may be longer and deeper recessions and more profound service cuts than would otherwise be the case. The Pew Center on the States (2009) reported that 6 of the most severely stressed 10 states in the nation were those with supermajority requirements (California, Arizona, Nevada, Florida, Michigan, and Oregon).

Supermajority requirements affect not only the timing of revenue increases, but also the choice of which revenue sources to increase. States with supermajorities are somewhat more likely to have tax systems that are burdensome on the poor—5 of the top 10 most regressive state tax systems are supermajority states (Davis et al. 2009). Supermajority requirements may contribute to the degree of tax regressiveness because states find it easier to muster a supermajority for tobacco and liquor taxes, and because fees are sometimes exempted from supermajority requirements. Both fees and so-called sin taxes typically fall more heavily on the poor.

Supermajority requirements can also inhibit efforts to improve the efficiency and effectiveness of public spending when they define elimination or reduction of tax breaks as tax increases. In Washington State, for example, the Joint Legislative Audit and Review Committee reviewed 120 of its tax expenditures, recommending 6 for termination because they failed to accomplish their goals and 29 for modification because there were no stated goals for them. However, because of the supermajority requirements to eliminate tax breaks, the state was unable to eliminate a single one.

As critics have charged, supermajority requirements do empower legislative minorities to hold tax increases hostage until they get what they want. This form of pressure can be costly. Passing legislation is often about building a sufficiently large coalition, which may require sweeteners to win some support. The larger the majority required in a split legislature, the more sweeteners are required. If, on the other hand, the minority uses the supermajority requirement to prevent any tax increases, states must choose how to cut spending when a majority (but not a supermajority) of the legislature wants spending to be higher than revenues allow. The burden is often concentrated on dependent populations.

An alternative is to capture revenues previously received by local governments or to pass state responsibilities down to them. For example, in 2012, Arizona shifted costs for highway patrol, corrections, and park services onto local governments. Since Proposition 13, California has often used local government revenue to balance the state budget, and the localities have responded by advocating propositions to prevent what they portray as raids on their resources. The state’s tradition of direct democracy, when it combines a revenue supermajority requirement with spending mandated by numerous propositions, has made the state’s budget process unworkable.

The pressure from supermajority requirements on spending may also be released by internal borrowing, such as underfunding pension commitments, or the use of other financing and accounting gimmicks, such as rushed sales of state assets. While other states experiencing fiscal stress also engage in such tactics, the supermajority states were more likely to experience severe and prolonged fiscal stress and may have relied...
on such tactics more heavily. By making it relatively harder to raise revenues, supermajorities likely encourage structural imbalances and these counterproductive responses.

In sum, supermajority requirements do not seem to reduce the burden of taxation compared to simple majority states. In fact, the supermajority states are disproportionately represented among the most fiscally stressed of states. Some of these states cut their revenues during the good years, and found it more difficult to respond to the recession. Most raised taxes in some way, but were influenced by the wording and coverage of their supermajority requirements. These states generally found it impossible to eliminate wasteful tax breaks. Constraints on raising revenues resulted in deeper service cuts than necessary, on the one hand, and additional borrowing and budget gimmicks of many sorts, on the other. Supermajority rules empower minorities to extract concessions for their support to reach the required supermajority, increasing costs, on the one hand, and threatening democratic budget procedures, on the other. Our conclusion is that supermajority requirements do not enable more sustainable budgeting.

Conclusions

In this era of extreme partisan polarization, it is common for advocates to argue that there is one best way to promote policy goals. Not only do the opposing strong claims usually die together, but the claims are rarely correct, and that is the case here as well. Fiscal sustainability in the American states has not been guaranteed by centralizing budgetary powers in governors' hands or by giving any legislative minority the right to block tax increases. Producing fiscal sustainability is hard work. It requires looking beyond the current budget and the next election, by using medium- to long-term projections of spending and revenues, and acknowledging the inevitable uncertainties in such projections. Decision makers must avoid underfunding pensions and mortgaging future revenue sources. They often need to revise policies that over time turn out to be more costly than the state can afford.

Strict interpretations of balanced budget requirements, which are often intended to promote sustainability, can perversely have the opposite effect. States can pay too much attention to the short-term cycle and not enough to long-term trends. For example, a state can mistakenly assume that growth in revenue during boom years will continue. Cutting taxes then, or using the above-average revenues to fund new spending, exposes the state to the next recession, making more significant spending cuts and tax increases necessary. This prevents the state from acting even in a limited way as a countercyclical force in the state's economy, and encourages inefficient large and rapid changes in service delivery and tax rates. The better approach is to calculate balance over the business cycle, build large balances in rainy-day funds during good years, and rely heavily on them as supplemental revenues during lean years. The federal government could help here by creating a more effective and automatic countercyclical assistance program, one that would provide supplements to adequately funded state rainy-day funds.

We are not arguing here against fiscal rules, but rather that such rules need to be based on a nuanced understanding of sustainability. Rather than empower a blocking minority, as supermajority requirements do, useful fiscal rules set limits or targets for central fiscal concerns of the states, such as for debt capacity. Bond rating firms and credit markets effectively punish states that exceed certain debt capacity ratios. When budget projections show such policy limits in danger of being exceeded, these limits then serve as useful signals that policies should be changed. To be credible, such limits need to be developed through a process of careful deliberation and analysis.

It is similarly helpful when thinking about the desirable balance of powers between state political institutions to not merely assume that a formal shift in powers will have immediate and positive effects. Empowering governors works only when the individuals elected as governors are responsible leaders. Placing strong accountability expectations on governors for financial problems will give bad governors the incentive to "paper over" real problems. And state legislatures, aware of their central roles in American government, understandably react to excessive grants of power to governors, sometimes in ways that reduce sustainability. A more even distribution of power between the legislature and governor may increase accountability and contribute to sustainability as each branch curtails the excesses of the other.

Each of the 50 states has a complicated mix of institutional features specific to it. Thinking about how an individual state can improve its fiscal sustainability requires understanding of that state's historical trajectory and the specific institutional features now in place—those that appear to work well and those that do not. When unacceptable outcomes threaten or occur, then the poorly performing features of that state's institutions should be targeted for reform. It is highly unlikely that a uniform solution will apply to all 50 states.

We also believe that it is a mistake to look exclusively at the formal powers of state institutions and the formal rules applied to budgeting. For states to reach fiscal sustainability, norms supporting that ideal are necessary. Such norms would expect politicians to have wide-ranging disagreements over budget policies, but also meet their responsibilities to address revenue adequacy and spending growth on a timely basis using accurate numbers. Developing and protecting such norms is central to the hard political work of making state budgets sustainable. No single institutional power or fiscal rule will produce them.

References

Politcal Institutions for Sustainable State Budgets


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Preface

The United States provides a classic example of a bottom-up system of federalism. It was created in 1787 when representatives of the then-thirteen colonies convened to ratify a constitution under which both the central government and the states would be sovereign entities. Within certain constitutional and statutory constraints, state governments thus (1) develop and execute their budgets without review and modification by the federal government, (2) determine their own revenue structures and levels and types of expenditures, and (3) borrow and manage debt. The U.S. system stands in contrast with nearly all other top-down nation-states in which the established central government constitutionally or legislatively assigns expenditure responsibilities and revenue raising authority to subnational units of government.

State fiscal decisions have a significant impact on this nation’s economy. Together, with their more than 90,000 local governments, states account for almost 12 percent of gross domestic product (GDP) and 60 percent of all government expenditures. Taken together, subnational governments in the United States employ more than one out of every eight workers and provide the bulk of all basic governmental services consumed by individuals and businesses.

The purpose of this book is to provide a comprehensive and timely knowledge base of trends in, the current status of, and future prospects for the fiscal sustainability of state governments. Upon reading the following chapters, you should come away with a comprehensive view of the very broad reach and multiple contributions of state governments to individuals and communities across the nation. You should be well versed in the resources that states generate and use to conduct the business of government. You will be exposed to the very real and significant constraints on

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2 Calculated by authors using data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis.