Chapter 8

Conclusion

Federalism creates new politics. In addition to structural and institutional relationships, models of intergovernmental relations and subnational politics should consider the political spillover through which politics shifts from one level of government to another. Investigations and models of subnational politics should consider the provision of public goods in federal systems and how the unique nature of public goods affects subnational policy. It is important to investigate how perceptions, principles, and goals of actors in subnational governments shape state politics and form public policy in an intergovernmental context. The case studies provide direct observation of these components of state politics and, consequently, improve the understanding of state politics. There is now a better understanding of the changes in state politics caused by the unique role of governments in providing public goods and the structural and less formal relationships among governments.

This chapter ties together the case studies and collective decisions from the eleven states concerning taxes, economic development, education, and Medicaid. Following a few general conclusions, there are two sections. First, I provide an analysis of the relationships among policies and comparisons of the four policy areas. This analysis contrasts how legislators perceive different policies. Moreover, it indicates linkages among policies that are not typically captured in analyses of state politics focusing on a single policy. The case-study approach enables comprehension of how state politicians link not only taxes and services generally but also economic development, health care, and education to one another.

Following the policy comparisons, I compare states and discern how differences among them produced different policy decisions. I then close with insights about the case-study method. As with the comparative policy analysis, the state case studies offer an opportunity to understand how combinations of variables (e.g., party and state constitutional limits) interact to produce politics and policies. In this sense, the case studies open the black box of empirical models of politics and enable understanding of how legislatures arrive at collective decisions rather than only what components contributed to those decisions.

Differences across policies are produced by variances in the perceptions about whether the policy produces a public good, a mixed good, or particular benefits; in the extent and nature of the financial crisis created by an existing policy; and in the intergovernmental arrangements and avenues available to address a specific policy problem. Differences across states are produced by differences in responses to national politics, in partisan politics and ideology, in policy history, and in the legislatures' powers and abilities to respond to specific policy problems.

Policy Connections and Conclusions

Several conclusions can be drawn from the case studies examining taxes, economic development, education, and health care. Although no formal supply-side mechanism exists to determine the supply and pricing of public goods, state legislators adapt to their institutional environments and rely on a fairly stable set of principles when enacting tax policy. In conjunction with these principles, individual perceptions about what is a public good, state constitutions requiring the provision of certain goods, and legislators' willingness to engage the avenues of federalism all influence what services governments provide and how they provide them.

Among all the policies, taxes were omnipresent. In and of itself, this is unsurprising. Less obviously, taxes constrained and created opportunities for policy alternatives for economic development, education, and health care. Tennessee, Washington, and New York identified broad tax reforms as the best, albeit implicit, economic-development policies they could engage, yet the political risks and fiscal costs of doing so made such policy changes nearly impossible to pursue.

State representatives entered the nebulous range in which both taxes and benefits move unidirectionally, but when they did so they safeguarded their moves by promoting programs for which they perceived support or by obfuscating the taxes they imposed. In Michigan, legislators recognized that after Governor John Engler's two failed attempts at property tax reform, they could safely promote a tax trade in which citizens could voice their support for either an income or a sales tax rather than blame the legislature for the choice. In Tennessee, representatives recognized the lack of support for Medicaid, enacted the hospital tax to provide temporary funding, and technically exempted themselves from the Medicaid reform process so that voters could not blame them should Tenncare fail. In Florida, Vermont, and Washington, legislators connected health-reform proposals to taxes on alcohol and tobacco products rather than risk voter antipathy for financing a discredited program, Medicaid, or its replacement with general tax revenues beyond those already dedicated to it.

The constraints created by tax politics were most evident in state health-care-reform efforts. In every state considering health care reform—Tennessee, Florida, Colorado, Vermont, Oregon, and Washington—representatives declined to consider broad-based tax changes as a means of expanding subsidized health-insurance coverage to the working poor. The interactions among 1990s tax politics and the lack of policy accountability for Medicaid restricted opportunities for reform, and legislators employed the deserves-to-pay principle in efforts to generate marginal revenues for modest expansions of subsidized insurance programs for the working poor.

In the U.S. federal system, tax politics dominated state politics because of vertical tax base competition as much as horizontal rate competition among states. Legislators reported consistently that resentment toward the federal income tax fueled their constituents' antitax sentiments. The lawmakers responded by promoting relatively obscure and incremental state sales taxes. Mississippi and Michigan representatives exemplified this response, and similar concerns about income tax reductions surfaced in New Jersey, Oregon, Massachusetts, New York, and Vermont. Even in Vermont, where legislators voted for a sales tax decrease instead of an income tax cut, many legislators indicated a preference for the income tax decrease. Other Vermont legislators preferred the sales tax reduction but suggested that they would raise sales taxes before income taxes in the event a tax increase became necessary. Ultimately, Vermont representatives perceived that they could retain a higher sales tax to fund education and property tax reform, but they could not do so to finance an expanded Medicaid/insurance subsidy program.

In ten of the states, legislators unequivocally saw economic development and education as directly linked, but they differed in how. In the eleventh state, Mississippi, most legislators identified education as a component in economic development, but a minority of representatives also cited the brain-drain problem. In Washington, Oregon, Tennessee, New Jersey, and Michigan, representatives suggested that the most potent link between education and economic development was in community colleges offering specific vocational skills. These community colleges become a community resource available to retrain workers as labor markets change. Massachusetts General Court and New York assembly members took a more elitist view of education, suggesting that the research universities in their states were the new "anchor employers" for attracting high-skilled, high-wage workers.

The connection between economic development and health care was implicit and counterproductive. In all eleven states, representatives argued that escalating Medicaid costs implicitly kept tax rates high and forced the legislatures to shift dollars from public-goods development programs such as education and infrastructure to pay for Medicaid cost increases. In some states—Colorado, for example—Medicaid spending had grown nearly fourfold from the mid-1980s through the mid-1990s.

National tax politics did not preclude legislatures from enacting large tax increases to assume greater financial responsibility for local public education but did shape the taxes legislators invoked to pay for education. No state enacted an income tax increase to finance additional education spending, and Michigan used its assumption of local property taxes to cut income taxes modestly. Only Oregon's legislature voted twice to withhold income tax rebates to comply with court orders to equalize education funding. Michigan and Mississippi voted 2 percent and 1 percent sales tax increases, respectively, to finance education. The Vermont legislature delayed a sales tax decrease to provide school property tax relief. In contrast, Colorado voted against a sales tax increase dedicated to increasing primary and secondary education.

The sharpest contrast among the policies took place between health care and education—the two policies that best represent particular benefits and public goods. In six states, legislatures found the resources necessary to equalize funding across local school districts for education. In three states—New Jersey, Massachusetts, and Oregon—the legislature acted with the knowledge that failing to do so would result in court interventions. But in three other states—Michigan, Mississippi, and Vermont—the state houses responded to political demands for reform, and no legislator perceived dire political costs from raising state taxes to ameliorate a local problem.

Education politics in Massachusetts, Vermont, New Jersey, Oregon, Mississippi, and Tennessee indicated subnational politicians' willingness to engage in redistributive policy-making. The redistributive policies ameliorated discrepancies in local resources and were not direct income transfers. Because of the different parameters of education financing, state representatives might not be expected to worry about their states becoming education magnets in the same way they could become welfare magnets (Peterson and Rom 1990), yet there is still a willingness to ensure that poor areas receive adequate resources, even when the motivations for such actions come from courts or state constitutions. This suggests that subnational politics are less limited than other scholars have suggested (Peterson 1981; Dye 1990). Scholars have perhaps concluded prematurely that subnational politicians hesitate to engage in redistributive policy-making because they have focused primarily on redistribution among individuals and families, whereas state politicians focus on redistributive policies among local communities.

State representatives were substantially more guarded about expanding a redistributive particular-benefits program such as Medicaid. Nonetheless, the inequities in Medicaid coverage among unemployed and working poor families and household heads encouraged many representatives from Tennessee, Colorado, Oregon, Vermont, and Washington to promote limited reforms designed to incrementally expand insurance coverage. Concerns about equity within the state overrode concerns about the external effects of changing a redistributive program, and concerns about redistribution did not prevent legislators from enacting Medicaid reforms. Indeed, both Republican and Democratic representatives offered reform packages or voted in favor of some expansion of Medicaid or managed-care subsidies for the working poor. The problem was not an aversion to government redistribution. Rather, the problem was budget constraints and an unwillingness on the part of legislators to shift resources more than they already had or to increase taxes to generate marginal resources to support Medicaid expansion . Most legislators indicated that Medicaid or any replacement program would need to restore the policy accountability of public-health programs before considerable resources could be devoted to them.

With Medicaid, legislatures failed to enact reforms more frequently than with education. Florida found its health-care-reform package the victim of a filibuster, and Colorado declined to pursue health-care reform as the national debate degenerated and as its Medicaid crisis receded. In Oregon, where bipartisan support for expanding the state's health plan existed, the lack of a federal waiver constrained further efforts (somewhat the converse of the courts forcing states to change their education financing). In Vermont and Washington, legislatures scaled back reform efforts because of funding constraints and a paucity of tax options, hoping that restoring policy accountability to Medicaid might enable them to expand the program incrementally in the future. Only in Tennessee, where the legislature exempted itself from the reform process and where the sunset provision on the hospital-services tax necessitated reform, did a major overhaul of a state's Medicaid program transpire.

In contrast to education, there was less consensus about the nonexclusionary nature of health care, the appropriate private-public mix, and how to effectively respond to the Medicaid cost crisis. In Colorado, Vermont, and Florida, national health-care politics intruded on the state so that state reform efforts were withdrawn, scaled back, or failed. In Oregon, Washington, and Tennessee, national politics influenced state reform efforts less, but tax constraints nonetheless constrained reform efforts even when there was a bipartisan consensus on addressing the coverage discrepancies created by the current Medicaid system.

The comparisons among policies provide a different perspective from that of many studies of state politics, which compare states across time. One of the primary advantages of this approach is that in addition to better understanding both state politics and policies per se, there is also an understanding of the linkages among the policies within and across states. For example, it is easier to understand how Washington's and Tennessee's tax politics shape their approaches to economic-development policy and how New Jersey's dominant tax politics constrains its policy options for education financing. It is also possible to see how Mississippi's income tax system provides a tool for its economic-development efforts and how Tennessee has responded by instituting a rebate program in its relatively nominal business-franchise tax.

Differences across States

Before moving to conclusions based on the specific differences across states, it is important to note that the case studies about collective decision making enable an understanding of more than what components comprise state policies and the policy processes. The cases provide a better understanding of how proposals wend their way through legislative processes. Whereas other state policy analyses often offer some idea about the relative importance of independent influences, such as partisanship and ideology (Erikson, Wright, and McIver 1993), the cases provide illustrations of how these variables interacted in political arenas to produce both politics and policy outcomes. In many instances, these outcomes reflected legislative decisions not to act or to retain current policies. Direct observation of state politics allows analysis of such nondecisions and slicing into state politics in a way that is not possible when relying on variance in empirical data to provide the explanation.

A second important point about the case studies vis-à-vis empirical studies of state politics is that the cases rely less on retrospective data about state policy outputs and reveal more information about the actual policy process. Whereas studies of state-specific policies such as welfare (Plotnick and Winters 1985) and taxes (Garand 1988) analyze data after the legislatures have decided on policy alternatives, the state case studies enable better observation of why some alternatives survive while others whither.

Representatives had substantially different perceptions about public goods and about which level of government should provide them. Generally, legislators viewed public education as nonexclusionary, although opinions varied about whether state or local government should have responsibility for funding education. In Massachusetts, Michigan, Mississippi, and Vermont, legislators voted for the states to assume more responsibility for education as a means of addressing local resource disparities and placating voter dismay over property taxes. In these cases, legislative actions indicate two things. First, the means of taxation affects the political viability of financing public goods, with sales taxes currently being viewed as the least offensive and politically risky. The second indication involves legislators' perceptions about their roles as the middle layer of government in a federal system.

State representatives perceive that citizens view their tax burdens and their benefits as a collective bundle of goods and services. Consequently, state representatives worry about unpopular federal policies (e.g., income tax) and may seek to intervene to ameliorate unpopular or failing local policies. Doing so implies that state legislators will actively change citizens' benefit/tax ratios even when they are uncertain of the consequences of such policy changes for all their constituents.

In addition to legislators' governing principles and individual positions, four factors substantially influenced the states' collective decisions and policy changes or lack thereof. Policy histories, opportunities for citizen participation, court interventions and federal mandates, and party politics contributed to the variations in both whether states changed their tax, development, education, and health policies and the content of those policy changes.

The influence of policy histories was most evident in tax-policy changes. Enacting new taxes is more difficult than changing existing ones, and the tax-policy changes observed bear this out. In Tennessee and Washington, voters have repeatedly rejected income tax enactments, and by 1995, most legislators in those states perceived that expending further political capital on the issue was not worthwhile. Florida representatives reported that the botched 1986 services tax and their own repeated failures to rationalize and reform the sales tax left them far from the threshold where they might even propose an income tax. These lawmakers fully expected that voters would reject such a proposal. The only new tax enacted in a no-income-tax state was Tennessee's health-services tax, which was obscured, was borne by third-party payers, and expired after two years.

In contrast, changing existing taxes was much more frequent, and legislatures raised some taxes and reduced others, sometimes simultaneously. The Vermont legislature delayed a sales tax decrease, and the Oregon legislature twice voted to retain income tax rebates. The Mississippi legislature raised the state sales tax while enacting income tax reductions. In Michigan, the legislature provided voters with a choice of tax increases. Perhaps less surprisingly, assembly members in New Jersey and New York agreed to tax reductions—sizable in New Jersey and modest in New York.

Policy history and the interplay among policies became relevant in determining the various economic-development policies. Mississippi's income tax made its employer interest subsidy/individual income tax credit possible. Tennessee had no such provision and thus moved more toward a public-goods strategy for economic development. In education, Michigan representatives argued that their relatively low sales tax rate made raising it and decreasing income taxes politically and fiscally possible. In New Jersey, assembly members suggested that cutting the sales tax rate in 1992 may have given them the slack necessary to raise it later in the event they were forced to reform the state's property tax system.

Tax politics in Michigan and New Jersey indicated that the states' tax options influenced the options for property tax reforms. In Michigan, Republicans and Democrats banded together to convince the Republican governor of the need to offer an alternative to local property taxes and to emphasize the sales tax because it was low relative to other states and could be promoted using the concept of horizontal transferability. In New

Jersey, partisans from both sides contended that the disastrous Florio tax increase in 1990 meant that the state would not soon undertake large-scale property tax reform and that any tax rate increases would be targeted to the sales tax.

Citizen participation changed both policy contents and the political dynamics for representatives and their legislatures. In Michigan, the opportunity to present citizens with a choice between an income tax or sales tax increase and an assured property tax decrease presented legislators with a win-win situation. Michigan representatives, and perhaps the governor, learned from two previous ballot initiatives that voters would reject property tax reform measures that jeopardized school funding. This demonstrates not only that citizen participation can change politics between citizens and elites but also that repeated interactions may influence policy alternatives.

Oregon and Colorado voters rejected sales tax changes proposed in referenda. In Oregon, this rejection left representatives grappling with how to progress toward equal funding for education, a subject that dominated the 1995 session. In Colorado, the voters' rejection of a one cent increase in the sales tax had less dramatic fiscal effects and deprived the legislature of marginal revenues it would have appropriated for public education.

Courts and decisions by the federal government also create federal politics. Spurred by federal mandates for greater coverage, Tennessee completely redesigned its Medicaid program, the enactment of which, in turn, depended on the granting of federal waivers. Medicaid politics loomed large in Florida, Oregon, Washington, Colorado, and Vermont. Although not all states faced financial crisis, changing federal coverage regulations, increasing costs, and the states' abilities to negotiate waivers from Medicaid regulations shaped their pursuit of Medicaid reform.

Court intervention played a larger role in state and local politics. Direct intervention led to Governor James Florio's 1990 tax increase, which then created the antitax politics that permeated the state during the mid-1990s. Court decisions and oversight influenced legislative decisions for states to assume greater financial responsibility for education funding in Oregon, Washington, New Jersey, and Massachusetts. Representatives in Michigan and Vermont reported that if their legislatures had not acted, they likely would have had to respond to court mandates to change education funding.

State party politics played a variety of roles in collective policy decisions. Subtly, party politics often shaped the content of legislative alternatives. In Vermont, moderate Republicans and Democrats worked to develop bipartisan proposals for property tax reform that would pass the Democrat-controlled House and the Republican-controlled Senate. In Michigan, the bipartisan working group for tax reform convinced Governor John Engler to support a ballot initiative with a replacement tax for local property taxes. In Florida and Colorado, the need for bipartisan support for health-care legislation led a Republican committee chairperson in Colorado and a Democratic committee chairperson in Florida to link expansions of Medicaid to health-insurance reform.

Perhaps because party politics shaped policy options, divided government or unified party government did not especially affect whether a policy decision would be made, although it did affect the scope of policy change. New Jersey, with Republican supermajorities in both houses of its legislature and a Republican governor, voted for a 25 percent income tax cut. Tennessee's unified Democratic government voted to exempt itself from health-care reform and charged Governor Ned McWherter with creating a new Medicaid program that the legislature could not modify or reject. And Washington's unified Democratic government enacted health reform to insure the 7 percent of Washingtonians who lacked health coverage. Although Florida had a unified government, its legislature failed to enact health-care reform when Senate Republicans employed their minority filibuster power.

In contrast, New York's divided government voted for modest tax relief in 1994, and Vermont's divided government agreed to incremental reforms for both education finance and Medicaid. In Colorado, the Republican House declined to further consider health-care reform when a midyear budget report indicated that Medicaid expenditures would be $200 million below predictions and thus the state would run a surplus. Democratic and Republican legislators both suggested that the retreat would avoid a year-long negotiation with Democratic Governor Roy Roemer. Michigan's divided government enacted sweeping tax reform but did so in a way that placed responsibility on the voters.

Methods

These case studies demonstrate that many subtleties of subnational politics can best be understood via observation and case study. Unlike aggregate state spending and revenue data, case studies enable the examination of alternatives not chosen as well as of the consequences of chosen alternatives. The politics that lead legislators away from their most preferred policy position to moderated positions can be understood. At the level of collective decision making, the case studies enable an understanding of both policy changes and failed attempts at changing policy.

Although the case studies do not provide the precision of some models, using the metrics of benefit/tax ratios and changes in them permits analysis of subnational elected officials' policy calculations in the context of their political calculations. In some cases, such as tax increases and service reductions or tax decreases and service increases, the incentives and constraints on representatives are clear. But when services and taxes change unidirectionally, state representatives often face a nebulous task in deciding how to change policies to maximize constituent support for both the service and their own political fortunes.

The case studies from eleven states afford observation not just of annual policy changes but also of policy proposals that officeholders considered and ultimately either rejected or failed to enact. Without the benefit of direct observation, it would not be possible to see legislators' policy connections between government functions, such as education, and broader, general revenue taxes, such as sales taxes. Observers might also fail to understand which policies legislators believe they can promote in tandem with revenue increases. It would not be possible to see the initial motives behind Tennessee's indigent-health-services tax and the reasoning for connecting the more general hospital-services tax to Medicaid spending while the McWherter administration developed Tenncare. Scholars might also fail to see that the immediacy of the Medicaid problem in Tennessee encouraged many legislators to support the unusual move of exempting the legislature from a direct role in Tenncare's development.

A second example of how the interviews and case studies allow additional understanding of state politics comes from New York. From the standpoint of small-business profitability, many legislators could make compelling arguments for a reduction in the state's commercial utility taxes, yet the governor and Republican state senate leadership opted for a reduction in corporate-profits taxes, which would largely assist already profitable businesses. As such, the legislature and governor agreed to a tax cut in which many perceived that symbolism outweighed substantive policy considerations promoting alternative tax reductions.

To the extent that politics is the art of the possible, the case studies enable the observation of numerous possibilities that are not evident in final policies and are invisible in aggregate data on state spending and revenues. It would not be possible to see Vermont legislators negotiating when House Democrats bucked a national trend for a state income tax cut and instead enacted a sales tax cut, only to agree with the governor and Senate Republicans to delay the sales tax reduction to fully fund property tax relief programs. In Michigan, Democrats and Republicans confirmed that only through a series of meetings with the governor and his staff were they able to convince John Engler to campaign for a tax-neutral trade from property taxes to a sales tax. And in New York, aggregate data on taxes and even a legislative history would not have revealed some assembly members' preferences for reductions in the utility tax to promote economic development instead of the corporate-profits tax changes negotiated between the Republican State Senate leadership and Governor Mario Cuomo's administration.

This study permits the understanding of many political battles in state politics during the 1990s. It also provides a general understanding of federalism's role in different states and permits the drawing of conclusions about when certain events will be more or less likely to occur in state politics. The analysis of four policy areas in eleven states provides a better understanding of how actors in subnational politics view their roles in providing goods to be consumed by their own and neighboring citizens. This work also offers a better understanding of how state legislators respond, individually and collectively, to the structural incentives and constraints as well as the politics introduced by federalism.