Chapter 3

Representatives' Positions and Collective Decisions

In this chapter, I connect the parameters of federalism, public goods, and taxes to state representatives' individual issue positions and state legislatures' collective decisions. Representatives rely on a fairly stable set of guiding principles when developing positions about intergovernmental policies. The emphasis given to different principles varies over time, across states, and from issue to issue, but the principles themselves remain stable. In arriving at collective decisions, a variety of economic, institutional, and political factors interact with the principles and positions of individual legislators. These interactions form much of the politics within which state legislatures produce public policy.

Individual Legislators' Positions

Table 4, first presented in chapter 2, depicts changes in taxes and services and the resultant changes in benefit/tax ratios. From this table it can be surmised that elected officials would rather focus their efforts on the options in the upper right-hand section, all of which indicate improved benefit/tax ratios. Representatives prefer to avoid the lower left section, where benefit/tax ratios decrease. Nonetheless, legislators must occasionally consider decreasing benefit/tax ratios—raising taxes and cutting services—or work in the nebulous cells in which both taxes and services either increase or decrease. When legislators do so, they use their governing principles to hold constant or, preferably, improve benefit/tax ratios. When benefit/tax ratios must decrease, representatives justify such decreases or attempt to placate voters by making policies as palatable as possible.

In deciding whether to change services and taxes and, if so, how, state representatives rely on six governing principles. At times, a single principle may dominate all others, or the political symbolism of a specific issue, such as income taxes, may trump legislators' principles. But generally, these six principles—accountability, equity, dependability, obscurability, horizontal transferability, and vertical transferability interact and shape state representatives' positions on policy alternatives.

State legislators may seek to accomplish several goals with any single policy change or combination of policy changes. In addition to calculating changes in their constituents' benefit/tax ratios and estimating a likely distribution of changes for their districts, representatives may seek to garner support from particular groups, such as parents with school-aged children or the elderly, or may attempt to avoid mobilizing opposition from such groups (Denzau and Munger 1986). Legislators may also seek to advance their careers within the legislature or within state politics.

State representatives try to change policies to increase the benefit/tax ratios for most, if not all, of their constituents. Consequently, the principles they emphasize will work to move them to the cells in table 4 that offer unequivocal increases in benefit/tax ratios. When policy changes indicate either increases or decreases in both tax and services, legislators are less certain about changes in benefit/tax ratios, although they may structure policy changes in an effort to increase the probability of an increase for most of their constituents, as chapters 4, 6, and 7 will show. Conversely, representatives may structure changes so that benefit/tax ratio decreases fall on as few citizens as possible.

Governing Principles

In addition to the paradoxical objectives of providing services and not imposing taxes, state representatives may have numerous other personal

TABLE 4. Changes in Government Services, Taxes, and Benefit/Tax Ratio Changes

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

and collective goals. Individually, legislators may seek to increase their influence within state government, to develop good public policies, and to further their own political careers (Fenno 1973). Collectively, state representatives develop policies that allow for stable revenues and expenditures, endeavor to build majority coalitions, and encourage economic development. Regardless of which goals have priority, state representatives find themselves in an ongoing political process, and this chapter outlines the six principles. These principles guide legislators' views and decisions about policies. In addition to the six governing principles, I also discuss the role of political symbolism, direct democracy, and policy history in federal politics.

1. Dependability

Many scholars have noted that state taxes are typically regressive relative to federal taxes. One rationale for regressivity offered by state representatives is that regressive revenues are dependable and provide funds in both good times and bad. Fifty-two percent of the legislators mentioned dependability in the interviews. This figure approached 75 percent in the three states that had no personal income tax.

Revenue dependability becomes a salient principle when representatives seek funding for popular programs. For example, one of the concerns voiced about shifts away from property taxes for public-school funding was that the loss of dependability would leave a very popular public good vulnerable to economic fluctuations. Dependability also becomes germane in states that rely on relatively few taxes. If these states rely on a single cyclical tax for a large proportion of their revenues, then they may seek a second dependable tax to provide revenue stability over time. In Washington, which has no income tax, representatives cited the state's payroll-based business and occupation tax as the stabilizing component in their revenue mix.

Legislators in Washington, Michigan, New Jersey, and New York discussed revenue dependability as a reason for retaining various gross-receipts and utilities taxes. Property tax limitations in Michigan and Massachusetts led representatives either to seek more stable taxes in the form of a graduated income tax (Massachusetts) or to suggest the state is unlikely to move away from its relatively stable single business tax (Michigan). In Florida and Tennessee, where the governments rely heavily on cyclical consumption taxes, and in Mississippi, where gambling revenues have recently made state coffers flush, representatives spoke of the need to find more stable revenue bases such as income taxes or to establish spending practices that would safeguard against revenue fluctuations.[1]

Representatives may seek dependability as a means of decreasing the probability of having to decrease citizens' benefit/tax ratios. Although dependability may come at the expense of other principles, such as equity or vertical transferability, it enables legislators to provide stable bundles of goods and services. The advantage of dependability is that it helps legislators avoid having to decrease services with every economic fluctuation in a state's economy. Although citizens might benefit marginally with more progressive or obvious taxes in an objective economic sense, they also might react negatively to having services slashed or tax rates hiked frequently.

In some respects, legislators' perceptions about revenue dependability are at odds with the economics of taxation. Although sales taxes fluctuate less than income taxes during economic recessions, most legislators in states relying exclusively on sales taxes said that their revenues fluctuated more than they would have with an income tax. From one perspective, this is a valid perception. If these states adopted income taxes in addition to their sales taxes, they would enjoy greater revenue stability (Gold 1988). However, if they adopted income taxes to replace the sales taxes, their revenues would fluctuate more during recessions. Another factor complicating dependability is the sales tax base itself (Galper and Pollock 1988). States that tax necessities, such as food, utilities, and clothing, suffer less cyclical fluctuation than their counterparts that exempt such items from their sales tax base. Although income taxes are more responsive to short-term economic fluctuations than are sales taxes, states that rely more heavily on income taxes have enjoyed greater long-term revenue growth as personal incomes have risen (Phares 1980; Galper and Pollock 1988). Because most states have not taxed services and retained only merchandise sales tax bases, state governments have experienced a lack of responsiveness in the overall revenue growth as the service sector of the economy has grown relative to retail trade (Galper and Pollock 1988; Francis 1988).

2. Horizontal Transferability

A favored means for minimizing tax burdens results from shifting taxes onto citizens from other jurisdictions. Many legislators support taxes that are borne by people from outside the state (Phares 1980). In Florida and

Nevada, large tourism industries export a significant portion of tax burdens to nonresidents. Forty-four percent of legislators discussed horizontal transferability as an influence on state policy. Legislators in Colorado, Florida, and Vermont, which have large tourism industries, referred to horizontal transferability more frequently than their counterparts in other states.

The importance of horizontal transferability depends on a state's demographics and economics. States with large tourism industries have the ability to "export" much of their tax needs, yet representatives in these states voiced concerns that doing so left their citizens with unrealistic expectations about the true costs and benefits of government. The other way in which horizontal transferability becomes engaged is when representatives perceive that nonresidents have the opportunity to benefit from their states' public goods without paying the taxes to provide those goods. In these cases, representatives seek to find means to end out-of-state free riding on their states' nonexclusionary programs.

In many respects, horizontal transferability is an extension of the benefits-received principle. Tourists enjoy the benefits of state-provided public goods, such as roads and recreational facilities. In turn, state policymakers are only too happy to see such nonresidents pay sales taxes. But horizontal transferability goes beyond the benefits-received principle in that legislators seek tourist revenues that exceed the costs of providing public goods to visitors. Such "excess" revenues can then be used to lower taxes for residents and increase the difference between the utility residents receive from government and the taxes they pay for it. Horizontal transferability is a response to the dilemma subnational governments face when providing public goods. For nonresidents, a second state's nonexclusionary goods represent a clear windfall unless this second state can impose a tax on visitors to collect a contribution for the public goods they enjoy. For example, when Michigan slashed its property taxes, it did so only on homestead property, leaving vacation property—much of it along Lake Michigan owned by Chicagoans—taxed at relatively high rates.

I offer two additions to the traditional public-finance definitions of exportability or horizontal transferability. First, tax reciprocity, or what might be called tax drain, occurs when the tax policies of a particular state, in conjunction with neighboring states' policies, lead citizens to avoid paying state taxes by transacting their business in neighboring states. Consequently, the first state loses revenue because of a tax policy. Tax drain was an issue in Tennessee, where there is a broad-based 8 percent sales tax and no personal income tax. Some legislators supported high sales tax rates because tourists then paid more to the state treasury than they would have at lower rates. Other House members countered that many Tennesseans go to other states to avoid Tennessee's sales tax. Consequently, "fiscal drain" losses outweighed any advantages from exportability. Estimates by the Tennessee House Ways, Means, and Finance Committee indicate that the state loses $300 million annually in revenue because people buy groceries in neighboring states to avoid Tennessee's 8 percent tax on food.

Compounding the fiscal-drain problem is Tennessee's lack of an income tax. As a consequence of not having an income tax, Tennessee has no tax reciprocity with its neighbors for those citizens who work in one state but reside in another. People who work in Kentucky and live in Tennessee pay only Kentucky income taxes. People who live in Kentucky and work in Tennessee also pay only Kentucky income taxes. If Tennessee had an income tax, its legislature would likely arrange reciprocity agreements with neighboring states for such individuals. Such agreements are common among states.[2]

Reciprocity and fiscal-drain revenue losses can be substantial. Several legislators and staffers estimated that Tennessee loses $150–300 million every year from this lack of reciprocity, as much as 4 percent of Tennessee's annual general fund.

The second problem states avoid is becoming a service importer. Although states seek to export tax burdens, legislators do not wish to provide services to persons beyond their borders. Colorado and Washington representatives complained that Californians increasingly sought admission to their public universities. University administrators found these students attractive because of their academic profiles and their obligation to pay revenue-yielding out-of-state tuition. However, more nonresidents also means fewer in-state students, which results in disgruntled constituents who have no enthusiasm for subsidizing Californians' higher educations.

3. Vertical Transferability

I make a distinction between transferring tax burdens across jurisdictions and transferring tax burdens from one level of government to another (see Phares 1980; Dye 1990). The former connotes horizontal transferability, and the latter is vertical transferability. In most cases, legislators view vertical transferability as federal or local governments paying a greater share of goods and services. However, in some instances legislators felt they better served their constituents when the state assumed financial responsibility for certain program costs. Legislators in Michigan, Mississippi, New Jersey, Vermont, and Washington explicitly argued that the state could better access revenues and more equitably distribute funds for education than could localities. In Massachusetts, continuing fiscal difficulties in the wake of Proposition 2½ led many legislators to call for greater assistance to localities for education. In New York, assembly members similarly argued in favor of the state's assumption of Medicaid costs. Overall, 48 percent of the legislators mentioned vertical transferability in terms of having the federal and local governments assume a greater proportion of government expenditures. Thirty-six percent of legislators discussed vertical transferability and said that the ability of the state to access and distribute tax dollars equitably justified state assumption of program costs from localities.

Vertical transferability becomes salient when intergovernmental programs enter a crisis and during economic recessions. With regard to recessions, officeholders will naturally look to other levels of government to maintain services when their own revenues contract. Doing so enables officeholders to maintain their constituents' benefit/tax ratios. Perhaps more interesting, vertical transferability becomes a feature in policymaking when programs have lost or begin to lose political support. If legislators perceive a lack of support for a specific program, they may seek to lessen their government's responsibility for that program. Less politically, if the costs of a program rise dramatically and unexpectedly, legislators may seek additional assistance from the federal government because their government lacks the resources or would have to dramatically shift resources to continue funding a program. If the steeply increasing costs erode political support for the program, then legislators may find themselves in a spiral whereby they may shift costs from popular programs, decreasing the benefit/tax ratios for citizens who use those programs, to fund an unpopular program whose increasing costs contribute to its unpopularity.

When tax systems interact, policymakers recognize the tax-base competition that transpires among levels of government and the need for governments to accommodate one another lest one or both levels face negative political or electoral consequences. For example, the federal income tax allows for deductibility of state income taxes. This deductibility means state tax rates are offset by a reduction in the federal government's income tax base. More implicitly, several states offer circuit breakers (state income tax relief) to offset citizens' local property tax liabilities. Initially, such relief does not appear to be a recognition of tax-base competition, because states tax income and localities tax property. However, legislators noted that the vast majority of people pay local property taxes with income generated from their labor rather than with income generated from property. Consequently, circuit breakers in states like Vermont and Michigan compensate for local taxes on current income.

Although one might expect state legislators to promote lower state taxes, the local basis of their election—cities, towns, and counties—and the states' dominant position over localities lead many state representatives to recognize the tax interdependence between state and local governments. This recognition induces a willingness, sometimes even enthusiasm, among state legislators to raise taxes as a means of lowering local property tax burdens and ameliorating resource differences among local communities.

In addition to revenue interactions, many representatives discussed "drawing down" federal dollars to increase the amount of state-provided goods and services. In so doing, legislators act as if federal taxes are fixed and then work to maximize their citizens' total tax/benefit ratios (i.e., the tax/benefit ratio for all federal, state, and local taxes) by designing programs that will maximize the amount of federal funding flowing to the state. Even very conservative legislators who espoused views favoring very limited government supported bringing federal dollars to their states as a means of increasing the return on the tax dollar for their constituents.

4. Obscurability

Obscurability, or fiscal illusion, refers to the ability of policymakers to impose taxes that go unnoticed by taxpayers (Phares 1980; Hansen 1983; Dye 1990; Steuerle 1991). Because obscuring taxes creates a perception of greater benefit/tax ratios, representatives can almost always be expected to attempt to obscure some taxes. However, in connection to spending, representatives may seek obscure taxes to fund particular benefit programs. If legislators can mobilize substantial political resources by providing particular benefits and imposing no costs on the beneficiaries, then it is unsurprising that they do so. But providing particular benefits may also mobilize resentment among voters who do not benefit. Consequently, obscure revenues provide the means by which to fund particular benefits without mobilizing voter opposition. Creative legislators may find ways to combine revenue transfers, either horizontal or vertical, with obscure revenues to provide a sizable array of particular benefits.

In its most narrow sense, fiscal illusion implies that taxpayers are completely unaware of taxes. Examples include excise or corporate income taxes that firms pass on to consumers and embed in final prices. In other instances, citizens may be aware of the tax but unaware of their total tax burdens. These taxes would include sales taxes, which citizens generally pay in small increments (Steuerle 1991; Dye 1990).

I use the broader definition of fiscal illusion. Fiscal illusion takes place when constituents cannot accurately assess the burden from a specific tax. Thirty-two percent of legislators mentioned obscurability as a determinant of tax policy. Many suggested that state sales taxes are regarded as the least politically harmful tax to raise because citizens do not know their sales tax liabilities and would have difficulty tracking them. Whereas citizens can see payroll deductions for state and federal income and wage taxes, they find the task of tracking sales taxes daunting. As one Tennessee legislator explained in discussing why his constituents would oppose an income tax even if such a change implied eliminating the sales tax, "We in Tennessee have been trained to pay our taxes fifty cents a day in increments of about a nickel. Now even if you came out and gave them a dollar a week tax, they'd hate it because they'd recognize it as a tax and not an orange or a candy bar."

In one sense, obscuring taxes can be viewed as policymakers' responses to an unwillingness on the part of citizens to report accurately the utility they receive from government goods and services (Samuelson 1954). The ability of legislators to hide taxes offers an avenue by which governments can compensate for Samuelson's contention that citizens underreport their willingness to pay for public goods. If citizens are unaware of their tax burdens, then legislators have at least one mechanism by which to finance levels of goods and services that genuinely comport with citizens' preferences rather than just with citizens' reported, or underreported, willingness to pay.

Fiscal illusion influences which taxes representatives cut. Cutting unnoticed or obscure taxes pays few, if any, political dividends, whereas cutting more noticeable income and property taxes creates an opportunity for larger political benefits and an appreciative constituency. Representatives concentrate on reducing highly publicized corporate profit taxes and individual income tax rates instead of other taxes such as gross receipts and utility taxes even when these taxes are more onerous to businesses and individuals. Taxes with low visibility are simply less politically advantageous to decrease. Additionally, legislators suggest that these taxes are not cut because they offer dependable revenue streams and because there would be little political dividend in reducing them.

To some extent, the obscurability of a specific tax is determined by how the tax is collected. Scholars agree that consumers ultimately pay various gross-receipts business taxes, yet they never see these taxes because merchants incorporate them into prices. In other cases, obscurability is a function of the divisibility of the tax. Citizens may know they pay retail sales taxes, but tracking sales tax burdens is difficult because they pay it in varied increments. One might perceive obscurability as a continuum, with embedded excise taxes being the most obscure, followed by sales taxes and more obvious income and property taxes.

5. Accountability

Accountability can be conceptualized in terms of policy accountability and political accountability. Policy accountability implies that constituents are willing to pay a specific tax for a specific purpose and are aware of both. Political accountability occurs when voters support or reject changes in broad-based taxes predicated on their perceptions of how well governments deliver goods and services. Policy accountability is an important feature of popular public-goods programs provided via broad-based taxes. Because all citizens can consume the public good, representatives will seek to establish the policy accountability such that citizens will perceive the good as necessary, efficiently produced, and as a program from which all citizens should benefit.

With political accountability, representatives' focus shifts to finding palatable taxes to finance public goods that enjoy policy accountability. Political accountability—citizen support for government writ large—becomes a concern when governments undertake major reforms or face a crisis with a specific program. With education, representatives perceived that local property taxes had become unacceptable to many constituents and thus threatened the policy accountability of education and the political accountability of state and local governments. Consequently, state representatives acted to decrease objections to local property taxes to sustain support for education and broaden support for their own general government. With health care, representatives sought to contain costs to prevent a further shifting of resources away from more popular programs and to find ways to restore the policy accountability of Medicaid to sustain their governments' political accountability.

I examine policy accountability in discussing taxes on hospital services in Tennessee and sales tax changes in Colorado and Mississippi. The defeat, by referendum, of an extension on the Colorado tourism and cultural taxes and the shift from property to sales taxes in Michigan serve as illustrations of the broader concept of political accountability. Sixty-eight percent of legislators indicated that accountability had significantly shaped recent policy changes in their states.

State representatives' concerns about public goods regarded both policy and political accountability. Representatives frequently lamented the obscurability of certain public goods such as clean air and water and argued that citizens took such goods for granted, were unaware that their taxes provided them, or were unaware of the private health and aesthetic costs to citizens of not providing these public goods.

Federalism clouds both political and policy accountability. In terms of political accountability, many legislators complained that the American federal system has become "government by blob," with little distinction among levels of government and a concomitant distaste for government in general. Because citizens do not distinguish which level of government provides which services, legislators find it difficult to convince citizens to accept specific taxes even when revenues are earmarked for specific purposes. Legislators relayed stories of constituents suggesting that any new, even necessary, services could be providing by trimming waste from state spending.

6. Equity

Although the principle of equity acquires various economic and political connotations, I focus on two definitions of equity as a principle of providing and paying for state services. Some representatives view equity as a matter of an ability to pay, while others view it in terms of deserving to pay (Jewell 1982; Dye 1990; Peterson 1981). In the case of the former, legislators call for progressive taxation and generally oppose particular tax benefits (e.g., employer tax abatements). In the case of the latter, legislators connected the "deserves to pay" concept with government accountability and suggested that user fees not only implemented the deserves-to-pay principle but also enhanced government accountability. Among the representatives interviewed, 88 percent discussed equity, with approximately two-thirds emphasizing the ability-to-pay concept vis-à-vis tax policy and one-third emphasizing the deserves-to-pay principle.

Legislators engaged the ability-to-pay principle for financing public goods but differed in how they defined ability to pay. For some representatives, ability to pay related only to income, whereas others saw it as a function of consumption. The former argued that citizens should pay income taxes and that the state lacked the means to force high-income citizens to spend their money within the state to generate sales tax revenues. The latter group argued that citizens who consumed were demonstrating their ability to pay and that taxes should be attached accordingly.

As I discussed in the previous chapter, a system of Lindahl taxation, which taxes citizens according to their willingness and ability to pay, provides an effective means to achieve equity when equity is defined as ability to pay (Gramlich 1990). Because such a tax system enables governments to tax according to citizen preferences and willingness to pay, it provides a more economically optimal supply of public goods than do tax systems based on per capita costs (Tiebout 1956) or the preferences of the median voter (Gramlich 1990). The requirement that citizens honestly reveal their willingness to pay severely limits the potential to implement such a system. Nonetheless, legislators may consider that because of income effects and decreasing budget constraints, higher-income citizens should pay more for government goods and services than should lower-income citizens. Although legislators may not have perfect information about citizens' preferences, the equity principle leads representatives to favor some form of progressive taxation for the provision of public goods.

User fees and dedicated taxes provide equitable taxation if policymakers emphasize the benefits-received principle. In such cases, the recipients of state services pay for those services via user fees. In some instances, fees can be mixed with more general revenues to internalize externalities inherent in some public goods. For example, a recreational area may require no fee for those who hike or canoe, but a fee might be imposed on those who use recreational vehicles and boats and thus create noise, air, and water pollution (Gramlich 1990).

Representatives recognized that they are sometimes criticized by academics and policymakers for implementing regressive tax systems, but the legislators responded that sales taxes represent the ability-to-pay equity principle if the state exempts necessities such as food from the sales tax base. These legislators reasoned that when citizens improve their well-being by purchasing products, they demonstrate that they have disposable income, a portion of which the state taxes.

Beyond these principles, representatives operate in a context that is shaped by political symbolism, state policy histories, party politics, and the institutional powers enjoyed by legislatures and constituents.

Political Symbolism

Although not a governing principle, political symbols influence federal politics in ways that cannot be captured with simple measurements of expenditures and revenues (Edelman 1964). Legislators in states without income taxes viewed citizen resistance to state personal income taxes as a consequence of federal income and wage taxes. These representatives discussed the income tax as a symbol of unresponsive, inefficient government. They based their opposition to the income tax on this symbolism even when they personally preferred lowering sales taxes and imposing an income tax as a means of lowering state tax burdens on low- and middle-income individuals and families. Forty percent of legislators discussed political symbolism, and more than half of this proportion suggested it influenced their opposition to state income taxes.

Capturing the effects of political symbolism on policy outcomes is more subtle than measuring the effects of other variables common in models of state politics. Yet legislators' reports about the federal government, particularly the politics of income taxes, and the effects of these politics on their views about tax changes were consistent across states. As one Mississippi representative mentioned, "When it came to our sales tax increase, an income tax would have been more fair in many respects . . . but we couldn't touch it because people hate their federal income tax."[3]

I separate symbolism from the governing principles because its role in the federal system is often beyond the control of state legislators. Whereas representatives make decisions to balance their needs for revenue dependability with their desires to obscure revenues, political symbols fall beyond this sphere of decision making. Although legislators may create or sustain certain symbols, citizens' reactions to political symbols determine their influence on legislators (Edelman 1964).

At times, symbolic politics override the incentives and constraints federalism introduces into intergovernmental relations. Despite structural incentives to rely on state income and property taxes, state elected officials may find citizen opposition to such taxes so strong that the officeholders instead shift to sales taxes. State politicians ignore federal incentives and respond to the politics dominating the situation. In other situations, legislators' desires for revenue dependability or for taxes that can be transferred to other jurisdictions may lead them to ignore or reject various federal incentives.

These six principles guide individual legislators in providing and financing state public goods, federal-state, and state-local programs. The principles filter legislators' policy alternatives and contribute to establishing the parameters of policies likely to be enacted. In some cases, one principle, such as obscurability, may trump a combination of other principles, such as accountability, equity, and dependability. Nonetheless, the principles help representatives define the financing mechanisms for any particular policy. Examples of considerations and parameters include whether the tax connects to the service in voters' perceptions as well as in state budget arrangements. Does a tax present an equity concern with respect to whether citizens can afford to pay or deserve to pay? Is an obscure tax available and politically desirable? How necessary is it to find new revenues for a policy change? How necessary is the policy change itself? Can the state expect to grow its way out of a problem with the current tax structure? How will the revenue source react with neighboring states' policies or with federal and local policies?

Of course, a legislator's position on any one issue does not imply that position will become state policy. The political process limits viable policy alternatives, and policies become linked in novel or unexpected ways, forcing legislators to make unexpected compromises. Consequently, a simple examination of how federalism and public goods affect legislators' thinking provides an incomplete picture of representatives' responsiveness in federal politics. To complete the picture, it is necessary to examine how legislators' perceptions of federalism, public goods, and taxes interact with other features of the policy process such that representatives' individual preferences are translated into collective policy decisions.

Collective Decisions

In the following chapters, I analyze a variety of collective decisions and nondecisions by state legislatures. Federalism and individual views about public goods and taxation influenced all of these decisions, whether they concerned tax policy, economic development, education, or health care. In addition, several other political, economic, and contextual variables became relevant. The political variables include party strength and the governor's ideology, party, and policy agendas. Also, the differences across legislative districts and legislators' ability to find common ground that would benefit a broad array of citizens were factors in several cases. The institutional policymaking role of the legislature itself and its ability to define a policy process for a specific problem influenced major decisions in several states. The economic and policy variables that most often played a role in the policy process related to a state's revenue growth and the demands on spending for programs such as Medicaid or education.

The principles that guide legislators' individual views on policies are present again in their collective decisions. Although legislators do not collectively state that one principle or another has guided a specific piece of legislation, I find that because representatives rely on the governing principles there is often widespread agreement on why one policy was preferred to another or why one policy was more politically feasible than a second. At times, legislators may find that despite their own preferences for an ideal policy, one or two of the principles becomes so dominant that they trump all others. For example, the recent political symbolism of cutting income taxes became so dominant in the early 1990s that most legislators indicated that any concerns they had about taxing according to the ability-to-pay principle had to be put aside. In turn, legislators emphasized the principle of tax obscurability, or the deserves-to-pay principle, when revenue increases were absolutely necessary.

Representatives look to their constituencies as both a source of information and a determinant of their support for various policy alternatives (Fenno 1978; Kingdon 1989). Yet the relationship between representatives and their constituents runs both ways. Because policy alternatives may originate in a state capital or even in another state, state legislators spoke of "selling the program" to their constituents, with some policies easier to promote than others. Representatives in ten of eleven case-study states indicated that citizens supported education spending. In Mississippi, Florida, Tennessee, and Michigan legislators sold tax increases with provisos that dedicated marginal revenues to education programs. Conversely, Medicaid expansions were more difficult to sell, and hardest of all for legislators in Washington, Florida, and Tennessee was the prospect of selling a state income tax.

Erikson, Wright, and McIver (1989, 1993) demonstrate that party strength influences the policy outputs in state governments. My findings comport with theirs, and the case studies show how views about public goods and which principles legislators emphasize in their policy choices often break along party lines. The examples also illustrate how divided government, the party and policy agenda of the governor, and the unity of parties within the legislatures influence both which policy alternatives are viable and which alternatives the legislature collectively decides to enact.

Federal or state-local programs and the parameters of individual policies may shape policy reforms or efforts to change the financing of the programs. Any need for federal waivers from policy requirements will likely shape policy proposals at the state level. Just as fundamentally, a state's fiscal condition may affect whether a state decides to take action on a given program and whether that action is intended to reform a program or merely to address an immediate crisis (Kingdon 1990). In the case of the former, Michigan representatives used the latitude in their state's relatively low sales tax to promote a massive $6 billion shift in school funding from localities to the state government. In the case of the latter, representatives in several states, especially Tennessee, noted that during the late 1980s and early 1990s their legislatures had enacted a number of stopgap spending or revenue measures designed to address continually increasing demands on the Medicaid program. Conversely, in Colorado, legislators backed away from a gubernatorial health-reform proposal after the estimated costs of the Medicaid program dropped by an unexpected $200 million in 1994.

Beyond issues of fiscal condition and the budgetary impact of any one program, a state's overall economic profile may influence the undertaking of major policy initiatives and their content (Dye 1990). Even in a state where resources are scarce, such as Mississippi, in 1992 the state legislature enacted a sales tax increase over the objections of the governor as a means of offering more educational services. As I will discuss in chapter 6, the decision to raise the sales tax was based on the political opposition to the income tax and the low property values of many school districts that most needed revenue. In addition, the legislature promoted the sales tax because of political, partisan considerations and because of the distribution of economic resources within the state.

Of course, predicting when states will enact major policy changes, when they will address immediate crises with temporary measures, and when they will fail to decide on policy reforms is neither neat nor fail-safe.

But it is possible to speak in probabilistic terms about changes that are more or less likely and what is expected given a set of political, institutional, and economic variables. In addition to predicting policy changes, it is possible to better understand why states change policies when they do and what role individual political actors play in shaping those policies. State political elites are not mere robots responding to a state's economic climate or agents of their constituents but are complex actors that both influence their state's policies and respond to the policies of other governments.

Each of the following chapters offers something different for the understanding of federalism, public goods, and taxes in state politics. In chapter 4, "Read Our Lips: No New (Income) Taxes," I examine how the political symbolism of the federal income tax has affected state tax politics.

In chapter 5, "Tax and Spend or Spending Taxes—Economic Development in the States," I analyze state economic development. Many representatives view economic growth as a means by which they can continually increase their constituents' benefit/tax ratios. More concretely, economic-development policies offer perhaps the most concrete policy area in which to see the differences among legislators' views about public goods and particular benefits. Some legislators emphasize public goods such as schools and roads as the most effective development tools, while others insist that tax abatements for firms are a more efficient means by which to foster economic growth.

In chapter 6, "Education Financing: How Many Types of Equity?" I present the state and local dilemma that state legislators face as they struggle to provide what many of their state constitutions mandate be treated as a public, nonexclusionary, good—an equal education for every child. As property taxes have climbed and become more disparate across communities and less reflective of citizens' abilities to pay, state representatives have had to contend with both hostile public responses to locally based taxes and, in several states, with court orders mandating the equalization of education funding across school districts.

Chapter 7 shifts from state and local relations to federal-state relations with an analysis of state responses to health-care reform in 1993 and 1994. Most legislators viewed health care as neither a purely public nor purely private good, and concomitantly they differed greatly about how to finance health care. Several thought the current system both inequitable in excluding working poor persons from Medicaid and inefficient in that beneficiaries sought care in expensive emergency rooms and not at general practitioners' offices. Yet the inability of the states to find revenue sources to make Medicaid less exclusive, coupled with uncertainty over federal health-care politics, stalled several states' efforts to revamp their Medicaid programs.

The most fundamental political issues are examined in the next chapter. Without revenues, governments could do little, and the entire issue of public goods versus particular benefits would wither.