

Chapter 2

Federalism, Public Goods, and Taxes

One element of modern representation consists of representatives responding to their constituents' preferences for goods and services (Jewell 1982; Pitkin 1967). Responding to constituents' preferences is at best an uncertain undertaking. Citizens may not communicate their preferences well. There may be competing preferences from citizens within a legislative district. And citizens may be uncertain about their preferences or hold contradictory preferences (Jackson and Kingdon 1992). Pitkin (1967) has argued that representation is a process and posits an ongoing relationship between the representative and the represented. Representation involves responding to constituent demands for goods and services, not just in the narrow sense of pork-barrel projects but also in the broader sense of providing goods and services in accord with citizens' preferences and having governments impose tax systems citizens accept. An essential component of satisfying constituent preferences for government goods and services involves attaching appropriate pricing systems—taxes—to those services (see Levi 1987).

Krehbiel (1991) and Jewell (1982) offer insight into how legislators use information to shape their decisions about how to extract tax revenues and allocate benefits. Both scholars contend that legislators are more concerned with a broad-based allocation of tax burdens and resources than with particular benefits for their districts. Jewell examines the positions of individual legislators and does not examine cases in which legislators must collectively decide on an alternative. The second unit of analysis in this work, the collective decisions of the legislature, enables the extension of Jewell's work on state legislators to understand how individual positions translate into collective policy outcomes.

Of course, legislators respond to more than simple calculations about citizens' benefit/tax ratios. They must consider how policy changes affect

various elements of the constituencies and the extent to which policy changes may mobilize support or opposition among interest groups, which can in turn offer substantial financial support for officeholders (Denzau and Munger 1986). Thus, calculations about service benefits and tax costs become two components in individual legislators' assessments of policy alternatives and the amount of political capital to commit beyond voting for or against a specific proposal.

Federalism and public goods also become components in legislators' policy decisions. If a legislature can shift costs onto another level of government or provide benefits to a broader range of constituents without increasing their costs, then representatives may seek new marginal revenues in response to intergovernmental programs and to the nature of public goods.

The federalism–public goods model of representatives' responsiveness complements other models of state policy development (Dye 1990; Erikson, Wright, and McIver 1993) by reflecting institutional political processes in the states. Legislators consider various issues, arrive at positions, and work toward policy outcomes in and around their legislative chambers. This model focuses on decision makers and collective policy decisions in federal political institutions rather than on the aggregate data for national and subnational jurisdictions. Examining the legislatures and legislative policy alternatives at the state level opens the black box of subnational institutions—they become an understandable component in the political process, and it is possible to unravel what happens and why.

As a metric for understanding resource allocations in federal systems, I employ the concept of a benefit/tax ratio (Peterson 1981). For an individual citizen, the benefit/tax ratio is the willingness to pay for a bundle of government goods and services divided by that individual's tax burden. The numerators and denominators can be aggregated across citizens to estimate a benefit/tax ratio for any community, legislative district, state, or nation.

Estimating benefit/tax ratios is at best an uncertain enterprise because citizens have incentives to understate their willingness to pay for public goods (Samuelson 1954; Tiebout 1956). It is possible, however, to discuss with some certainty what happens to benefit/tax ratios when legislatures enact policy changes. Because state legislators do not create an entirely new set of goods and services every session, attention can be focused on how policy changes affect various constituencies. When legislators increase tax rates only to maintain services, one can conclude that

benefit/tax ratios have decreased. However, selecting certain citizens to bear additional taxes while maintaining services may maintain or even increase constituents' benefit/tax ratios. These changes in values can be estimated for individual citizens, for a district or group of legislative districts (e.g., those held by Democrats), or for an entire state.

Table 1 depicts the broad policy choices legislators make and the effects of those choices on benefit/tax ratios. Legislators can increase, decrease, or maintain taxes and services. When legislators increase taxes and cut services, benefit/tax ratios decline. When they cut taxes and increase services, benefit/tax ratios increase. Only when taxes and services are both reduced or increased concomitantly is there uncertainty about changes in citizens' benefit/tax ratios.

The cells in table 1 indicate the effect on benefit/tax ratios for various changes in state taxes and services. In three of the scenarios, benefit/tax ratios increase, and in three others they decrease. Benefit/tax ratios remain constant if neither services nor taxes change. Only when services and taxes both increase or decrease is there uncertainty over what happens to aggregate benefit/tax ratios. In an ideal world, legislators would prefer to deal with the three cells in the upper right corner of the table, which indicate increases in benefit/tax ratios, and would like to avoid confronting the three cells in the lower left corner, which show decreasing benefit/tax ratios.¹

When taxes and service levels move together (i.e., the cells with question marks), collective choices may be shaped by the political resources available to legislators from affected interests and by the distributional effects a policy change produces. The political resources include votes, campaign contributions (financial and volunteer), and media; these resources in turn may be enhanced or constrained by factors such as the state's policy history, state constitutional limits on policy changes, and

TABLE 1. Changes in Government Services, Taxes, and Benefit/Tax Ratio Changes

Services	Taxes		
	Increase	No Change	Decrease
Increase	?	Increase	Increase
No Change	Decrease	No Change	Increase
Decrease	Decrease	Decrease	?

opportunities for citizen participation in the policy process. The distributional effects depend on the economic or demographic profile of a representative's district, and these effects may lead legislators to shift either the burdens of a policy change (by altering a proposal) or the level of government responsible for it. These distributional considerations may encourage legislators to obscure the effects of the policy change.

One can interpret table 1 in terms of the overall effects of policy changes on citizens in a state or in terms of an individual citizen's benefit/tax changes. In the case of the former, a benefit/tax ratio may increase in the aggregate for a legislative district, but it need not do so for all citizens in that district. Legislators develop and enact policies with various effects for different citizens. For example, an increase in the income tax personal exemption might offset an increase in income tax rates. Consequently, while benefit/tax ratios decrease overall and most citizens pay higher taxes, some lower-income citizens may realize increases in their benefit/tax ratios as their tax burdens decrease.

In most policy decisions, and particularly for tax policy decisions, legislators face questions about not only the aggregate effects but also the distributional effects on their districts and individual constituents. How can the benefits and costs of a program be dispersed? Who should pay higher taxes in return for more services? These questions go beyond economic considerations about income distribution. When answering these questions, state legislators consider the political ramifications for their own careers, for their influence within the legislature, and for the development of policies they believe benefit their constituents (Mayhew 1974; Fenno 1978).

Even when taxes or services are held constant, legislators may find that the means of taxation matters for citizens' perceptions about their benefit/tax ratios. If legislators can hide or obscure tax burdens by shifting from obvious "lumpy" property taxes to less hidden, incremental sales and business taxes, they may create the perception of higher benefit/tax ratios when in reality they have only obscured a portion of the tax denominator.

In the remainder of this chapter, I explain three variables that influence the policy process. I present the political avenues federalism creates in U.S. politics. These avenues are the parameters created by the incentives and constraints among levels of government. They go beyond strict economic parameters to include constitutional and statutory arrangements. In the second section, I outline why it is vital to consider the

unique nature of public goods. The nonexclusionary nature of public goods has implications for representation and responsiveness even when governments are examined unilaterally. These implications become more complex in federal systems, and federal politics emanate from this complexity. Conversely, legislators' ability to mobilize and take advantage of political resources from particular constituencies and interest groups may encourage them to provide particular benefits programs. An integral part of the importance of public goods revolves around the taxes elected officials choose and whether those taxes connect directly to specific public programs. Tax policy, which is very much connected to governments' responsibility to provide public goods, is the third variable of interest.

The Avenues of Federalism

Changing Incentives in a Federal System

Federalism changes the economic incentives state legislators confront when making policy decisions (Chubb 1985). Federal assistance in the form of matching, categorical, and block grants shifts state budget constraints. In economic parlance, state governments' production-possibilities curves shift when the federal government offers financial assistance. In addition to these objective changes, federalism changes state politics. State legislators operate in a political environment influenced—at times dominated—by federal policies and politics. In this section, I outline how federalism objectively changes the incentives and constraints state legislators face.

The arrangements between U.S. national and state governments and state and local governments shape the avenues on which politicians create federal politics. The revenue and spending arrangements generate tensions among governments and unintended consequences that one or more levels of government must resolve. At times, resolution comes as the result of cooperative accommodations, as in the case of school finance reform in Michigan. At other times, resolutions are more unilateral, as in the case of Tennessee's Medicaid reform, although even in that case federal waivers enabled Tennessee to take action. In some circumstances, actors in both levels of government fail to find solutions to what may appear to be pressing problems. Legislatures and federal or local officials fail to enact policy changes, and problems continue.

Spending in a Federal System

Federal grants take three basic forms. The federal government makes block grants to subnational governments for various categories of services (e.g., transportation and education). In some cases, such as federal revenue sharing in the 1970s, block grants can be completely unrestricted, and states may spend funds in any manner (Brown, Fossett, and Palmer 1984). Federal matching grants provide additional funding for a specific program, the cost of which is borne by both the federal and state governments (Chubb 1985). The Aid to Families with Dependent Children, Medicaid, and interstate highway programs are examples of federal-state programs in which matching rates are computed according to state per capita income. Categorical grants provide funds for a specific state government program or project (Meltsner 1971).

An understanding of the economic effects of federal grants requires discussion of income and substitution effects. Income effects occur when consumers' income rises and they consequently purchase more goods. Similarly, if the price of goods falls, consumers can think of the price drop in the same way they would an income increase. They can now buy more goods than they did before.

Substitution effects occur when the price of Good A falls relative to Good B. In this case, the consumer may consume more of Good A and less of Good B as a result of the relative price changes. Whatever marginal increase in the consumption of A occurs because of the rise in B's price is the substitution effect of the change in the relative prices of the two goods. By offering various forms of grants, the federal government changes the budget constraints and costs of providing benefits. In so doing it creates a new politics for state officials, whose utilization of federal assistance may increase the overall level of benefits they offer but also may change state spending priorities.

Figure 1 depicts a state government and its choices between providing public goods and particular benefits. I begin with the government taxing its citizens to provide an amount of revenue represented by the budget line AB . This revenue could provide either an amount, A , of public goods or a second amount, B , of particular benefits if the government chose to provide only one or the other. A more likely scenario is one in which the government provides some combination of public goods and particular benefits represented in this case by point z on line AB .

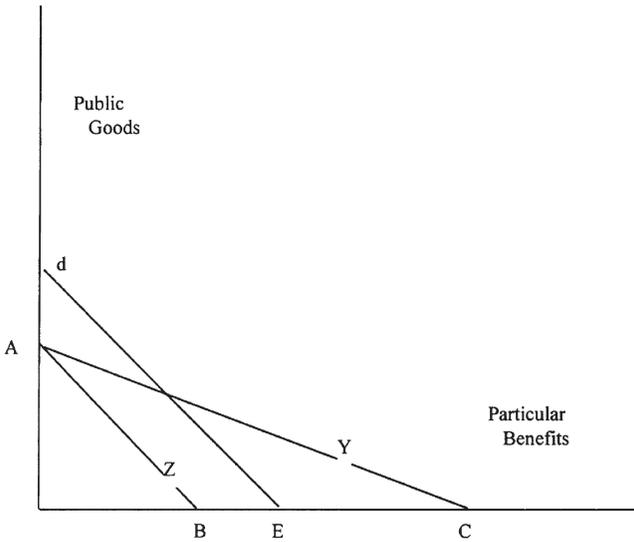


Fig. 1. Trade-offs among public good and particular benefits, and the influence of intergovernmental grants

Assume the federal government accords state governments matching grants for particular benefits: the federal government provides one dollar for every dollar state governments spend. These grants make particular benefits less expensive relative to public goods. If a state wanted to provide only particular benefits, it could now provide twice as many as it did with no grant at a particular level of taxation. Line AC represents this budget line change. The line has pivoted around point A . In all likelihood, the state will choose to provide more particular benefits and more public goods as a result of the matching grant. This new point of government provision is point y on line AC .

If the federal government provides an unrestricted block grant, state revenue shifts outward to the right in the figure. At a specific level of taxation, a state can provide more of both public goods and particular benefits, and there has been no change in the relative prices of goods and benefits. In figure 1, this shift moves the original budget line AB to the line DE . The government may choose to use some of its block grant as a substitute for its own tax revenues, in which case its budget line will also shift between DE and line AB (Gramlich 1990; Chubb 1985).²

Taxes in a Federal System

Governments have the power to extract revenues from their citizens and universally do so. However elected officials cannot engage in limitless taxation because they face electoral as well as economic constraints (Levi 1987; Lowery and Sigelman 1981). In federal systems, elected officials face further constraints but also enjoy new avenues for raising revenues (Key 1956; Riker 1987; Conlan 1988). Federalism introduces two specific issues for state legislators—horizontal rate competition and vertical base competition.

Vertical base competition happens when different levels of governments utilize the same tax bases and find themselves constrained by the decisions of other levels. The federal government relies on income and wage taxes for its revenues, and local governments rely more on property taxes although increasingly they have utilized sales and wage taxes. State governments have relied on the most varied combinations of tax bases—sales, income, property, and various business taxes (Phares 1980). These combinations lead state governments to compete with federal and local governments for limited tax bases. In the case of income taxes, many state legislators noted that although federal rates declined in the 1980s, the increase in social security wage (FICA) taxes and the relatively low threshold for upper brackets on federal income taxes left states with little latitude for increasing state income tax rates.

Vertical base competition becomes salient under two conditions. First whenever one level of government raises a specific tax, it necessarily constrains the remaining tax base. In addition to the structural constraint, the act of raising the tax can increase the political attention voters pay to that tax and make citizens resist further tax increases. This was the case with income taxes following the federal rate increases in 1990 and 1993.

Vertical base competition can also become salient during economic recessions. When revenues contract for all levels of government, officeholders may seek to continue funding services. Because all levels of government may be searching for revenues, they will more likely compete for the same tax bases.

Horizontal rate competition is not as explicit as vertical base competition. It arises from the competition among states to foster healthy tax bases by attracting employers, development, and relatively high-income citizens (Tiebout 1956; Eisinger 1988; Dye 1990). State politicians recognize their neighboring states' tax rates and do not want their own rates too

far afield of them. As a result, a downward pressure exerts itself on state tax rates, and within any state this pressure targets taxes that are particularly out of line. For example, in Michigan property taxes were considerably higher both as a percentage of assessed value and particularly as a percentage of family income, but the state's 4 percent retail sales tax was low relative to other Great Lakes states. Consequently, the state traded relatively high property taxes for a reduction on homestead property taxes and an increase, to 6 percent, in the sales tax rate.

The federal nature of government programs and revenue systems creates new politics by complicating legislators' calculations about the costs and benefits of government goods and services. No longer can legislators assume citizens will reelect them based on state taxes and spending. With overlapping finances come overlapping responsibilities, and state representatives must consider state, national, and local taxes and programs when enacting their own policies and budgets.

If each level of government has clearly delineated responsibilities and shares no responsibilities, ascribing responsibility for taxes and for goods and services is straightforward. Policymakers claim credit only for those programs their governments administer and impose taxes directly with no intergovernmental transfers or subsidies. In such a federal system, citizens could assess the goods and services based on the taxes they pay to each level of government. However, in many federal systems, government revenues and spending substantially overlap, and information is neither complete nor symmetric for either citizens or legislators (Riker 1987; Levi 1987). Consequently, policymakers risk blame for unpopular policies or taxes outside their jurisdiction. However, they also can claim credit for popular government programs similarly outside of their realms of responsibility.

The introduction of nonexclusionary goods further complicates governing for elected officials in federal systems. A nonexclusionary good, such as a road or a recreation area, provided by a subnational government may provide benefits to citizens who pay no taxes to that government. In other cases, competition for economic growth and jobs may deter subnational governments from internalizing negative externalities, such as air and water pollution. For example, competition for jobs may lead Ohio officials not to enforce clean air standards. Consequently, New Englanders suffer the effects of acid rain and bear the cost of this negative externality as Ohio's government seeks to protect its job and tax bases.

Public Goods

Although economists have paid considerable attention to public goods, political science inquiry into their provision has largely focused on issues such as “free riders.” A different set of questions concerns how federalism affects the provision of public goods by subnational governments. How do competing governments decide which goods to offer, and how much concern is there among officeholders about the efficiency with which and means by which goods are offered?

Do legislators attempt to connect price systems—taxes—to various public goods? Most legislators noted a willingness on the part of constituents to pay for roads and education but a reluctance to pay for public-health programs. Many representatives bemoaned a lack of citizen awareness about the costs of environmental and safety regulations that nonetheless effectively, if indirectly, provide public goods such as clean water and safe workplaces.

If legislators are seen as managers of firms that produce nonexclusionary public goods, then the task they face involves opaque estimates about citizens’ demands for public services and how to pay for those services. Buchanan summarizes the dilemma of a state representative well when he writes:

Decisions on the demand side of public goods are made through political, not market, institutions, and there is no analogue to competitive order that eases the analytic task. (Buchanan 1968, 5)

Whereas firm managers trading private goods can look to price and quantity fluctuations to gauge production, politicians find themselves in a nebulous situation. When they decide to provide a public good, it is available to all citizens. In some cases, citizens may not take advantage of a specific public good, such as a road, but will take advantage of other public goods—other roads—such that they will not notice their lack of utility from a specific good. In other cases, citizens may involuntarily consume public goods—for example, cleaner air or water. Citizens may or may not value these goods directly, but legislators may surmise that citizens should still pay taxes toward them because such public goods also provide positive externalities such as cost savings on future health services that will not be necessary if the clean air results in better physical health.

Federalism creates a new process for deciding what is a public good

and how to provide that good. With a unitary government, a single government decides the scope of benefits, financing, populations served, and program administration. Federalism subjects these elements to debate and modification. Even across equivalent governments such as state legislatures, representatives view differently the same policies (e.g., Medicaid and economic development). In the Northwest and Vermont, legislators argued that health care, even in the United States, is a nonexclusionary good because no one is denied care when it is absolutely needed. In Tennessee, representatives believed some elements of health care were nonexclusionary but that others were best handled via private production. In Mississippi, health care was not on the legislature's agenda to any discernable extent.

Public Goods and Particular Benefits

Because public goods are nonexclusionary, consumption by one citizen does not decrease availability of the good for other citizens (Gramlich 1990). Governments and citizens confront supply-and-demand functions unlike those of private firms and consumers, and legislators enjoy an opportunity (largely unique to government) to offer citizens goods from which all may benefit without decreasing benefits for others. Conversely, legislators are confronted with a challenge not faced by private firms—to devise pricing mechanisms (taxes) that reflect citizens' willingness and ability to pay for public goods.

Legislators may decide to tax people such that those who value public goods the most will pay more for them than those citizens who value them less or who do not consume them. By doing so, legislators better match the demand and supply of public goods with citizen preferences for those goods. Consequently, legislators maximize the number of citizens who have a positive consumer surplus.

Considering that governments spend considerable resources on public goods, the question arises of how best to pay for these public goods. The work of Erik Lindahl suggests that in a world with complete information, citizens would reveal their true preferences (i.e., willingness to pay) to the government, which would tax them accordingly. Before moving to an examination of Lindahl taxation, I note that the demand for public goods is determined graphically by vertically summing citizens' willingness to pay for a particular public good. In contrast, demand for private goods is determined by horizontally adding consumers' demand for a product at a

given price. For example, if two citizens are willing to pay four hundred and six hundred dollars, respectively, for national defense, then the government could spend one thousand dollars in that arena. This amount of national defense represents the economically efficient point for public supply and demand.

The mechanism for extracting payment is critical to the government's decisions about service levels. For example, if the government decides to offer a referendum on the amount of a good to provide, then the preferences of the median voter will prevail. In figure 2, the government could gain support for a good up to three times the amount of Citizen B's willingness to pay because Citizen B is the median voter and would vote to pay an amount, P_2 , for a public good whether she was paying a head tax or a Lindahl shares tax. Citizen A would have to pay a greater share of the burden for the good than he is willing to pay, Citizen C would pay less than she is willing to pay, and the government would supply quantity X . If, however, all citizens revealed their true preferences, then everyone would pay exactly according to their willingness to pay, and the government could supply quantity Y , indicated by the intersection of the line denoting the marginal cost of services and the aggregate demand curve. This amount is larger than the amount that would be created if tax shares for all three voters equaled those of the median voter, Citizen B.

Using a referendum process, Citizen A prefers Lindahl taxation to a tax determined by the average cost ($\text{cost}/3$) of providing a public good because he now pays according to his willingness to pay and faces no coercive taxes above that amount. Citizen B is better off because she now pays exactly what she paid under the median voter system, but the government supplies more of the public good. Citizen C loses economic surplus because her taxes increase. However, she is compensated somewhat by the increase in the amount of the public good supplied. Unfortunately, the assumptions that legislators enjoy perfect information and that citizens honestly reveal their preferences are not met in modern state governments. Legislators are left to make their best estimates about service levels and tax systems.

The political argument for imposing a Lindahl tax system to provide public goods addresses the question of how much citizens stand to lose in the absence of various public goods. Higher-income citizens should pay more for certain public goods than should lower-income citizens because they stand to lose more if the good is not provided. Narrowly, national defense and environmental standards afford citizens the same protections

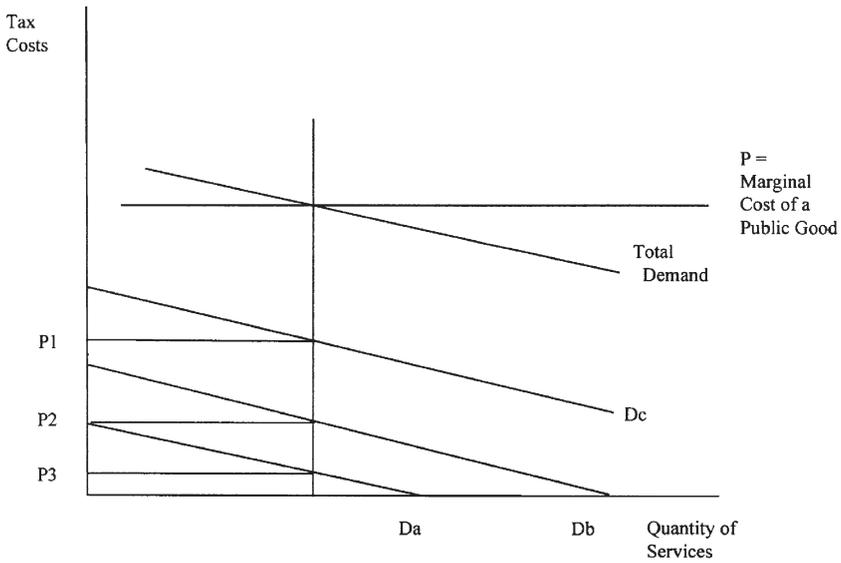


Fig. 2. Demand and supply of public goods

from foreign threats and various pollutions, yet the costs of not having such protections would be felt more keenly by a higher-income individual. Whereas a poor individual who becomes disabled due to an environmental hazard may lose ten thousand dollars in annual income, a wealthier individual may stand to lose ten or twenty times that amount from the same hazard.

A second political justification for Lindahl taxation involves a consideration of benefit/tax ratios. If legislators wish to maximize the number of constituents whose benefit/tax ratios are equal to or greater than one, then Lindahl taxation provides a mechanism for doing so. Because governments tax citizens according to willingness to pay, citizens who pay Lindahl tax shares receive positive utility from public goods. In other words, every citizen should enjoy a positive difference—a consumer or economic surplus—between the benefits a public good provides and the taxes paid for it.

Legislators provide a mix of public goods and particular benefits. Examples of public goods include national defense, public lands, and a community's income distribution (Jackson and Hawthorne 1987). Examples of particular benefits include AFDC benefits and the home-mortgage-

interest deduction. Some government-provided goods have characteristics of both public goods and particular benefits. For example, state-subsidized higher education provides particular benefits for college students, and positive externalities may also exist for the entire community, including having an educated populace, which may help attract employers, or the provision of public land or cultural and athletic performances.

Because public goods benefit all citizens and would be underproduced in private markets, legislators have incentives to give priority to public goods over particular benefits when deciding where to spend limited resources. There are two reasons for this preference. First, legislators cannot target benefits only to their own constituents. The need to assemble majority coalitions behind policy alternatives encourages offering broad-based benefits (Krehbiel 1991). Because public goods offer widely available benefits, legislators should find greater support for offering programs with broad nonexclusionary benefits than for programs with very targeted benefits. Thus, the institutional barriers to building support for a public good are lower than those for particular benefits.

In conjunction with this first reason, public goods provide a means for legislators to raise benefit/tax ratios more than they could with particular benefits. Assume a society has three citizens who each pay ten dollars in taxes. The legislature considers two programs. Program A offers particular benefits to Citizen 1; Program B is a public good offering benefits to all three citizens. Both programs cost thirty dollars. Table 2 illustrates how,

TABLE 2. Public Goods and Particular Benefits

	Tax	Citizen Benefits	Benefit – Tax	Benefit/Tax Ratio
A: A \$30 Particular-Benefits Program				
Citizen 1	\$10	\$38	\$28	3.8
Citizen 2	\$10	\$0	–\$10	0
Citizen 3	<u>\$10</u>	<u>\$0</u>	<u>–\$10</u>	0
Totals	\$30	\$38	\$8	
B: A \$30 Public Good				
Citizen 1	\$10	\$8	–\$2	0.8
Citizen 2	\$10	\$15	\$5	1.5
Citizen 3	<u>\$10</u>	<u>\$15</u>	<u>\$5</u>	1.5
Totals	\$30	\$38	\$8	

by offering a public good, the legislature can disperse benefits such that all citizens enjoy positive consumer surpluses and will support officeholders. In the first column are taxes. The second column depicts citizens' valuations, or the monetary utility they receive from government programs. The third column shows consumer surpluses, which are the differences between valuations and taxes.

In table 2A, Citizen 1 values the benefits she receives from the government in excess of the costs of producing the good and in excess of her tax burden. Because Citizens 2 and 3 receive no benefits, they have benefit/tax ratios equal to zero, and there is a negative difference between their benefits received and taxes paid. Assuming a majority of citizens elect the government, these citizens would vote for a new government that would stop providing the particular benefits program to Citizen 1 and instead provide the public good depicted in table 2B. The public good creates positive benefit/tax ratios for Citizens 2 and 3 equal to 1.5. Although Citizen 1 has a negative value between her benefits received, eight dollars, and tax paid, ten dollars, she still receives more utility from the public good than Citizens 2 and 3 receive from the particular benefits program.

If the government of this three-citizen community decided it wanted to tax people such that everyone had a benefit/tax ratio greater than one, it could raise taxes by \$1.50 on Citizens 2 and 3 and lower them by three dollars for Citizen 1. In this case, every person would enjoy positive differences between benefits and taxes, although Citizens 2 and 3 would see their benefit/tax ratios decline from 1.5 to 1.3.

This preference for public goods does not imply that legislators shy away from providing benefits for specific constituents. Particular benefits, precisely because they are targeted, may provide representatives with the means to mobilize greater political resources (i.e., votes or campaign contributions) than can public goods. Consequently, benefit/tax ratios are one component in representatives' tax-and-spending calculus.

A majority of legislators may benefit politically by promoting a particular benefits program. Assisting a small minority may cost the state little but pay disproportionate political dividends. For example, Mississippi exempts farm equipment from its sales tax ostensibly because it contributes to the production of food. About this policy, a representative explained,

Well, it doesn't make much sense. We exempt farm equipment from the sales tax because it's used in producing food. So we say farm

equipment is a necessity to the well-being of Mississippians, but then we go and tax food. Now, once upon a time, we didn't tax food, but . . . we changed that and now have this program which helps a farmer buy a hundred thousand dollar combine or cotton picker tax free so he can sell his cotton cheaper to L. L. Bean or somebody, for Christ's sake. It's insane, but the farmers love it and remember us for protecting it every time they buy a hand rake, and nobody really misses the money. So I don't see us changing it.

A second reason why legislators may support particular benefits is that they are politically popular—certain groups may be viewed by the public and legislators as deserving government benefits not accruing to other citizens. Conversely, some groups enjoy little political support, and funding particular benefits programs may falter as a consequence. Legislators spoke frequently of the lack of political support for the Medicaid program, which offered benefits to poor families with an unemployed head but not to the working poor.

Legislators have an implicit model for deciding how to fund particular benefits programs based on whether citizens perceive beneficiaries as deserving and are aware of the benefits and costs of a program. In table 3, legislators can sustain particular benefits programs for deserving beneficiaries even when citizens are aware of the costs of those programs. When citizens are not aware of the costs of benefits for deserving beneficiaries, the programs are highly sustainable. Legislators can also sustain programs for beneficiaries who may not be viewed as deserving if the costs of the program are small or not known to most citizens. Elected officials often cannot sustain programs when citizens resist the costs of a program and perceive its beneficiaries as undeserving.

Federalism intrudes on this basic decision framework for providing public goods and particular benefits. Federalism changes decision parameters by making some programs less expensive relative to others, by

TABLE 3. Legislators' Particular-Benefits Typology

Benefiting	Costs	
	Known	Unknown
Deserving	Sustainable	Highly Sustainable
Undeserving	Unsustainable	Sustainable

changing the distribution of costs and benefits associated with providing public goods, and by creating competition for tax bases (U.S. Advisory Commission 1993). Amid these constraints and incentives, state legislators sustain their goal of maximizing the benefit/tax ratios for their constituents, but the calculus becomes complicated when multiple layers of government compete and cooperate to provide citizens goods and services.

Having the metric, benefit/tax ratios, for evaluating legislators' policy positions and collective decisions along with the independent factors including federal arrangements, public goods, and taxes, enables consideration of how legislators arrive at collective decisions. For their individual decisions, legislators largely rely on a set of six principles. In developing policy and arriving at collective decisions, several other variables come into play. These variables include the governor's role, overlapping federal and local politics, partisan control of the legislature, current tax system, urgency of changing a particular policy, policy linkages, and resources available for changing one policy without changing either spending for other programs or taxes.