

INSTITUTIONS AND INSTABILITY?:
A NEO-INSTITUTIONAL ANALYSIS OF STATE ECONOMIC VOLATILITY

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ABSTRACT

As the United States begins to emerge from the worst economic decline since the Great Depression, many questions are still left unanswered. One fact seems to allude most of the main stream discussion—the impact of this recession on the individual American states has not been uniform. Some states have fared much better than others. One explanation for this lies in the specific fiscal institutions that states have adopted over the last 220 years. My work examines three state institutions—balanced budget rules, super-majority voting requirements, and tax and expenditure limitations—and their impacts on state economies, specifically in regards to state revenue volatility. Growth is the most common measure for economic success. However, there is a growing literature that argues that volatility, or risk, of state economies is equally important. By following a neo-institutional approach I deviate from much of the current behavioralist literature on political economy. My work looks at 49 states (Nebraska is dropped) over a 37 year period (1969-2005) to asses how fiscal institutions impact the volatility of state economies. What I find is states with strict balanced budget rules tend to have lower levels of revenue volatility, while states with super-majority requirements and tax and expenditure limitations tend to have higher levels of revenue volatility.