

AUTHOR THOUGHTS FROM A STATE AND LOCAL GOVERNMENT PERSPECTIVE

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A TEXTBOOK DEVOTED SPECIFICALLY TO THE fiscal issues concerning state and local governments faces several challenges: (1) many (perhaps most) public finance scholars consider it to be a narrow, specialized topic within public finance; (2) there are few undergraduate classes in the United States (and not large ones) dedicated to state and local government finance; and (3) most faculty are unwilling to make states and localities the focus of general public finance classes. Accordingly, the market is relatively small.

Still, I believed originally (and still do) that a textbook solely covering state and local public finance is both valuable and important. Beginning in the 1950s the subnational government sector grew rapidly and has come to be a substantial component of the U.S. economy, with state-local spending today representing nearly 14 percent of GDP and state-local employees accounting for more than 80 percent of all public employment. In addition, I argue that the services provided through states and localities – education, health and income support, transportation, public safety, water and sanitation, local economic development initiatives, and so on – are the most familiar to individuals among all public services and have the greatest effect on day-to-day life for most people.

Paralleling the growth in the size of the state-local sector, there was also substantial growth and change in the economic analysis of subnational government finance, beginning especially in the 1960s and continuing thereafter. This work included such topics as local public goods and the concepts of fiscal federalism, empirical analysis of the factors affecting subnational government expenditure, rethinking the role for and influence of intergovernmental grants, new thinking about the property tax, and consideration about the implications of mobility and multilevel government for tax policy. Writing the first edition of *State and Local Public Finance* in the mid 1980s, it seemed an appropriate time to collect and consolidate this new research and thinking. Indeed, the pioneers of much of this work – reflected in the following list of seminal publications from this initial period – is

not just a “who’s who” of public finance, but also of the National Tax Association:

James Maxwell, *Financing State and Local Governments*, 1965

Lowell Harriss, *Handbook of State and Local Government Finance*, 1966

Dick Netzer, *Economics of the Property Tax*, 1966

George Break, *Intergovernmental Fiscal Relations in the United States*, 1967

John Due, *State and Local Sales Taxation*, 1971

Wallace Oates, *Fiscal Federalism*, 1972

The overall goal of my textbook, then, as described in the Preface to the first edition, was as follows: “Although not a complete survey, the intent of *State and Local Public Finance* is to represent fairly the thinking of economists about state-local issues, much of which has been developed in the past twenty years or so.” Because of the relatively small market, the presentation had to appeal and be accessible to a wide variety of potential readers – undergraduate students (in economics, political science, and public policy), public policy masters’ degree students, and perhaps even practitioners (i.e., public officials and staff). This required covering relatively sophisticated issues using very basic analytical techniques. Although the book continues to be used for a variety of undergraduate and public policy school classes, it has never attracted many readers from the practitioner group, unfortunately. Despite the basic analytical approach, the hope was that it also might become a basic reference/resource for faculty and Ph.D. students, which seems to have happened.

State and Local Public Finance both benefited from and extended some new directions for public finance texts generally. Hewett (1987) has documented a long-run evolution as public finance texts changed from covering matters of macroeconomic finance to covering largely the microeconomics of the public sector, initially focused almost exclusively on tax analysis and policy. Expanded

coverage of government expenditures and specific public service categories became common only after the middle 1980s, but has continued since. Hewett notes that the advertising for the first edition of Stiglitz' undergraduate text in 1986 (dust jacket) identified it as the "...first undergraduate text to give the theory and analysis of expenditures the attention they deserve, fully half the text..." The first edition of Rosen (1985) had no separate chapters about specific public services, but the second edition (1988) included three (programs for the poor, Social Security, Medicare). The latest Rosen and Gayer version of the book (2008) has 10 chapters devoted to public expenditures, more than for taxes (8). Yet, I believe Stiglitz' book is still the only one with a chapter devoted to national defense, the primary national government public service.

Given this trend and the nature of state and local government, it seems essential that a state-local text emphasize specific expenditure/service areas. As my book has evolved, separate chapters are included to cover demand for and costs of services generally, as well as education, health and welfare, transportation, economic development, and the budget process specifically. With each edition, consideration has been given to a separate chapter about public safety, but in the interest of constraining length and maintaining applications throughout the book, issues about public safety services are incorporated into a number of other chapters (public goods, demand, costs, user charges).

In thinking of what to emphasize in a state-local text, another essential component is extensive coverage of property taxation, which differentiates it from most standard public finance texts and courses. Property taxation gets two full chapters in *State and Local Public Finance*, one to present the complicated tax process and another for the analysis of economic effects.

The relative paucity of property tax coverage in standard public finance texts seems surprising. Recently, in the United States, property taxes, retail sales taxes, and corporate income taxes all generate about the same aggregate government revenue, in the \$400 to \$500 billion range. (Personal income taxes, excluding the payroll tax, generate much more, about \$1.4 trillion.) Yet all of the standard public finance texts have separate chapters about the corporate income tax, but only include the property tax in a more general section on wealth taxation (Anderson, 2002, is an excep-

tion). My cursory examination suggests that commonly there are three times more pages devoted to corporate income taxes than property taxes. Of course, this also reflects the relative research attention by public finance specialists. Yet, from a pedagogical perspective, the property tax should be just as effective an example for discussing the economics of capital taxation and elucidating the Harberger model as the corporate income tax. Perhaps this partly explains why the property tax seems to remain poorly understood and under appreciated.

It is important and encouraging to note the consistent role of the National Tax Association in advancing thinking about and analysis of state and local public finance. Both the Annual Conference and the Spring Symposium traditionally include substantial coverage of state and local public finance issues, now including the separate state-local program in the spring. The *National Tax Journal* in the past and today is clearly one of the leading outlets for state and local public finance research. Property tax issues have always been a primary point of attention for the Association. Of course, this is not surprising, as the Association started in a state capital and focused initially on state government, which we celebrate at this anniversary conference.

I learned a number of things as a public finance textbook author, beyond gaining a broader knowledge and understanding of the discipline. Some of these discoveries were obvious upon reflection, but others remain surprising. Textbooks both *reflect* and *influence* public finance research. On the first point, authors clearly are limited in what they can report by what is known; by the body of research. Beyond that, faculty are interested in how issues are presented and how research (especially their own) is represented, and are not unwilling to offer advice, which is sometimes painful but always appreciated. Being a textbook author also practically guarantees that you will be on the distribution list for many working papers. On the latter point, by summarizing the state of knowledge about a topic and identifying for students what analysts may not know, research agendas may be affected. For instance, I believe that subsequent research on such topics as the flypaper effect, the structure of local governments, state and local government acting as a monopoly, and critical work about business climate studies all was encouraged by discussion in the first edition.

A surprising development for me was the degree of interest in a state-local finance book outside the United States, despite the fact that the first edition focused solely on U.S. institutions and included no international illustrations or applications (an omission corrected in subsequent editions). Indeed, the second edition was translated into Chinese and published in China in the late 1990s. Sales of the Chinese-language edition have been more than the sum of sales for the three English language editions (at least so far). And a substantial component of the English-language edition sales have been international, as well.

Because of the relatively small market for this text and the consolidation that has marked the publishing industry generally, each of the three editions of *State and Local Public Finance* has had a different publisher. But the good news from my perspective is that there have been three editions, largely due to the support received from a small, but dedicated group of scholars who continue to study and teach about the public finance aspects of subnational government. I believe this book remains the only traditional text devoted explicitly to the economics of state and local finance, which sometimes leads me to claim (as only an economist would) that *State and Local Public Finance* enjoys “a near monopoly in a nearly non-existent market.”

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