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RESEARCH SUMMARY

A HOUSE DIVIDED AGAINST ITSELF CANNOT SPEND (AS MUCH)
The Fiscal Effect of Separate Taxing and Spending Committees in State Legislatures

Policymakers often focus on "everyday" policy questions such as the need for tax cuts, tax increases, budget cuts, or budget increases. But all these decisions are shaped by the institutions within which policymakers work. That is, they are shaped by the "rules of the game," such as the jurisdictions of different state legislative committees.

A new study for the Mercatus Center at George Mason University shows that differences in these rules can have significant effects on policy. The study finds that states with separate taxing and spending committees spend less per capita than other states. Voters concerned about the growth of government may want to take a closer look at this phenomenon.

To read the study in its entirety and learn more about its authors, economists Matthew D. Mitchell and Pavel A. Yakovlev, please see "A House Divided against Itself Cannot Spend (as Much): The Fiscal Effect of Separate Taxing and Spending Committees in State Legislatures."

BACKGROUND AND THEORY

Separate Spending and Taxing Committees May Spend Less
Several academic studies have examined the effect of various institutions on state fiscal outcomes, especially per capita spending. A review of the literature reveals that one institution in particular has been found to have an especially large effect on government spending: states with separate legislative committees overseeing taxing and spending spend significantly less than other states do. This effect is much larger than that of any other institution, such as a balanced budget requirement or a tax and expenditure limit. Despite this large effect, separation of taxing and spending committees is one of the least-studied state institutions. There is only one previous peer-reviewed study on the topic, and it was based on data from a relatively short time period in the 1980s.

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A New Theoretical Approach to Political Transaction Costs

The authors introduce a novel theoretical approach that can be empirically tested: higher transaction costs can enhance efficiency in spending if the transaction costs make economically inefficient political bargains more difficult to strike. This approach is new because political transaction costs are typically thought to stand in the way of economic efficiency. But in the case of state spending, introducing higher transaction costs can make it more difficult for state legislators to strike bargains that increase spending. One possible way to do this is by separating the taxing and spending committees in at least one house of the legislature.

KEY FINDINGS

The study expands on previous academic research looking at state legislative taxing and spending committees by increasing the number of observable years to 40, introducing a larger set of controls, and testing several different measures of fiscal policy. It makes several observations:

- *Separate taxing and spending committees spend less.* States with separate committees overseeing taxing and spending legislation in just one chamber spend \$300 to \$450 less per capita than other states, or 9 to 13 percent. This effect is larger than almost any other institution previously studied in the academic literature.

- *One chamber's separation matters most.* Most of the expenditure-reducing effect of separate taxing and spending committees is achieved when just one chamber separates these functions, as the study finds that the marginal effect is slightly smaller when both chambers have separate committees.

The expenditure-reducing effect of separate taxing and spending committees is not consistent across all subcategories of spending.

- The effect is strongest for spending in health care and local aid per capita, but is not significant for highway and infrastructure spending.

- This may be because separate committees spend less on “rival” goods but not on “public goods” which are nonexcludable and nonrival.

CONCLUSION

By making durable changes in the jurisdiction of legislative committees, policy entrepreneurs can have a lasting effect on state spending by making it more difficult for politicians to strike bargains that benefit some at the expense of all.