Fiscally Floundering or Credibly Conscientious? Are the States Living Within Their Means?

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Brief Overview

This paper considers whether state governments are worthy of taxpayer confidence in the realm of fiscal policy by examining whether state governments are managing public funds in a responsible manner.

Abstract

In 1789, Secretary of the Treasury Alexander Hamilton asked Congress to consolidate the debt of all the states onto the federal level. His request was met with outcries that the states which managed their budgets most irresponsibly would reap the greatest benefits from the plan. Implicit in this argument was the notion that some state legislatures could not be trusted with public funds and would revert to irresponsible spending if they were relieved of their debts. Similar accusations are leveled in the public forum in the modern era, and scholars frequently investigate claims that individual state governments have failed taxpayers with overspending.

What is often not considered is whether states, on the whole, use their authority over public funds in a responsible manner. This question has enormous implications for how much leeway the states should be granted in crafting their own budgets. A poor finding for the states would demand the imposition of structural constraints for state policymakers. An encouraging finding would imply the usefulness of legislative flexibility in state fiscal policymaking. Such implications can provide guidance to voters on how best to ensure their funds are spent in a responsible manner and their descendants are not left with an impossible burden. By determining whether the states have previously met promised outlays with revenue, fiscally prepared themselves for economic difficulties, and created means to pay for promised future spending, one may determine if states can be trusted with fiscal policy as well as whether taxpayers and the federal government must act to prevent states from mishandling public funds.

Keywords

Federal, state, budget, fiscal, policy, debt, deficit, outlay, taxpayer, revenue, spending, pension, bailout, fund, expenditure, economy, recession.

“[California] has wasted billions of dollars on their out-of-control Fast Train, with no hope of completion" (Bizjack, Sheehan and Anderson 2019). This 2019 tweet from former President Trump highlights the frustration federal officials experience when states choose budget priorities. State officials deliberate with federal officials over what prerogatives state governments possess on policy issues. However, no dispute exists over whether states have sole authority over how to craft their own budgets, since federal officials acknowledge the states’ budgetary authority. States may accept federal grants, but they can decline federal funds and attempt to fund programs with their own revenue. Fiscal policy is an excellent area to study Daniel Elazar’s question: Can the states be trusted? (Elazar 1974). Creating a consensus on this question is an unfortunate challenge because what one scholar sees as trustworthy behavior may be questioned by others on partisan grounds. Focusing on empirical policy areas helps to avert this issue.

Analyzing fiscal policy to answer Elazar’s question has several advantages. First, many scholars agree it is unethical to leave large amounts of debt to future generations. For example, Isabel Sawhill (2006), an economics researcher at the Brookings Institution, declares that leaving debt to another generation is, “irresponsible [and] immoral” (Sawhill 2006). Concurrence on this ethical norm can result in agreement on Elazar’s question. The second advantage to examining Elazar’s question with fiscal policy is found in accountability. Because states are vested with the power to craft their own budgets, it is difficult to shift blame if a state has a significant amount of debt. Consequently, states with burdensome fiscal policy can be held accountable. If the majority of states were found to have an untenable fiscal situation, then the states would be untrustworthy in fiscal policy. Conversely, if the states have created a tenable fiscal situation with adequate means to pay for future spending, then the states would be worthy of public confidence. The answers to questions about state fiscal responsibility can be determined by a carefully crafted analysis of state budgets.

An analysis of state behavior must begin by recognizing states work within a federal system. According to Shadarda Rath, a federal system can be defined, at its core, as a plan of governance in which "sovereignty or political power is divided between the Central and local Governments…"[1] (Rath 1978). Some dispute exists regarding the extent to which the definition should be expanded to cover different aspects of federalism, such as the interdependence between governments to provide social services (Rath 1978), but this definition does provide a useful pathway to analyze states in the context of a federal system.

Since states work within a federal system, there are certain restrictions placed on state fiscal policy. For example, states cannot promise to pay for programs by printing currency since this is a federal responsibility. Money which states spend outside of tax funds will generally be accounted for within state liabilities. State debt is a key statistic in ascertaining whether state debt is burdensome. However, to ascertain whether state debt is burdensome, a somewhat obscure measurement of liability should be used: debt-to-GDP (Gross Domestic Product) ratio.

A theoretical example is useful for understanding debt-to-GDP ratio. If the individuals and businesses within a state collectively earn one hundred billion dollars

[1] Rath's article covers several potential definitions of federalism. This definition was excerpted from Rath's definition of federalism as defined in a classical sense, which Rath draws from the Australian scholar Robert Garran. Elements of the definition used here are found in all definitions of federalism presented in Rath's article, thus indicating its wide acceptance.

and the government owes ten billion dollars, then the government owes 10% of the state's income. The income of all the residents and businesses within the state is approximately its GDP. Economists often measure the debt of a state by the state's debt-to-GDP ratio. This measurement can be calculated by dividing a state's debt by its GDP (Figure 1). The result is an excellent tool for measuring how much a state has burdened its residents with debt.

$$\boxed{\text{Debt-to-GDP Ratio} = \text{Debt} \div \text{Gross Domestic Product}}$$

Because local governments are established by and dependent on states for their existence, local debt will be added into the state's debt for all debt-to-GDP ratios in this paper except when otherwise noted. This captures a fuller picture of the financial burdens states have created because states often place part of the costs for running state programs on local governments. Using debt-to-GDP ratios, the burdensomeness of state debt can be quantified.

Before exploring how financially responsible the states are, the term "debt" must be defined. Timothy Irwin (2015), a researcher for the International Monetary Fund, explained various ways of measuring debt and debate regarding which method is best. Some economists argue for only measuring debt a government reports while others contend unfunded liabilities must be counted (Irwin 2015). In this paper, debt is defined as government bonds and other securities. This definition does not encompass long-term liabilities such as unfunded pension programs. However, the effect of long-term liabilities on state debt will also be analyzed. Defining debt as bonds and other securities, the states' fiscal success or failure can be ascertained.

State Ability to Meet Previous Outlays

One essential question which must be answered when determining if the states are living within their means is whether states have raised sufficient revenue in recent years to cover their expenses. For this test, it is important to utilize a long-term analysis to capture a complete picture of how well the states covered their promised disbursements with revenue. Pew Charitable Trusts quantified state outlays and revenues for fiscal years 2004 to 2018. This data indicates many states succeeded in covering their expenditures. As shown in Figure 2, forty-one states covered all their expenses with revenue (Rosewicz, et al. 2020). The nine states which failed, Connecticut, Delaware, Hawaii, Kentucky, Illinois, Maryland, Massachusetts, New Jersey, and New York vary significantly in their performances. Four of the nine states, Connecticut, Delaware, Maryland, and New York, covered at least 99% of their expenditures, and the median state retained an excess of 2.6% of their promised outlays (Rosewicz, et al. 2020). Five states, Hawaii, Illinois, Kentucky, New Jersey and Massachusetts, have more serious shortfalls. The states collectively perform quite well in this metric. States achieved this outcome despite two recessions which cut deep into state revenue (Rosewicz, et al.

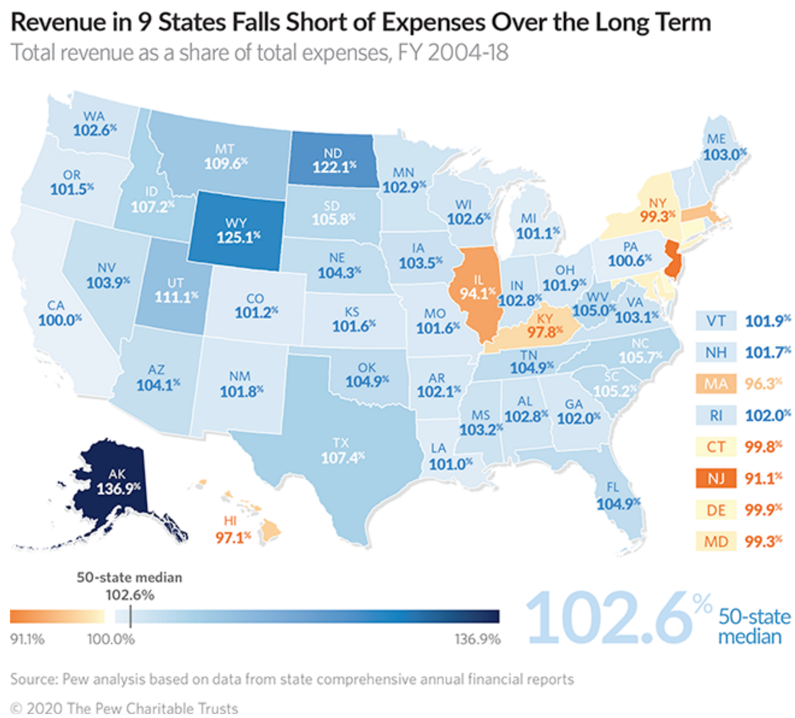


Figure – Total Revenue as a Share of Total Expenses, FY 2004-18 CITATION Ros20 \l 1033 (Rosewicz, et al. 2020))

2020). Thus, states, on the whole, succeeded in meeting expectations by covering expenditures with their promised outlays.

While one may be inclined to laude the states for covering expenditures, states could be considered financially irresponsible if they financed their outlays while ignoring substantial debt. If proven true, the states might be considered unfaithful in their financial obligations. Considering state obligations with debt-to-GDP ratios, data shows all states have accumulated noticeable debt. Kentucky is the worst offender, sustaining its budget with debt equivalent to 23.5% of GDP in 2018 (Cantrill n.d.). Wyoming performs the best with a debt-to-GDP ratio of 4.8% (Cantrill n.d.). As of 2018, the median state owed debt equal to 14.5% of GDP[2]. These numbers may lead to criticism of the states for maintaining an excessive level of debt.

However, these debt-to-GDP ratios need to be analyzed in context. Almost all modern nations, as well as most modern democracies, facilitate permanent debt. How does the median state's debt compare to debt maintained by other countries, especially other democracies? In this context, the states perform surprisingly well. The median state has a better debt-to-GDP ratio than 178 of the 184[3] countries with available data, and the median state performs better than every industrialized democracy except Estonia (World Population Review n.d.). Even Kentucky, with the worst ratio of any state, has a lower debt-to-GDP ratio than 164 countries with available data[4] (World Population Review n.d.). Not only are the states' levels of debt sustainable, but they are also commendably low. Thus, the analysis suggests states on the whole have neither

[2] Figure is derived by averaging the debt-to-GDP ratios of the 25th and 26th states (Vermont and Minnesota respectively) as measured by usgovernmentspending.com (Cantrill n.d.).
[3] Comparison was obtained by comparing the median state's debt-to-GDP ratio to countries' debt-to-GDP ratios as measured by World Population Review (World Population Review n.d.).
[4] Comparison was obtained by comparing Kentucky's debt-to-GDP ratio to countries' debt-to-GDP ratios as measured by the World Population Review.

overspent nor financed their spending with excessive debt. The evidence indicates the states have been living within their means. The fact states have managed to both sustain their recent budgets with revenue and maintained relatively low debt levels leads to the conclusion that the states have discharged their recent fiscal duties remarkably well.

Whether Previous State Debts have been Disguised

While the states prove adept at managing recent revenue and expenditures, a question arises on whether states are disguising debt. States could disguise liabilities by either shifting debt to other entities or delaying costs by raiding reserves meant for long-term use such as pension funds and rainy-day funds. Although pension funding shortfalls and rainy-day fund raids are not calculated into state debt, they are still a cost imposed on taxpayers in the future. Thus, they are intensely relevant to a discussion of whether the states are living within their means.

When considering whether the states have been engaging in "rainy day fund" raids, it should be noted this measurement of state responsibility focuses on

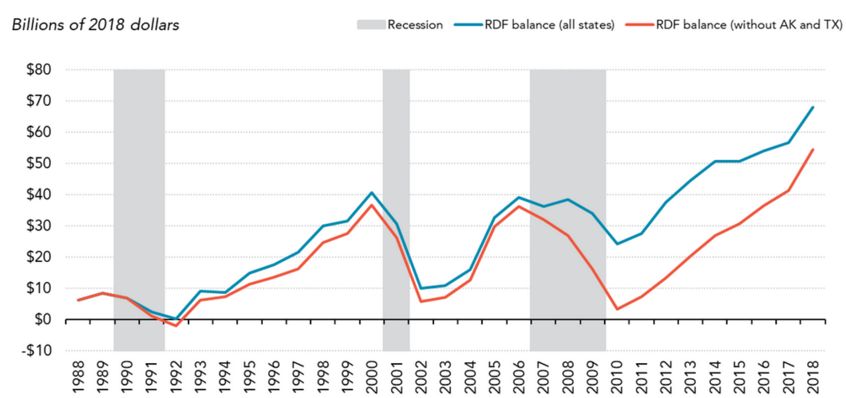


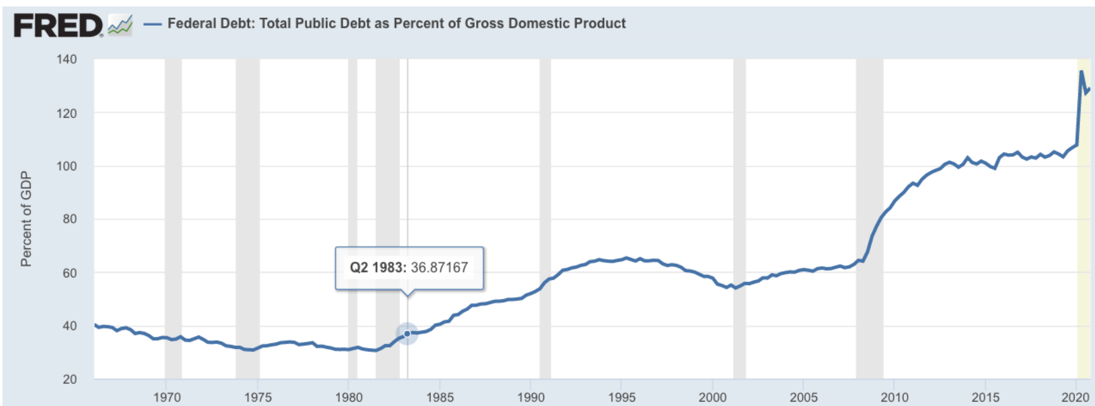
Figure - Graph from the Tax Policy Center CITATION Tax20 \l 1033 (Tax Policy Center 2020)

when states withdraw from rainy day funds. Rainy day funds are created to assist states endure a crisis. If states are generally removing revenue from rainy day funds during crises and reinvesting during prosperous years, then states are acting responsibly with these funds. If the states have been removing money from rainy day funds during economically prosperous times, the states can be considered fiscally irresponsible. The Tax Policy Center indicates states have performed quite well. As shown in Figure 3, states consistently withdraw from their rainy-day funds when recessions occur and reinvest in the funds when prosperity returns (Tax Policy Center 2020). Scant evidence exists that states have withdrawn from rainy day funds at irresponsible times.

While states' handling of rainy-day funds is encouraging, states' pension management is not as impressive. When the initial estimates of state pension funds shortfalls are examined, a disappointing picture emerges. Pension programs provide a large amount of cash officials can utilize without offending voters by raising taxes. State officials around the country have indulged in pension fund raids. Forty-eight of the fifty states have failed to cover their pension programs. Most of the states do not have 80% of the required funds (Cammenga 2020). Only South Dakota and Wisconsin have managed their pension funds sufficiently to ensure the pension programs are fully funded (Cammenga 2020). The states in total had accumulated $1.2 trillion dollars in unfunded pension liabilities by 2018 (Pew Charitable Trusts 2020). Researchers at Moody's Investors Service have argued that when local pension shortfalls are added, the number balloons to $4.4 trillion dollars (Knowledge@Wharton 2018). The sheer size of this shortfall could suggest states have behaved in a fiscally reckless manner by raiding pension funds, grabbing public revenue meant for long-term use, and creating a liability unreported in enumerations of governmental debt.

While states have clearly not behaved in a responsible manner with pension funds, this does not necessarily imply the states are fiscally irresponsible on the whole.

To ascertain whether states are fiscally irresponsible, underfunded pensions should be considered with larger considerations of state debt. With this context, the picture becomes more encouraging. Adding state pension shortfalls into overall state debt, one finds the average state's debt-to-GDP ratio increases by 5.6%[5], so the median state's debt-to-GDP ratio rises to 20.2%[6]. If local pension shortfalls are included, the median state has a debt-to-GDP ratio of 35.5%[7]. This figure may seem large, and it does



indicate states need to improve their fiscal standing, but this is an encouraging outcome for several reasons. First, as shown in Figure 4, the federal debt-to-GDP ratio has been higher than this amount since 1983 (Federal Reserve Economic Data 2021), which indicates the states have decisively outperformed the federal government in fiscal restraint. Second, even with added pension liabilities, the median state's debt-to-GDP

[5] This figure is calculated by dividing the total state pension shortfall by the GDP of all the states (U.S. GDP minus the GDP of U.S. territories). U.S. GDP was $21.43 trillion in 2019 (World Bank 2021). The GDP of each of the major territories was $636 million for American Samoa, $5.92 billion for Guam, $1.32 billion for Northern Marianas Islands, $105 billion for Puerto Rico, and $3.86 billion for the U.S. Virgin Islands (The World Bank 2021). Subtracting these territories' GDP from total U.S. GDP equals approximately $21.31 trillion. Thus, the debt-to-GDP ratio for the median state increases by $1.2 trillion/$21.31 trillion or 5.6% of GDP when unfunded state pensions are accounted for.
[6] This figure is calculated by adding the debt-to-GDP ratio of the median state to the debt-to-GDP ratio increase that occurs as a result of adding in state pension shortfalls.
[7] Using the process from footnote 5, the debt-to-GDP ratio increases by $4.4 trillion/$21.31 trillion or 21% when both state and local pension shortfalls are counted. Adding this figure to the earlier median state debt-to-GDP ratio results in 35.5%.

ratio is still superior to those of 144 of the 184[8] countries with available data (Cantrill n.d.). This comparison is made without adjusting countries' debts with unfunded pensions, which would improve the relative position of the states. Third, this number is too low to have a negative impact on the public's economic endeavors on its own. Economists generally agree government debt does not have negative consequences for the economy until the debt-to-GDP ratio reaches 75%[9] (de Rugy and Salmon, Debt and Growth 2020). The median state's debt-to-GDP ratio is well below this number. Overall figures for state pension shortfalls are discouraging on their face. However, when pension shortfalls are considered in the overall picture of state finances, the picture becomes more positive.

Because state debt transferred to the federal government is a form of state overspending which hurts taxpayers, such transfers must be considered in the larger picture of how states spend public revenue. Theoretically, states could disguise their debts by overspending and transferring the deficit to the federal government. In this scenario, state debts would be moved to the federal debt, thus further disguising the burden states may be placing on American taxpayers. Measurements of state-federal debt transfers should only count funds sent to the state governments to cover shortfalls in state budgets, or "bailouts" as the practice is commonly known. Federal-state bailouts have been quite rare in American history. Only two have occurred in recent history. Under President Obama, a bailout granted states $140 billion to cover shortfalls in revenue (Grunwald 2020). In 2021, another state bailout occurred with $350 billion in

[8] Statistic was obtained by comparing a 36% debt-to-GDP ratio to other countries' debt-to-GDP ratios as measured by World Population Review (World Population Review n.d.).
[9] There is some controversy among economists over what the exact "tipping point" is where public debt begins to have a negative impact on the economy. Studies vary between figures of 75% to 100% (de Rugy and Salmon, Debt and Growth 2020). However, there is wide agreement that public debt does not impact a country's when debt remains below 75% of GDP.

the Biden Administration's Covid relief package (Kapur and Sarlin 2021). The collective $490 billion in transfers from state deficits to the federal debt if counted into state debt would add 2.3%[10] to the median state's debt-to-GDP ratio. This change, while notable, hardly alters the underlying consideration of whether the states can be trusted with fiscal policy.

Adding pension liabilities and bailouts to state debt only results in a 37.8%[11] debt-to-GDP ratio for the median state. This is a significant, but not overly burdensome amount. The total amount of debt the median state has, once adjusted for hidden costs, is better than 73%[12] of countries with available data. Again, this is without adjusting these countries' debts for shortfalls in long-term spending programs (World Population Review n.d.). The median state's debt-to-GDP ratio is also substantially better than the federal government's 2018 debt-to-GDP ratio of 106.7%[13] (World Population Review n.d.). Considering the data as a whole, states have proved themselves competent managing previous outlays and preventing excessive debt.

The States' Ability to Endure a Fiscal Disaster

All states recognize revenue varies from year to year, largely depending on the condition of the economy. When a downturn occurs, states face lower revenues and heightened demands for spending. Economic disasters place states in a very difficult situation. Therefore, analysts often assess states' ability to meet economic crises with reserves. Some of these assessments report a dour conclusion. One scholar, Veronique

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[10] Calculated by dividing $490 billion by $21.31 trillion.
[11] This figure adds federal bailout funds as measured by a debt-to-GDP ratio (2.3%) to the earlier figure of 35.5%.
[12] Number calculated by comparing 37.8% to countries' debt-to-GDP ratios as measured by the World Population Review (World Population Review n.d.).
[13] The most recent figure (Q4 2020) stands at approximately 129% (Federal Reserve Economic Data 2021).

de Rugy, analyzing a report from the Mercatus Center, made such a grim assessment in 2018.

> These states [Kentucky, Massachusetts, New Jersey, Connecticut, and Illinois] face large debt obligations and have too little cash on hand to pay short-term bills. It doesn't take a professional accountant to understand that those bad fiscal habits could spell disaster for states during a recession or emergency…. The study's most important finding is that being at the top makes you healthier than others by comparison but not necessarily healthy overall. In fact, the authors show that every single state would be in trouble if another financial crisis were to happen (de Rugy, Think Your State 2018).

This sort of prediction implies that states have shirked their responsibility to prepare for a fiscal disaster. The Covid-19 Recession provides an applicable economic calamity to assess state readiness for fiscal challenges. Two relevant questions emerge concerning the Covid-19 Recession. How severely did the recession impact state revenues? How well have the states weathered the difficulty?

The impact of the Covid-19 Recession on state budgets has been significantly less than expected. Researchers at the American Enterprise Institute estimated states may expect a $105 billion drop in expended revenue in the 2021 fiscal year (Veuger and Clemens 2020). The drop in revenue is less than many researchers initially projected when the Covid-19 Recession began but still presents a budgetary challenge. By contrast, states lost $283 billion in expected revenue during the Great Recession or about $70 billion each year (Pew Charitable Trusts 2019). Arguably, the fiscal harm inflicted on state budgets during the Covid-19 Recession is greater than the challenges posed in the average year during the Great Recession[14]. Unexpected costs during both recessions were largely absorbed by the federal government. Interestingly, before the pandemic, the states had approximately $70 billion in rainy day funds (Tax Policy Center 2020). Fortunately, the states had an additional $130 billion in unreserved balances to cover the rest of the shortfall (Lucci and Joffe 2021). However, the states could have done better. The shortfall in expected revenue due to the Covid-19 pandemic was mostly accounted for by rainy day funding, but it was not entirely covered. Considering how the Great Recession wreaked $283 billion in damage to state budgets, it would have been prudent for the states to have saved more for economically difficult periods.

Currently, most state budgets have fiscally recovered from the pandemic-induced recession (Horsley 2021). Through cost-cutting and budget trimming efforts, states have managed to hold their budgets intact despite the pandemic. Given the fiscal condition of the states as of early 2021, it is clear some states have not managed their budgets particularly well (Lucci and Joffe 2021), but most states have done a sufficient job. Overall, the states have significant room for improvement in preparing for revenue losses. However, the ability of states to fiscally recover from the Covid-19 Recession demonstrates that claims of budgetary vulnerability were exaggerated. States did not prepare for an extended loss of revenue, but the states were ready for a significant short-term challenge. On the whole, states were fiscally ready for the Covid-19 Recession. These facts provide reason to believe the states are worthy of public trust

[14] This holds true regardless of whether inflation is considered. A 2010 dollar is 1.19 times as valuable as a 2020 dollar [calculated using U.S. Bureau of Labor Statistics Inflation Calculator (U.S. Bureau of Labor Statistics n.d.)]. Adjusting for inflation would make the average shortfall during the Great Recession approximately $86 billion.

with fiscal disaster planning. Such a conclusion aligns with the evidence states have successfully avoided excessive debt. Assessing state debt and fiscal disaster responsibility, it would appear the states have earned public trust in managing their budgets. This, however, prompts consideration of how well the states have prepared for future spending.

Ability to Pay for Future Programs

Even though the states have avoided debt and created sufficient funds to cover disasters, the states may have covered their previous spending in a way that has sabotaged their ability to pay for future spending. Such a conclusion would undermine the belief that the states have successfully shown themselves to be worthy of public trust in finances. States are obligated to pay for many entitlement programs and promises. If states are able to meet these programs with revenue, then one can conclude that the states can be trusted in fiscal policy. The answer to the question of the states' ability to pay for future programs might be safely revealed by studying pension payments. If the state governments have the ability to meet pension payments, which remain the fund most maligned as untenable due to mismanagement, then it could be inferred states have the ability to pay for other promises. Studying state ability to meet future pension payments is a useful consideration in determining whether or not the states can be trusted.

The viability of state and local pension funds has been subjected to much debate and numerous articles. Such articles often proclaim pension programs are in "crisis" (O'Connor 2021). These articles suggest the shortfall in state and local pensions, $4.4 trillion (Knowledge@Wharton 2018), is large enough that states will not be able to cover the amount. The result will be states will reduce promised pensions and retired public employees will suffer from the cutback. Such articles also suggest public pension holders should not rely upon their pensions into their retirement benefits (Smith 2013). Despite this rhetoric, researchers at the Brookings Institution have argued state and local pensions can be put on sound footing without significant harm to taxpayers. Using a broad range of pension plans for analysis, the researchers argue most pension funds are not in crisis (Sheiner 2019). Viewing the pension shortfall as a form of debt, the researchers suggest that the long-term liabilities in pension plans can be funded with future revenue if states do not significantly exacerbate the problem by withdrawing additional revenue from the pension funds. The researchers argue most programs could be stabilized in ten years without a notable difference in the amount state and local governments allocate to their pension systems (Sheiner 2019). This finding strongly indicates that the states retain multiple options for funding their pension plans. Also, states have not undercut their ability to pay for future pension outlays.

In the future, states will have to fund many programs outside of pension outlays, but the long-term viability of pension programs provides strong evidence states will have the ability to pay for these programs. Because states retain pathways for covering pension programs, where officials have arguably acted in the most irresponsible manner of any part of state and local fiscal policy, there is sufficient reason to believe states retain options to pay for programs in other areas of spending as well. The history of state payments for promised outlays would support this conclusion. Only one state, Arkansas, has defaulted on its debt in the last one hundred fifty years. The default occurred in 1933 during one of the worst economic periods in American history (Davey

2011). No state has suffered a default since 1933, and it is very unlikely any state will default in the foreseeable future. Given this history, taxpayers can expect the states will meet their promised payments. Collectively, the viability of pension funds and the unlikelihood of state default are strong evidence in favor of the states' future fiscal strength. Ultimately, the public has every reason to believe the states do have the ability to pay for future spending.

Implications

The ability for the states to pay for future spending, along with more general evidence toward state trustworthiness in the realm of fiscal policy, has several implications for state policy makers and scholars of federalism. First, it implies the federal government should allow the states flexibility with grants. Because the states can generally be trusted with public finances, it makes sense that policymakers on the federal level should operate with the presumption that states will usually spend their funds responsibility. In addition, this conclusion also implies that state policymakers should be hesitant to significantly alter procedures for taxing and allocating funds. Since the current systems in many of the states are producing fiscally-restrained results, policymakers in most states should consider any proposed changes with great care. On the other hand, policymakers in the states where relatively less fiscal restraint is being exercised should strongly consider adopting fiscal procedures present in other states. Following successful procedures may assist in correcting the fiscal difficulties in states where fiscal restraint is less frequently practiced. As fiscal laboratories of democracy, the states can serve an important role by discovering procedures which incentivize financial responsibility.

The role of states as fiscal laboratories of democracy bears implication for federalist scholars as well. Since the states serve an important role in testing policy procedures, scholars should devote special attention to studying how and when states adopt each other's procedures for fiscal legislation and how such procedural adoptions occur. Such study is necessary because it may allow analysts to predict whether and when states will change their budgetary procedures to encourage more fiscal responsibility. Such studies may also reveal whether state legislators adopt reforms or whether changes must be imposed on the legislators by voters, thus potentially giving voters in fiscally troubled states guidance on how to improve their state's fiscal position. The fiscal trustworthiness of the states suggests important implications for policymaker and researchers alike as both attempt to understand and implement methods to reduce deficits and increase the fiscal standing of the states.

Conclusion

The evidence concerning the states' level of financial responsibility points to the conclusion states can be trusted with fiscal policy. Such a conclusion is supported by evidence that even when long-term liabilities are considered, the median state remains in a better financial position than most countries. This conclusion is further supported by the states' preparation for the fiscal disaster resulting from the Covid-19 pandemic, while acknowledging room for improvement. This evidence is further bolstered by research showing the states can finance pension spending, which shows the states have not compromised future outlays to maintain previous spending. Some states have not followed the trend of trustworthiness. Particularly, Kentucky, New Jersey, and Illinois have not been restrained in their spending, which has earned these states justified and intense scrutiny for their budgetary missteps. However, evidence leads to the conclusion most states can be trusted with public finances. On the whole, the states have successfully managed to live within their means.

Inquiries resulting from this conclusion provide need to research why many states are able to practice fiscal restraint. Do the myriad of restrictions states face when crafting their budgets prevent state legislatures from overspending? Would placing these restrictions on policymakers in the less fiscally restrained states such as Kentucky, New Jersey, and Illinois create a more fiscally sound situation in those states? Conversely, do policy makers with fiscal flexibility produce responsible budgets? Exploring such questions could provide useful guidance to voters in states with a comparatively poor fiscal situation. Further research along these lines may have the effect of giving the public useful guidelines to prevent the misspending occurring on the state level. In addition, researchers delving into this question may recommend state legislatures be given flexibility in developing their budgets if researchers find that states show the most fiscal restraint when presented with options for creating the state budgets. These inquiries may result in useful research for constructing procedures that promote fiscal restraint in the future.

The states have been subjected to scrutiny through this analysis to demonstrate that when all relevant factors are taken into account, states are generally trustworthy with public funds. This conclusion may not align with narratives focusing on the least responsible states, but it brings perspective to the debate over whether states can be trusted. In answer to Elazar's question, one must say, at least for the realm of fiscal policy, the states can be trusted.

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