A SOCIOLOGY OF FISCAL AND FINANCIAL POLICY IN THE UNITED STATES

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A SOCIOLOGY OF FISCAL AND FINANCIAL POLICY IN THE UNITED STATES

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This dissertation explores the social structures of state-level financial and fiscal policies in the United States seeking to uncover how these policies and their evaluation processes influence inequality outcomes. In three papers, each comprising a chapter of the dissertation, I explore the social structures influencing outcomes for state-level financial literacy, income tax, and tax expenditure evaluation policies, respectively. In the first chapter, I present a discourse analysis of state-level financial literacy legislation between 1997 and 2017. During this time, financial literacy reforms maintained near-universal support, while they persistently failed to meet their intended outcomes. I extend Meyer and Zucker's (1989) theory of permanently failing organizations toward a theory of permanently failing government reform.

The second chapter employs a panel model analysis to predict the progressivity of state-level individual income tax rates during the time period of 1981 through 2015—a period characterized as the "permanent tax revolt" (Marin 2008). Findings suggest that higher income inequality is associated with more progressive income tax structures, while states with a higher share of the population that is nonwhite tend toward less progressive structures. In the third chapter, drawing from Oregon income tax expenditure evaluation between 1995 and 2018, I find that formal policy evaluation processes are embedded in their institutional, political, and economic environments. This suggests that evaluation reporting alone may be insufficient to overcome policy 'lock-in effects' (Pierson 1993).

BIOGRAPHICAL SKETCH

Kate M. Watkins began her Ph.D. program at Cornell University in 2013. Her concentrations include Economic Sociology and Social Networks. Kate's recent research interests include state-level tax and financial literacy policies in the United States. Kate holds a Master of Arts in Sociology from Cornell University and a Masters of Arts in Global Finance, Trade, and Economic Integration from the University of Denver, Korbel School of International Studies. Kate is a member of the Economic Sociology and Historical Sociology sections of the American Sociological Association.

Outside of her academic pursuits, Kate is the Chief Economist for the Colorado state legislature. Kate leads a team of social scientists who provide analyses of the disparate impacts of legislation across demographic groups ("Demographic Notes"). The team also provides economic, revenue, and caseload forecasts as well as fiscal policy analyses that inform the state budget and legislative decision-making in Colorado. In the past, Kate served as a regional economist at the Denver Branch of the Federal Reserve Bank of Kansas City. She was also a consultant with Booz Allen Hamilton, where she provided socio-economic and business analysis for various federal government agencies.

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INTRODUCTION

> The public finances are one of the best staring points for investigation of society, especially though not exclusively of its political life.
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> – Joseph A. Schumpeter ([1918] 1991)

This work explores the social structures of state-level financial and fiscal policies in the United States, seeking to uncover how these policies and their evaluation processes influence inequality and other policy outcomes. While underexplored relative to nation-state comparisons, state-level policies in the U.S. are valuable subjects for sociological inquiry as they offer variation in institutional, political, and socioeconomic structures allowing for meaningful comparative and historical analysis. The work here is intended to add to existing sociological theory, including fiscal and political sociology and sociology of evaluation literature to identify new "mechanisms' (Hedström and Swedberg 1998) in tax, financial education, and other policy environments that may contribute to 'lock-in effects' (Pierson 1993) and other policy outcomes, including those impacting inequality across socioeconomic strata.

The first chapter of this dissertation examines the proliferation of financial literacy reforms across U.S. states between 1997 and 2017. While these reforms received near-universal support during this period, a growing body of research suggest that they have failed to meet their stated objectives of engendering "good" financial decision-making. This begs the question: why do ineffective reforms continue to be adopted? Seeking answers, I apply Meyer and Zucker's (1989) theory of permanently failing organizations to the case of financial literacy reforms as a point of departure.

The second and third chapters turn an eye toward the sociological determinants of tax policy outcomes. Classical scholars, including Joseph Schumpeter ([1918] 1991), Max Weber ([1922] 1968), and Karl Marx (Marx and Engels [1848] 1996), variously describe taxation as a cause and consequence of social action, as a symptom of social

change, and willingness to comply with revenue extraction. The second and third chapters draw upon these classical insights and more recent theoretical frameworks emerging from political and fiscal sociology and sociology of evaluation literature.

More specifically, the second chapter investigates the influence of several socioeconomic factors, including racial composition, income inequality, and degree of urbanization, on the progressivity of state individual income tax rates between 1981 and 2015—a period characterized as the "permanent tax revolt" (Marin 2008). The third chapter seeks to bridge fiscal and political sociological theory with the sociology of evaluation literature in an investigation of the role of tax expenditure evaluation on taxpayer inequality outcomes drawing from the experience of the state of Oregon from 1995 through 2018.

The analysis that follows relies on archival documents and data gathered from across U.S. states that speak to each state's varied politics, institutions, and socioeconomic compositions. The research included here is also informed by eight years serving as an economist and policy analyst for the Colorado state legislature, embedded in the institutional and political environments of the Centennial State. This dissertation seeks to bridge and lend new insights to sociological theories spanning multiple subfields, while also lending to policy dialogues as they relate to taxation and financial education.

CHAPTER ONE

PERMANENTLY FAILING REFORMS? A DISCOURSE ANALYSIS OF YOUTH FINANCIAL LITERACY REFORMS IN U.S. STATES, 1997 TO 2017

Abstract. This chapter examines the proliferation of financial literacy reforms introduced across U.S. states between 1997 and 2017. While these reforms received near-universal support, a growing body of research suggest that they have failed to meet their stated objectives of engendering "good" financial decision-making. This begs the question: why do ineffective reforms continue to be adopted? I apply Meyer and Zucker's (1989) theory of permanently failing organizations to the case of financial literacy reforms as a point of departure.

INTRODUCTION

The concept of "financial literacy" arrived on the U.S. policy scene in the late-1980s when the financial industry and financial education organizations began lobbying federal and state government officials to encourage greater public awareness of the importance of personal financial literacy—making "sound" financial decisions about one's household finances (Walstad et al. 2016). Financial literacy initiatives have garnered overwhelming support from private, nonprofit, and government actors, and a proliferation of reforms continue to be adopted across U.S. states seeking to engender financial literacy among the American public through education and awareness campaigns. As of 2017, every state in the U.S. has adopted standards and curricula for youth financial literacy (CEE 2018a). Yet, this movement poses a paradox: while financial literacy reforms maintain near-universal support, they persistently fail to meet their intended outcomes (see Alsemgeest 2015; Fernandes et al. 2014; Hastings et al. 2013; and McCormick 2009).

This chapter seeks to explain this paradox and proceeds as follows: First, a brief history of U.S. financial literacy reform is presented, and evidence of the failure of these reforms is summarized. Meyer and Zucker's theory of permanently failing organizations

is then presented as a promising analytical framework for understanding permanently failing reforms. Drawing from this framework, I present a discourse analysis of the corpus of state-level financial literacy legislation enacted over the past two decades, exploring the evolution of reforms adopted over time and across states. The chapter concludes with a discussion of the extension of Meyer and Zucker's theory of permanently failing organizations toward a theory of permanently failing government reform.

Financial literacy reforms: Strong support, persistent failure

The following provides a brief history of U.S. financial literacy reform, drawing from academic literature and archival documents. Drawing from existing empirical research, evidence of the failures of these reforms is then summarized. Finally, criticisms of financial literacy reforms are summarized.

Old concepts under a new name. While the concept of "financial literacy" is relatively new, formal financial education has a long history in the U.S. Indeed, the inclusion of U.S. financial education in public primary and secondary schools dates back to at least the 1950s, when a handful of states began mandating the inclusion of personal finance and consumer education in high school curricula (Bernheim et al. 2001). Early iterations of financial education took the form of "home economics," which included household budgeting, and was typified by the gendered distribution of household labor. Indeed, financial literacy reforms might be construed as a new take on these home economics reforms.[1] While the same concepts are shared, home economics and financial literacy

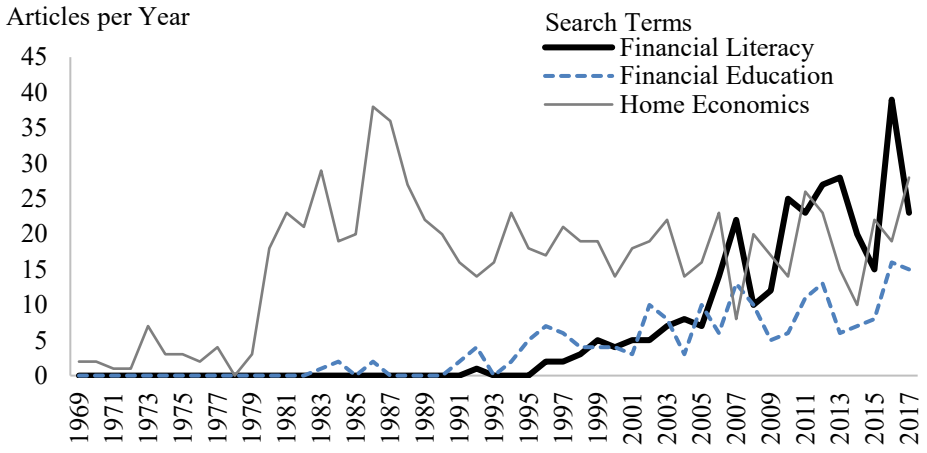
[1] For a history of the home economics movement, see Stage and Vincenti (1997). Like financial literacy, home economics reforms were promoted by organizational actors, namely the American Home Economics Association.

movements engage different targets of educational information. The former engages the family unit, while the latter largely treats individuals as atomized rational economic actors, or *homo economicus* (Henchoz 2016).

A search of major global newspapers places the first reference to the term "financial literacy" in London's *The Times* newspaper in 1987. This article references the Institute of Chartered Accountants' "forceful" arguments in favor of financial literacy as "a skill which must not be neglected at either a professional or personal level by anyone who intends to make a success of their career" (Fennel April 13, 1987). Financial literacy first made the news in a major U.S. paper two years later when the *Washington Post* published an article detailing a "first of its kind" program offered by the State of Maryland to provide financial assistance from the International Franchise Association to help aspiring entrepreneurs develop business plans through a training seminar, titled "Preparing for Mega-Success" (Crenshaw June 5, 1989). In early media coverage, financial literacy interventions emerge with strong support from business organizations, targeting "disadvantaged" but aspiring adult professionals.

References to financial literacy grew from there, as demonstrated by the appearance of the term in the *New York Times* over the three decades prior to 2017 (Figure 1.1). Over this same period, references to "financial education"—the purported engenderer of financial literacy—also rose. By contrast, appearance of the term "home economics" has slowed. The term peaked just prior to the start of financial literacy's entry onto the media scene, with the latter term surpassing the former in appearances in recent years.

Figure 1.1
Appearance of Terms in the Body of *New York Times* Articles



Source: Author's search of New York Times articles using LexisNexis Academic.

The institutionalization of financial literacy. Toward the end of the 1990s, the "institutionalization" (Meyer and Rowan 1977) of financial education by state and local governments took hold. A growing number of states began to offer programs for entrepreneurs, but an increasing number targeted youth through public kindergarten through twelfth-grade education. Youth education is intended to provide the knowledge and tools for use later in life. As many young adults may not attend college or have access to a college course in personal finance, high school was seen as a particularly effective location for diffusion (Walstad et al. 2016). In 2017, all 50 states and the District of Columbia required the inclusion of economics in public school education standards, and 45 states specifically required the inclusion of personal finance. At the high school level, 25 states required a course in economics in 2017, and 22 states required a course specific to personal finance (CEE 2018a).

Financial literacy initiatives are not limited to state and local government actors. Indeed, federal government initiatives and support are well documented. For example,

financial literacy reforms were encouraged by Federal Reserve Chairmen Alan Greenspan[2] and Ben Bernanke[3], as well as U.S. Presidents George W. Bush[4] and Barack Obama[5]. Additionally, a sizable number of federal government agencies have adopted financial literacy initiatives or offered financial literacy programs. By 2009, more than 20 different U.S. federal government agencies provided more than 50 different financial literacy reforms that offered awareness, education, and consumer protection services (GAO 2011; GAO 2014).[6]

The implicit causal model of financial literacy. Accompanying financial literacy reforms is a large body of academic research promoted by a small number of scholars that forwards an implicit causal model of financial education on financial literacy and its proposed downstream impacts. These studies assume theories of financial behavior drawn from neoclassical economics, garnished with the more modern twist of behavioral economics.

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[2] "Education enabling individuals to overcome their reluctance or inability to take full advantage of technological advances and product innovation can be a means of increasing economic opportunity" (Federal Reserve Chairman Alan Greenspan, October 26, 2001).

[3] "In our dynamic and complex financial marketplace, financial education must be a life-long pursuit that enables consumers of all ages and economic positions to stay attuned to changes in their financial needs and circumstances and to take advantage of products and services that best meet their goals. Well-informed consumers, who can serve as their own advocates, are one of the best lines of defense against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive" (Federal Reserve Chairman Ben S. Bernanke, April 20, 2011).

[4] "Earlier today I signed an executive order establishing the President's Advisory Council on Financial Literacy. I have asked people from the business world, the faith world, the non-profit world, to join this council in order to come up with recommendations as to how to better educate people from all walks of life about matters pertaining to their finances and their future" (President George W. Bush, January 8, 2008).

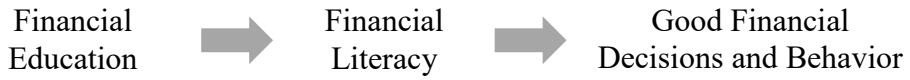
[5] "Americans' ability to build a secure future for themselves and their families requires the navigation of an increasingly complex financial system. As we recover from the worst economic crisis in generations, it is more important than ever to be knowledgeable about the consequences of our financial decisions.… We recommit to improving financial literacy and ensuring all Americans have access to trustworthy financial services and products"
(President Barack Obama, March 31, 2011, as quoted in the President's Advisory Council on Financial Capability Final Report 2013: 1).

[6] Since, many of these programs have been consolidated under the Consumer Financial Protection Bureau (CFPB), which was established in 2010 (GAO 2014).

Pursuant to Modigliani and Brumberg's (1954; see also Modigliani 1976) lifetime consumption model, rational financial consumers are assumed to arrange their savings and consumption to "smooth marginal utility over [their] lifetimes" (Lusardi and Mitchell 2014, 6). Yet, the complexity of navigating financial markets and welfare regimes challenges optimal decision-making to this end. Financial consumers often do not know how much they will make over the course of their lifetimes. Financial literacy proponents claim, these "boundedly" rational (Simon 1957) financial consumers may even possess an optimal level of financial ignorance, given the opportunity cost of the time and money spent on securing financial knowledge (Lusardi and Mitchell 2014, 6).

Within this literature, financial literacy is described as an investment in "human capital" (Becker 1975), whereby financial knowledge elicits financial gains through optimal decision-making when saving, investing, and consuming over the course of one's life (Lusardi and Mitchel 2014). Financial education is intended to instill consumers with the knowledge of the appropriate use of financial products. So, the causal model goes: financial education engenders financial literacy, which promotes "good" financial decision-making behavior (Willis 2009). Henchoz (2016) identifies three unique causal assumptions underlying financial literacy programs in OECD countries: (1) lack of financial literacy leads to unsatisfactory economic outcomes; (2) financial literacy can be acquired through the dissemination of information and educational instruction; and (3) individuals possess an equal capability in digesting this information and turning it into effective financial actions. Figure 1.2 summarizes this causal model outlined by Henchoz (2016) and Willis (2009).

Figure 1.2
The Implicit Causal Model of Financial Literacy



Source: Adapted from Willis (2009).

Good financial decisions are not the only beneficial outcomes promised of financial literacy. With greater financial literacy comes greater financial responsibility and capability, self-sufficiency, and financial market inclusion (see CEE 2018a; Lazarus 2016; Lusardi and Mitchell 2014; OECD 2005; Walstad et al. 2016). Financial stability and economic success emerge by keeping consumers from making financial "mistakes" or from being taken advantage of (e.g., Lusardi and Mitchell 2014; President's Advisory Council on Financial Capability 2013; OECD 2014).

Evidence of repeated failure. In spite of the proliferation of financial education initiatives, a growing body of empirical research suggests that financial education has little to no effect on financial literacy or financial behavior (for reviews of the literature, see Fernandes et al. 2014; Hastings et al. 2013; Huston 2010; and McCormick 2009). Instead of a correlation with financial education, studies across countries consistently show that financial literacy is strongly associated with age, education, and income, among other indicators of socioeconomic status and the means to access and use financial products and services (e.g., CEE 2018a; FINRA 2013; Lachance 2014; OECD

2014).[7,8] Once income is controlled for, the relationship between financial education and financial literacy loses its statistical significance (Fernandes et al. 2014).

One's financial literacy is commonly measured by performance on tests of the "big three" and the "big five" financial literacy questions, reproduced in Table 1.1. These tests engage the neoclassical economic concepts of risk and uncertainty (Knight 1921); market portfolio theory (Markowitz 1952); inflation and the time-value of money[9]; and the life-cycle hypothesis, where consumers consciously pursue a hump-shaped pattern to consumption, spending relatively less when they are young and when they are in retirement (Modigliani and Brumberg 1945; Friedman 1957; Modigliani 1971; Modigliani 1976). These concepts constitute the so-called "abc's of finance" (Lusardi and Mitchel 2011, 498).

The big three and big five have found their way into several major nationwide surveys, including the U.S. National Longitudinal Survey of Youth and U.S. Health and Retirement Study (Lusardi and Mitchell 2011). Yet, a problem with these questions is that they measure knowledge of financial and economic concepts instead of measuring actual financial behavior. As such, the link between financial education (the treatment), financial literacy (the intermediating result), and financial outcomes (the ultimate intended effect) is missing from measurement, and the untested assumption that financial literacy produces "good" financial decisions remains implicit. Further, when

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[7] Women consistently perform worse than men in tests of financial literacy (Lusardi and Mitchell 2014). The PISA financial literacy survey of 15-year-olds in 18 countries offers a recent exception, where there was no statistical difference between the performance scores of male and female survey respondents (OECD 2014).

[8] In a narrower set of studies, numeracy (Cole et al. 2014), and psychological factors, including motivation (Mandell 2007; Meier and Sprenger 2007) and external lotus of control (Angulo-Ruiz and Pergelova 2015), show positive associations with financial literacy performance.

[9] While difficult to attribute to a single source, these concepts date back to at least the sixteenth century, when engaged by Martín de Azpilcueta.

tests are administered, they represent subjects' knowledge at a single point in time, failing to measure financial decisions or outcomes over the course of one's lifetime as individuals navigate and transition through decisions about auto and college loans, to home ownership, retirement planning, as well as day-to-day household budgeting.

Table 1.1
The Big Three and Big Five Financial Literacy Questions
Correct Answers Shown in Italics

Concept	Question	Answer Options
Interest rates	Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?	*More than $102* Exactly $102 Less than $102 Don't know Refused
Inflation	Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than today, exactly the same as today, or less than today with the money in this account?	More than today Exactly the same as today *Less than today* Don't know Refused
Risk diversification	Do you think that the following statement is true or false: Buying a single company stock usually provides a safer return than a stock mutual fund?	True *False* Don't know Refused
Mortgage interest rates	Do you think that the following statement is true or false: A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest of the life of the loan will be less?	*True* False Don't know Refused
Bond pricing	If interest rates rise, what will typically happen to bond prices?	They will rise *They will fall* They will stay the same There is no relationship Don't know Refused

Source: Adapted from Hastings et al. (2013).

Further complicating causal inference, studies measuring the influence of financial education on financial literacy and financial decision-making are often riddled with measurement issues beyond the typical challenges of measurement bias and survey error (see Hastings et al. 2013 and Willis 2009 for reviews). Many financial education

programs fail to measure performance prior to treatment, while others fail to measure performance outcomes at all (e.g., Fox et al. 2005; Lyons 2005; Hathaway and Khatiwada 2008). In other studies, self-reports of financial knowledge, which have shown little correlation with financial literacy performance, are used as a proxy for financial literacy (e.g., Collins et al. 2009; Hastings and Mitchell 2011). Selection effects among those who choose to take part in financial education programs bias results in some studies, as voluntary participants tend to be better educated and more future oriented—and correspondingly more financially literate to begin with (Meier and Sprenger 2007). These and other issues have prompted calls for further research using large-scale randomized interventions designed to effectively identify causal effects (Hastings et al. 2013).

While the causal impact of financial education remains elusive or at best unmeasured, studies have consistently documented a statistically significant association between financial literacy and financial decision-making (e.g., Campbell 2006; Hilgert et al. 2003; Lusardi and Mitchell 2007; Lusardi and Tufano 2009; Mandell 2007; Stango and Zinman 2009; van Rooij et al. 2011). Yet, strong associations between financial literacy, socioeconomic status, and experience making financial decisions raise more questions about cause and effect. Indeed, the causal arrow in the financial literacy model may require a reversal, where financial literacy is an outcome of socioeconomic status and experience with financial decision-making, instead of the other way around (Hilgert et al. 2003). These findings suggest that the extant model of financial literacy requires rethinking.

With a nod to financial education's shortcomings, limited revisions to financial education have emerged, though most maintain the implicit financial literacy model. For example, some advocate for "just in time" or point-of-sale resources that account for the imminent interests of consumers of financial services (see Mandell 2006). Other initiatives include teacher training and encouraging teacher confidence to improve the delivery of financial education (Baron-Donovan et al. 2005). For still others, financial education's shortcomings are attributed to a one-size-fits-all approach (McCormick 2009; Prochaska-Cue 1993). Taken together, these revisions suggest more specialized financial education from trained experts targeted to adults currently considering major financial decisions.

Critics of financial literacy reforms. Detractors of financial literacy reforms are few but growing in number. This handful of critics describe the interests of actors promoting financial literacy reforms, outline the failings of these reforms, and offer alternatives. They may also offer insights into the causal mechanisms that may keep these programs from their intended outcomes of engendering improved individual financial decision-making as well as both individual and more global economic opportunities.

Willis (2008; 2009; 2011), perhaps the earliest and most vocal critic, highlights the motivations of the financial industry in promoting the concept of financial literacy. She contends that in framing financial literacy as the *only* solution to household financial woes, the financial industry artfully dodges the alternative of more aggressive industry regulation. Further, industry involvement in financial education offers an effective marketing opportunity to both teach and promote the financial products sold by the industry. In contrast to the world we currently observe, Willis (2011, 429) imagines

a world necessary for financial education to actually change financial behavior:

> First, the time, expense, and invasion of privacy that would be required [to be financially literate] would be enormous. Second, living in such a world would entail, paradoxically, a decrease in individual autonomy. Alternative tools should be explored that could potentially increase household financial welfare and security at lower social and individual expense (429).

In a study published in the *Federal Reserve Bank of St. Louis Review*, Hamilton and Darity (2017) take issue with the discursive narrative surrounding financial literacy initiatives. Specifically they criticize the portrayal of individual agency as needing to "pick yourself up by your bootstraps." They note a disconnect between education and the outcome of financial literacy, and also discuss the racial wealth gap as both cause and consequence of inequalities in educational attainment and economic opportunity. The authors propose an alternative narrative that counters the "conventional wisdom" of the financial literacy movement and instead advocates for reforms that redistribute wealth through child savings accounts:

> Wealth is a major determinant of one's life changes—improving access to higher education has intrinsic value, but alone will do little to address the massive racial wealth gap. Despite the conventional wisdom, the intergenerational racial wealth gap was structurally created and has little to nothing to do with individual or racialized behavior. To live up to the American promise of economic opportunity and upward mobility for all, we need a bold solution, such as substantial child trust accounts that provide seed capital to purchase the economic security of an appreciating asset for all Americans (72).

Sociologist Jeanette Lazarus (2016) explores the role of global organizations, including the Organisation for Economic Co-operation and Development (OECD), International Monetary Fund, and World Bank, in framing the concept of financial literacy. She compares the concept to those of financial capability, financial inclusion, and financial empowerment. In contrast to these latter conceptions, financial literacy is concerned with individual behavior and practices, framing these behaviors as a moral issue. There are "good" and "bad" ways to manage money that have important

consequences for the well-being of individuals and society. Lazarus notes the "decoupling" between policymakers and those who administer financial literacy education as a probable reason for financial literacy's limited impacts on behavior. Lazarus details the means in which financial literacy promoters manufacture "evidence" to support financial literacy initiatives by creating and publicizing survey instruments: "These surveys play many roles: they call attention to a problem that has not been sufficiently identified; they reify good and bad behaviors; they provide governments with means to measure the effectiveness of their policies, comparing different states" (30).

Finally, drawing from the sociological perspective, Henchoz and her colleagues (Hanchoz 2016; Brown et al. 2018; Henchoz et al. 2019) argue that financial literacy programs fail to account for the "social embeddedness" (Granovetter 1985) of financial decision-making. As such, financial literacy programs are destined to fail unless they begin to account for cultural differences that predispose individuals toward certain types of financial decisions, or until they begin to account for the "capabilities" (Sen 1985) of individuals, including the varied intellectual and social conditions that allow individuals to convert financial information and educational instruction into effective decision-making. Is this as far as we can go in explaining why financial education programs fail? In the following section, a theory is presented as a useful point of departure to answer this question.

THE THEORY OF PERMANENTLY FAILING ORGANIZATIONS

In a research project that culminated in the publication of *Permanently Failing Organizations,* Meyer and Zucker (1989) propose a theory that explains the existence of

high-persistence, low-performance organizations—those that manage to survive while continuing to fail over time. Meyer and Zucker's theory does not propose reasons for low performance or the determinants of failure among these organizations. Instead, the authors acknowledge that the outcomes of survival and performance may have varied causes, and contrary to mainstream theory from economics and organization behavior scholars, performance does not always predict survival. The following outlines Meyer and Zucker's theory and subsequent reviews and extensions. This section also discusses the inherent difficulties in defining and measuring failure. The section concludes with a brief note on potential differences between permanently failing *organizations* and permanently failing *reforms*.

The theory of permanently failing organizations

Meyer and Zucker's theory can be summarized as follows: Disparate interests among actors in and around organizations arise when organizational performance wanes. Specifically, the "owners" and "residual claimants" of organizations desire performance improvements in the interest of profit and reputational benefits, while "dependent actors," including employee groups, the surrounding community, suppliers, and clients, desire organizational maintenance in the interest of preserving employment, income, and the goods and services provided by the organization. "Managers" of organizations often find themselves in the middle, sharing the interests of both owners and dependent actors.

When performance is low, organizations are prone to permanent failure when dependent actors successfully exert their influence to resist organizational change and

advocate for organizational survival.[10] Meyer and Zucker conceive of permanent failure as a strategic management problem, whereby owners and managers fail to move toward efficiencies in light of the power and interests of dependent actors.

Imbued in Meyer and Zucker's theory is the concept of inertia. Permanent failure emerges from sustained low performance and the continued efforts to maintain an organization's existence. They conceive of failure as temporal in nature. By engaging the power dynamics and roles of certain groups of actors, Meyer and Zucker forward more a socialized, political, and nuanced model explaining ongoing organizational failure where other economic and sociological models would predict mortality.

Like scholars in other disciplines (see Bovens et al. 2001 and McConnell 2010a for reviews in political science and public administration), Meyer and Zucker highlight the problems inherent in measuring performance. Organizations frequently perform well by some measures, but not others. For example, they may be effective in mobilizing resources, or they may efficiently manage organizational programs. Yet, they fail elsewhere, particularly in meeting their stated objectives, be it profit maximization, or engendering a specific social outcome. Meyer and Zucker acknowledge the multiplicity of domains of performance, and somewhat reluctantly adopt the attainment of the "official objectives" of an organization as the benchmark against which performance should be measured (67). Reviews of Meyer and Zucker's theory highlight the shortcomings of this definition of failure, noting that many organizations lack a stated objective, while others have ambiguous and difficult-to-measure objectives (e.g.,

[10] Meyer and Zucker note that there may be instances where owners too share an interest in survival, namely due to reputational consequences of the termination of an organization. Owners of nonprofit organizations may have an interest in the purpose of the organization.

Manfield 1991; Rao 1990). For these reasons, these difficulties are explored in greater detail below.[11]

Extensions of Meyer and Zucker's theory. Meyer and Zucker's theory of permanent failure has been engaged by other organizational scholars seeking to apply and extend the theory to specific organizational experiences. For example, Siebel (1996) applies the theory to organizations offering help to battered women and those seeking to engender the self-sufficiency of handicapped workers. He finds that the interests of "principals" supporting an organization's survival rely less on the high performance of their "agents" than on their "symbolic problem solving"—that is, organizational survival is maintained by both interests and ideology (1018). Siebel argues that permanent failure requires that "principals" have both an interest in failure and an interest in *ignorance about failure*. Seibel contends that nonprofit organizations may be uniquely situated to permanently fail, as their position outside of the "dominant public and private sphere" may hide them from "critical public attention" (1022).[12]

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[11] While reviews of Meyer and Zucker's work praise its contributions to theories of organizational behavior, they also highlight several potential shortcomings. Many reviewers view the owner/dependent actor "dichotomy" as oversimplified in explaining persistent failure (see Hybels 1989; Niblock 1992). These authors note that disagreements among actors within these groups may also elicit the outcome of permanent failure. Other reviews call for greater exploration into specific micro and macro processes that may influence the outcome of permanent failure. These include: fear of losing legitimacy (e.g., the risks federal government agencies face in sustaining permanently failing financial institutions) (Rao 1990); the time frame involved in failure (e.g., if an organization is known to be destined to fail over a long period of time, is it more likely to be terminated?) (Manfield 1991); the role of the size of the firm and its influence on power dynamics (e.g., "large organizations are better at extracting concessions from workers and communities than vice versa" (Dauber 1990, 1363); the role of obligatory action (e.g., through rule of appropriateness, norms, or institutions) (Mezias 1990); and the role of actors' emotions or the role of exogenous shocks in perpetuating or terminating firm survival (Rao 1990).

[12] Other studies are perhaps less relevant to the arguments presented here but are worth mentioning. Akbar et al. (2014) confirm the salience of the theoretical framework offered by Meyer and Zucker in investigating the case of the Central and Eastern European airline industry through interviews with elite management personnel. They find that government interventions intended to promote decisive decision-making serves to do the opposite, contributing to permanent failure. Finally, Light (2012) weaves Meyer and Zucker's theory together with those of Charles Tilly and Robert K. Merton to form a theoretical framework for analyzing the organizational and institutional connections between social services and the individuals they serve, namely health care services for the former, and immigrants for the latter. They find

Difficulties in defining and measuring failure. Meyer and Zucker's theory suggests that low performance gives rise to divergent interests among participating organizational actors. Inherently, this requires knowledge of failure among actors. However, failure of reforms, like failure of public administration and nonprofit organizations, may be more difficult to define and measure than that of for-profit organizations, where failure is typically defined as inefficacy or unprofitability.[13] Difficulties in defining and measuring failure may obscure knowledge of failure within both organizational and reform contexts (Meyer and Zucker 1989; Combs et al. 2005; Cameron 1986; Richard et al. 2009; Steers 1975). As such, a closer examination of the varied facets of failure (or success) and a tighter definition may be needed relative to that provided by Meyer and Zucker, who hesitantly define failure as the failure to meet an organization's "stated objectives."

Typologies of failure's corollaries, success and effectiveness, offer a meaningful starting point for defining and measuring failure. For example, Lecy et al. (2012) provide an interdisciplinary structured literature review on measures of the effectiveness of nongovernmental organizations. They find consensus among scholars that unidimensional measures of effectiveness are not useful. They identify four "domains" of effectiveness in this literature: (1) *managerial*: effective management and leadership within the organization; (2) *program*: the successful implementation and impact of the program; (3) *network*: the ability to mobilize actors to secure resources and accomplish

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that "categorical inequality" (Tilly 1998) leads to entrenched "institutional ambivalence"—an extension of Merton and Barber's (1976) "sociological ambivalence." These processes contribute to the permanent failure of health care services in meeting the needs of immigrant populations. In merging these sociological concepts, Light's theoretical framework explains persistence in spite of failure as well as the reason certain organizations fail.

[13] Meyer and Zucker (1989) and Siebel (1996) both note this dynamic.

strategic objectives; and (4) *legitimacy*: effectively leveraging the organization's "brand" to secure support. Similarly, the political science literature identifies three domains of success or failure in the realm of public policy including: (1) *process:* the means by which and whether or not policies are enacted; (2) *program:* the effectiveness, efficiency, and resilience of a policy; and (3) *political*: public perception of the policy (see Bovens et al. 2001; McConnell 2010a; McConnell 2010b).

Indeed, there are varied instances where success in one arena may be met with failure elsewhere, complicating its evaluation (Bovens et al. 2001; Lecy et al. 2012; Lipson 2010). This ambiguity points to the difficulties in disentangling shorter-term program-specific successes in some domains from the longer-term stated objectives of an organization or social reform.

Australian sociologists Malpas and Wickham (1995) more narrowly define failure as "a consequence of the necessary incompleteness of projects of governance" (39). Inherent in this definition is a temporal element, where "governance"[14]—or more generally an intervention, such as social reform—fails to cause its target object to produce an intended outcome over time, and where time extends over a lengthy expanse. The intervention may produce one or more outcomes, yet none of these outcomes are the intended outcome, leaving the intended outcome incomplete.[15] This definition is more narrowly concerned with the *programmatic* domain of failure—more specifically, the

[14] Malpas and Wickham (1995) define governance as "any attempt to control or manage a known object" (30; see also, Hunt and Wickham 1994). Drawing from Foucault (1991) among others, governance may include government rule, self-governance (including emotions and behavior), and a governor—a device fitted to a machine to regulate energy intake and performance (Malpas and Wickham 1995, 40).

[15] Notably, Malpas and Wickham note that while the target object may be influenced by the intervention, the object is also influenced by many other factors, which may contribute to incompleteness: "Governance defines its own objects, even though those objects always go beyond any particular definitions. Governance is thereby productive—not merely constraining—and we might say that objects are objects through being governed" (1995, 49).

achievement of "effectiveness." It leaves the *political, legitimacy, network,* and *managerial* domains unaddressed but is not closed to these or other processes.

Isolating the failure(s) of financial literacy reforms

Financial literacy reforms may be deemed successful based on more than one performance domain. Indeed, the lengthy survival of financial education organizations, and the last two decades of the adoption and expansion of financial literacy reforms speak to the success in *managerial, network,* and *legitimacy* performance domains of these organizations and the financial literacy movement more broadly. For the purposes of evaluating the failure of financial literacy reforms, however, I adopt Meyer and Zucker's recommended performance outcome of achieving an organization's stated objective, while also adopting Malpas and Wickham's conception of incompleteness over time as the defining feature of the failure of a reform. This is not to discount the importance of other performance domains, but instead to distinguish failure in achieving stated objectives from performance domains that may serve as mechanisms contributing to the persistent failure to meet the stated objectives of reform.

Drawing from the proponents of financial literacy reforms and financial education organization mission statements, the stated objectives of financial literacy reforms and organizations are to engender greater financial literacy, which in turn promotes "good" financial decision-making and larger societal benefits (see Lusardi and Mitchell 2014). The Council for Economic Education (CEE) and Jump$tart provide two examples of the stated objectives of financial literacy-focused organizations. Their mission statements are reproduced below.

> The Council for Economic Education's (CEE's) mission is to teach K-12 students about economics and personal finance–and we have been doing so for nearly 70 years. Our goal is to reach and teach every child in every district and school so that they can make

> better decisions for themselves, their families and their communities (CEE 2018b).
>
> Jump$tart is a coalition of diverse financial education stakeholders. These organizations work together to educate and prepare our nation's youth for life-long financial success (Jump$tart 2018).

Failing organizations vs. failing social reforms

Social reforms display important differences from organizations. Reforms represent action in the form of institutional or organizational change, while organizations are "collective actors" and participants of action (Scott and Davis 2007, 6-7; Coleman 1974). Organizations frequently undergo internal reforms (Scott and Davis 2007, 67-68). Yet, social reforms generally extend well beyond any one organization to include multiple organizations, often accompanied by institutionalization through governmental intervention and the rule of law (e.g., Tolbert and Zucker 1983).

Meyer and Zucker's theory of permanent failure largely concerns the singular organization (such as a firm) and the actors responsible for its survival. When applying their framework to social reforms, unique processes may be at play due to the actors and institutions that these reform engage. Further, these unique processes may contribute to the survival or perpetuation of failure. The analysis presented in the next section intends to test the limits of Meyer and Zucker's theoretical framework in applying its theoretical lens toward a permanently failing social reform based on the financial literacy reforms adopted across American states between 1999 and 2017.

DATA AND METHODS

State legislatures are uniquely positioned between federal and local governments, offering a meaningful entry point into the analysis of permanently failing reforms. State legislatures are informed by normatively strong, yet administratively weak federal government reforms (Dobbin and Sutton 1998). State government legislation then

guides the actions of local government actors, such as school boards and educators, to implement these reforms.

Similar to federal government legislation, state-level legislation frequently includes normative statements as to why a given reform ought to be adopted. Specifically, legislative acts, or "bills," often include "legislative declarations" that promote or justify the need for state programs, interventions, and social reforms. Additionally, state legislative "resolutions" serve as carefully-crafted normative proclamations of what ought to be and who ought to pursue a given reform. As such, this legislation offers a rich source of textual analysis for "thick" description (Geertz 1973) and "meaning-making" (Berezin 1994; Spillman 2002), as legislation both reflects and enacts culture. Resolutions represent the "front stage" (Goffman 1959) presentations of enactors' interests in adopting reforms. As such, they may offer a particularly useful medium for Meyer and Zucker's theory, which hinges on actors' interests. To date, state-level legislation has been a relatively underutilized medium for discursive analysis; most sociological literature analyzing public policy narratives have addressed federal government reforms (e.g., Abolafia 2010; DiMaggio et al. 2013; Fligstein et al. 2017; Jacobs and Sobieraj 2007), or state-specific policies (e.g., Hukkinen et al. 1990).

This analysis relies primarily on these legislative resolutions, supplemented by archival content from government agencies, financial organizations, financial education organizations, and researchers who participate in financial literacy reforms.

Data. State legislation enacting or promoting youth financial literacy reforms was located using a keyword search of the legislative archives of each of the 50 states and the District of Columbia between 1999 and 2017. Iterations of the following search

terms were used: “financial literacy,” “financial education,” “personal finance,” and “consumer finance.” Of the full universe of legislation, 299 measures were identified that were adopted or enacted by state legislatures and either addressed youth financial education, or financial education generally.[16] The results of this keyword search suggest that youth financial literacy reforms first came onto the policy scene in the mid-1990s, with the first bill enacted in 1997 and the first resolution enacted in 1999.

Legislative measures generally fall into three categories: (1) those intending to raise awareness about financial literacy; (2) those encouraging education curriculum requirements, and; (3) those initiating a task force or commission to study and make recommendations about financial literacy initiatives.[17] Figure 1.3 summarizes the cumulative adoption of one or more legislative measures across states, which exhibits the classic *S*-curve characteristic of diffusion processes (Rogers 2003).

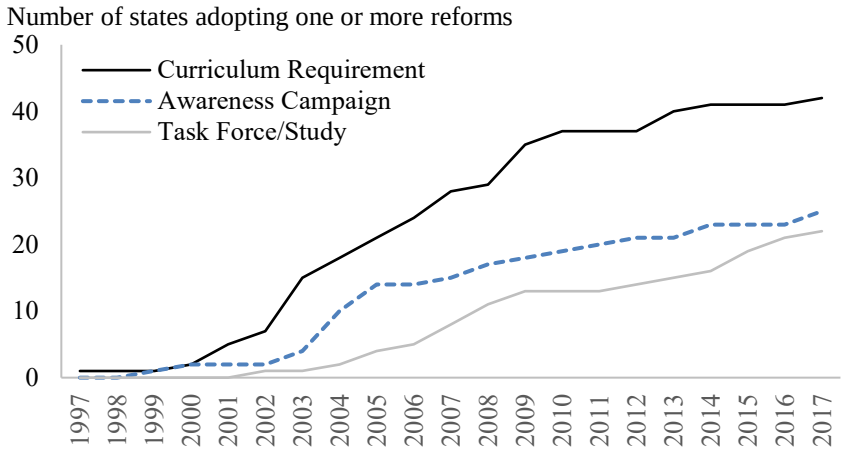
Legislative declarations are not consistently included in the text of bills. Further, bill text frequently includes language that is enacted, repealed (as indicated by strike type), and/or not relevant to a given reform. These divergences from plain language complicate quantitative text analysis. Therefore, bills were qualitatively analyzed for the nature and content of the reforms they enact, while text analysis was limited to the 169 financial literacy resolutions adopted across states. The resolutions analyzed are shown in Figure 1.4, over time and across states. Three examples of resolutions are reproduced in full as Figures 1.5, 1.6, and 1.7 for illustrative purposes. Figure 1.5 shows the first

[16] A universe of 1,189 legislative measures were identified that included the search terms, of which 432 of were passed by state legislatures. Measures outside the scope of youth or general financial education were excluded. State policies may exist that do not require legislative enactment, such as policies promoted by the executive branch via executive order of a state governor or through rule of a state department. These policies are excluded from analysis here.

[17] Budget bills that appropriate money to youth financial literacy initiatives are excluded from this count as they contain little text beyond a line item appropriation.

resolution adopted among the 50 states that referenced "financial literacy." Figures 1.6 and 1.7 provide more recent examples of legislative declarations urging curriculum requirements and declaring an awareness campaign, respectively.

Figure 1.3
State Adoption of Financial Literacy Reforms



Source: Author's analysis of state legislation, including bills and legislative resolutions.

Other archival documents were located via the newspaper search summarized in Figure 1.1. Additionally, the mission statements of financial education organizations participating in the state-level financial literacy reforms were collected.

Methods. As actors' interests are central to Meyer and Zucker's theoretical framework, analysis was designed to identify the interests of actors engaged in financial literacy reforms. Analysis was also intentionally exploratory, seeking to identify potential processes or "causal mechanisms" (Hedström and Swedberg 1998) not considered by Meyer and Zucker's theory that may be in part responsible for sustained failure. To this end, the normative and narrative content of the mission statements of participating financial education organizations, and the declarations and resolutions for financial literacy legislation were analyzed, seeking answers to the following four questions:

(1) What narrative “frames” or rationales are used to promote the adoption of reforms?

(2) What is the nature of the reforms being promoted or adopted?

(3) (How) is failure acknowledged or rationalized?

(4) (How) have reforms, interests, and rationales for adoption changed over time?

State legislation was analyzed by teaming quantitative text analysis with more qualitative methods of content analysis. For the former, statistical software was used to measure the variation in the text of resolutions across states and the change in this text over time with regard to the actors, actor interests, nature of reform, and rationales for enacting policy. More specifically, legislative resolutions were analyzed for the frequency and the co-occurrence of words over time, both within and across states. Content analysis was used to identify the causal logics underlying the rationales for adopting resolutions or bills. Each enacted bill and adopted resolution were read at length and notated for the causal links cited, the nature of reforms, and their expected outcomes. These texts were also analyzed for references to failure, and the nature and interests of actors engaged in reforms.

Figure 1.4
State Legislative Resolutions on Financial Literacy

Awareness Campaign | Task Force/Study | K-12 Education Initiative

State	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totals
AL												SJR95								1
AZ						SCR1048														1
CA						ACR61	ACR6	ACR120	ACR40	ACR113		ACR147				SCR105	ACR39	ACR162	ACR53	10
CO					HJR1069															1
DC																			CER22-0063	1
DE														HCR47			HJR4			2
FL																SR1728	HM1319 SR106	SR466	SR1820	5
GA									HR825							HR1186 SR781	HR236 SR152		HR295 SR161	7
HI					HCR160 HR125	HR1898		HR1920		SCR92 SR52							SCR97 SR51			8
IA							HR29	SR154									HR32			3
ID	SCR108								HCR10											2
IL																HR780 HR781	HR0477			3
KY															HR25					1
LA						SCR103 SR79	HR16 SCR8 SR13			SR27										6
ME																			HP1024	1
MI						HR216	HR43	HR211	HR29 HR68 SR42	HR276	HR64 HR68 SR33	HR246 HR258 SR140	HR59	HR217 SR136	HR47 HR58 HR60 SR28	HR327 SR128	HR46 HR56	HR269	HR54 HR56 HR68	28
MO							HCR24													1
MT					HJR10						HJR36									2
ND											HCR3016									1
NE												LR29								1
NH		HCR29																		1
NM										SM3	HM70							HM59	HM64	4
NY						AR1508				AR1268 SR4712	AR549 SR973	AR1241	AR278	AR1207	AR328 SR1337	AR932		AR1127	AR329	13

Figure 1.4 (Continued)
State Legislative Resolutions on Financial Literacy

State	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totals
OH										SCR21										1
OR													HCR2							1
PA							HR156	HR675	HR206	HR691 SR273	HR166	HR810 SR346	HR188 HR93 SR105	HR581 HR653	HR144 SR92	HR676 HR756 SR306 SR336	HR205 SR86	HR1050 HR780 SR310	HR193 HR93 SR66	26
RI						SR3078	HR6367 SR994	HR7962 SR2980	HR6197 SR912	HR8098 SR2900	HR6093 SR0850	HR8061 SR2765					HR6115 SR853	HR8030 SR2891	HR6101 SR817	19
SC							HR3283				SR839	SR1321	SR931			HCR4935 HR4862				6
SD						HCR1015														1
TX					HCR15						SR570				HCR111 HR967 SR613					5
UT				HJR15			HCR13				SCR3		SCR2							4
VT																			HCR107	1
WI		AR28 SR6	SJR31																	3
WY							SJR5													1
Totals	1	3	1	1	5	9	13	7	9	13	14	12	8	6	12	14	15	10	19	169

Source: Author's analysis of state legislative resolutions.

Figure 1.5
First Financial Literacy Resolution Adopted: Idaho's SCR108 (1999)

|||| LEGISLATURE OF THE STATE OF IDAHO ||||
Fifty-fifth Legislature First Regular Session - 1999

IN THE SENATE
SENATE CONCURRENT RESOLUTION NO. 108
BY COMMERCE AND HUMAN RESOURCES COMMITTEE

A CONCURRENT RESOLUTION
RECOGNIZING ACCOMPLISHMENTS AND NEEDS FOR YOUNG ADULT AND ADULT FINANCIAL LITERACY PROGRAMS AND DECLARING MARCH 1999 TO BE IDAHO FINANCIAL LITERACY MONTH.

Be It Resolved by the Legislature of the State of Idaho:

WHEREAS, consumer debt obligations have been growing twice as fast as wages and salary gains, and consumer debt in Idaho is approximately $5.4 billion owed to Idaho institutions alone and is growing on an average of $340 million per year; and

WHEREAS, Idaho's bankruptcy filings, both business and personal, have increased 129 percent over the past five years and, on a nationwide basis, the proportion of bankruptcy filers aged 25 years and younger is growing; and

WHEREAS, recent research has proven a direct relationship between financial literacy and rates of personal bankruptcy with Idaho being one of six states with the highest proportion of households filing for personal bankruptcy; and

WHEREAS, Idaho high school students have results on tests used to measure financial literacy among the lowest in the nation; and

WHEREAS, teenagers account for 25 percent of all credit cards held and spent approximately $10.9 billion last year; and

WHEREAS, workers understand the need to save for retirement, but more than four out of five Americans surveyed are not systematically saving sufficient funds to provide for retirement; and

WHEREAS, educational efforts will help Idahoans learn how to protect themselves from unfair and fraudulent transactions and understand sound credit practices; and

WHEREAS, increased financial knowledge will contribute to personal financial stability and, consequently, contribute to the financial and economic success of Idaho; and

WHEREAS, the Idaho Financial Literacy Coalition, the first organized coalition of its kind in the nation, whose members represent the public and private areas of finance, general business, education, securities, consumer science, banking and consumer education, will be nationally recognized by the Jump$tart Coalition, an association of national, financial industry associations, Federal Reserve Banks and other federal agencies, nonprofit consumer organizations and various education foundations.

NOW, THEREFORE, BE IT RESOLVED by the members of the First Regular Session of the Fifty-fifth Idaho Legislature, the Senate and the House of Representatives concurring therein, that March 1999 be declared "Idaho Financial Literacy Month" for the purposes of focusing public awareness on issues of youth and adult financial literacy and the responsibilities and rights of consumers.

Figure 1.6
Example Legislative Declaration Urging
a Money Management Course: Alabama's SJR95 (2010)

SJR95

ENROLLED, SJR95,

URGING THE DEPARTMENT OF EDUCATION AND THE ALABAMA STATE BOARD OF EDUCATION TO REQUIRE LOCAL SCHOOL DISTRICTS TO INCORPORATE A MONEY MANAGEMENT COURSE IN THEIR CURRICULUM FOR SENIOR HIGH SCHOOL STUDENTS.

WHEREAS, many young people graduate from high school without a basic understanding of money and money management, personal finance, business, the economy, and investing; and

WHEREAS, the average student who graduates from high school lacks basic skills in personal money management, and many cannot balance a checkbook and have no understanding of the basic concepts involved with earning, spending, saving, and investing; and

WHEREAS, as a result, many young people fail early in the management of their first credit experience and establish bad financial management habits and are unable to correct their errors, only learning by trial and error; and

WHEREAS, as noted by a recent United States Department of Education Secretary, the "goal at the Department of Education is to meet the President's goal of educating every child in our public schools, so that no child is left

Page 1

Figure 1.6 (Continued)
Example Legislative Declaration Urging
a Money Management Course: Alabama's SJR95 (2010)

SJR95

1 behind. Not only does that include teaching them to read and
2 write and learn all the skills they need to excel in school -
3 they also need to know the skills to excel in life. And one
4 of the skills most critical to their success is knowing how to
5 manage money."; and
6 WHEREAS, the United States Department of Education
7 released a report that identifies different options for
8 incorporating financial education into schools. Some of these
9 options are including financial education in standards set by
10 state school boards; incorporating financial concepts into
11 material being asked on tests; urging textbook publishers to
12 include more financial education content; incorporating
13 financial education materials into classroom lessons; and
14 training teachers on the importance of financial education;
15 now therefore,
16 BE IT RESOLVED BY THE LEGISLATURE OF ALABAMA, BOTH
17 HOUSES THEREOF CONCURRING, That the Department of Education
18 and the Alabama State Board of Education are urged to require
19 local school districts to provide courses of instructions for
20 11th and 12th grade students that shall provide them with a
21 basic understanding of money and money management, personal
22 finance, business, the economy, and investing.
23 BE IT FURTHER RESOLVED, That a copy of this
24 resolution be forwarded to the State Board of Education and
25 the State Superintendent of Education.

Page 2

Figure 1.7
Example Resolution Declaring April Financial Literacy Month: Illinois's HR0780 (2014)

LRB098 17716 GRL 52831 r

HR0780 LRB098 17716 GRL 52831 r

HOUSE RESOLUTION

WHEREAS, The members of the Illinois House of Representatives believe that financial literacy is essential to the economic vitality of the citizens of the State of Illinois and all individuals; and

WHEREAS, The per capita income for an Illinois citizen in the past 12 months was $29,519 and the median household income is $56,853; and

WHEREAS, The percentage of persons below the poverty level in the State of Illinois is 13.7%; and

WHEREAS, Many citizens have difficulty managing money due to a lack of financial literacy; and

WHEREAS, In 2008, the President's Advisory Council defined financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing"; and

WHEREAS, Financial literacy helps to provide the tools to make informed choices, avoid pitfalls, and improve present and long-term financial security; and

Figure 1.7 (Continued)
Example Resolution Declaring April Financial Literacy Month: Illinois's HR0780 (2014)

HR0780 -2- LRB098 17716 GRL 52831 r

WHEREAS, Gaining financial literacy skills improves the quality of life, provides skills for success, contributes to communities, and benefits the economy; and

WHEREAS, It is everyone's responsibility to learn the facts of investing, take charge of their money, realize the importance of saving towards their family's future, and understand that it is never too late to invest; and

WHEREAS, A lack of financial knowledge can lead to devastating money problems, including unmanageable debt or even home foreclosure; therefore, be it

RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE NINETY-EIGHTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, that we designate April of 2014 as Financial Literacy Month in the State of Illinois.

ANALYSIS AND FINDINGS

In what follows, Meyer and Zucker's theoretical framework is applied to the case of state-level financial literacy reforms. I find that state-level financial literacy legislation reflects strong continuity over time and across states, consistent with the concept of permanent failure in that these reforms are not altered over time in light of their shortcomings. I also find that the shortcomings of financial literacy reforms are not brought to light in state-level legislation or in public statements of financial literacy proponents. This suggests either ignorance about failure among actors engaged in

reform, or an interest among actors in ignorance about failure. As Meyer and Zucker's theory largely assumes knowledge of failure, these conditions highlight an area where extension may be required.

Specifically, I identify three "mechanisms" (Hedström and Swedberg 1998) that may contribute to the continued adoption of financial literacy reforms under situations of ignorance about failure. In lieu of actual performance measures, support for reforms may instead be rationalized using taken-for-granted "institutional logics" (Friedland and Alford 1991) or legitimized by federal government endorsement of reform. Further, under these circumstances, I suggest that the failure of financial literacy reforms may be self-promotional, where more and more of the same failing reform is pursued over time in response to failure.

Continuity and change in financial literacy reforms over time

Legislative resolutions suggest that the narrative frames, causal logics, and rationales, as well as the content of state-level financial literacy reforms have remained remarkably consistent over time and across states. What variation exists includes the context of economic events that motivate the urgency of reform, names of specific individuals used to legitimize reform, and names of organizations participating in reforms.

To illustrate the continuity of financial literacy reforms, Table 1.2 presents the top 20 most commonly used words in the 169 legislative resolutions adopted over three separate periods of time: the first period includes the decade leading up to the global financial crisis and Great Recession, 1999 to 2007; the second includes the years during and immediately following the financial crisis and Great Recession, 2008 to 2012; and the third includes the four years of recovery and expansion following this period of

economic downturn, 2013 to 2017.

Table 1.2
Top 20 Words in Financial Literacy Resolutions over Time

	Period 1: 1999 to 2007 *n*=49				**Period 2: 2008 to 2012** *n*=53				**Period 3: 2013 to 2017** *n*=67			
	Word	Freq.	p2	p3	Word	Freq.	p1	p3	Word	Freq.	p1	p2
1	financial	364			financial	323			financial	588		
2	personal	224			literacy	144			literacy	273		
3	literacy	161			personal	118			education	170		
4	education	125			state(s)	110			percent	156		
5	state(s)	125			credit	95			state(s)	151		
6	percent	117			education	92			credit	136		
7	credit	92			economic	91			personal	135		
8	school	87		X	debt	62			money	106	X	X
9	students	71			students	62			debt	99		
10	high	66	X	X	young	59			students	82		
11	will	64		X	Junior	58	X	X	economic	73		
12	economic	54			people	57	X		consumer	73	X	X
13	citizens	53		X	citizens	52		X	people	72	X	
14	debt	52			will	51		X	month	67	X	X
15	Coalition	51	X	X	percent	49			college	65	X	X
16	young	48			school	47		X	skills	61		X
17	skills	46	X		Achievement	47	X	X	individuals	59	X	
18	years	45	X	X	individuals	43	X		united	59	X	X
19	Jump$tart	44	X	X	increased	41	X	X	national	56		X
20	national	44	X		income	39	X	X	young	56		

Source: Author's analysis of state financial literacy resolutions.

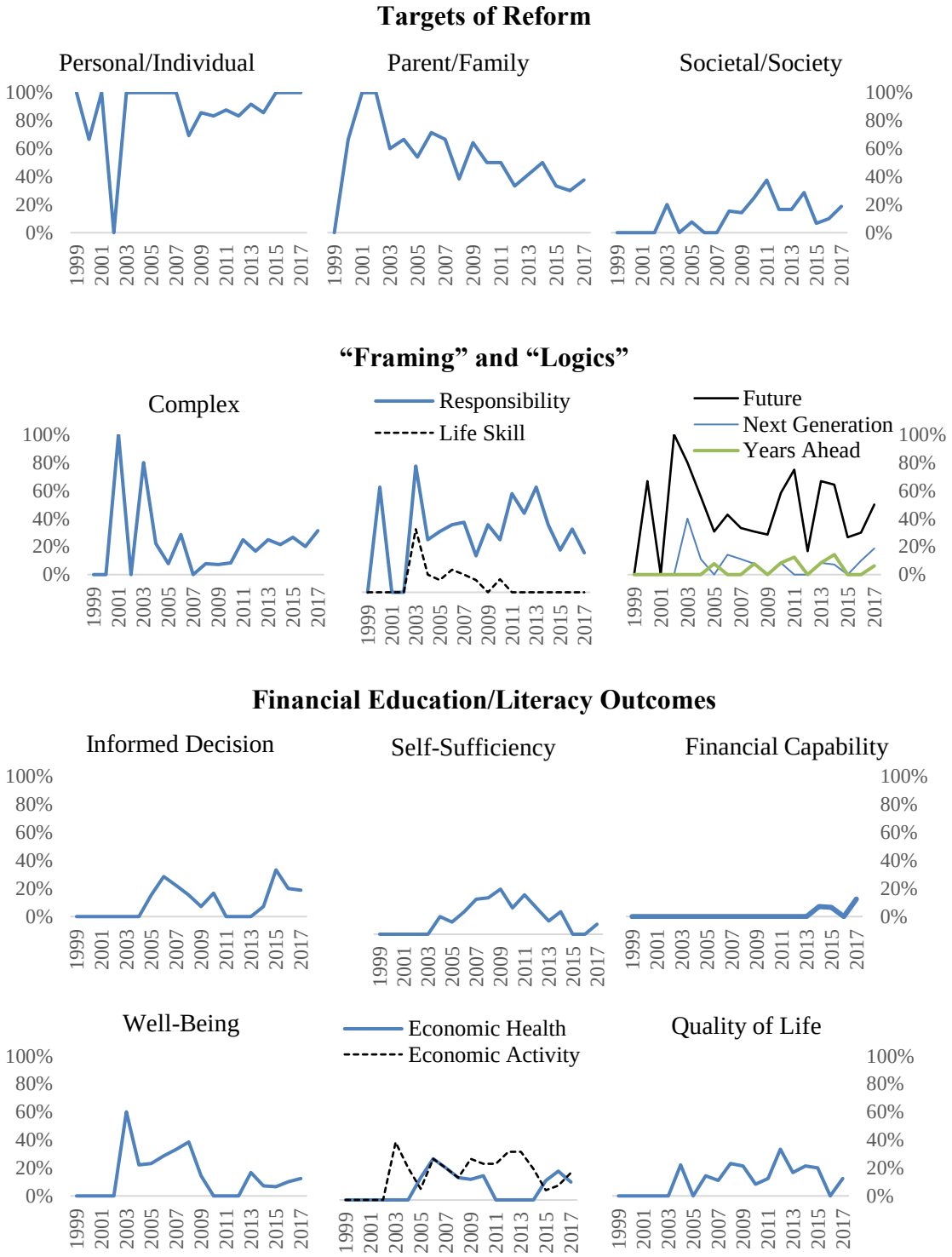
Time periods were selected relative to the timing of the financial crisis and Great Recession, which were highly influential in household finances. These time periods also include a roughly similar number of resolutions adopted, suggesting increased adoption during and following the Great Recession. An "X" indicates the absence of a given term in the other two periods. Between the first and second period, only 6 of the top 20 words differ. The third period differs from the first and second by only seven words. In all instances, each of the top 20 words that varied occurred at lower frequencies in the other periods.

Variations in the top 20 words over time indicate a shift in common references to financial education actors (e.g., from the Jump$tart Coalition in the first period to Junior Achievement in the second and third). Changes also suggest a shift from a narrower emphasis on high school education to broad-based education, including primary and post-secondary educational reforms.

Figure 1.8 shows trends in the presence of selected words in resolutions as a share of the total number of resolutions adopted in any given year (additional terms are depicted in Appendix 1.A). Like terms and frequently co-occurring terms are plotted in the same graph. Words are shown as shares to control for the number of resolutions adopted in any given year. Terms are arranged based on the type of actor (target, initiator, enactor, and implementer), the content or nature of the reform, and the narrative "framing" (Benford and Snow 2000) and/or causal logics (implied cause and effect) of adoption.

Emphasis on the individual; declining role of the family. The concept of the individual in legislative resolutions promoting financial literacy reforms echo Henchoz's (2016) analysis of the content of financial literacy reforms adopted by OECD member countries, where individuals are characterized as atomized rational economic actors, consistent with "*homo economicus.*" Resolutions place a strong emphasis on the individual's role in their own, "personal" financial literacy. Financial literacy is frequently conflated with one's personal responsibility for making "sound" financial decisions.

Figure 1.8
Selected Word Frequencies over Time
Share of State-Level Financial Literacy Resolutions that Include Terms



Source: Author's analysis of state financial literacy resolutions.

As illustrated in Figure 1.8, the emphasis on the individual has remained strong over the past 20 years, while references to the "family" have declined, suggesting that the responsibility for instilling financial literacy has shifted away from home life or parental involvement to the classroom as the home economics movement has morphed into the financial literacy movement. References to society as a whole have risen somewhat over time. Society is typically engaged in the context of being the beneficiary of the positive externalities that emerge from financial literacy.

Common concepts of financial literacy. As evidenced by Table 1.2 and Appendix 1.A, the concepts of saving, investing, credit, and debt have been engaged heavily and consistently throughout the past 20 years, while the use of the concept of "entrepreneurship" has risen considerably over this time period. Under financial literacy reform, individuals are encouraged to advance as proprietors in capitalist society. Conversely, references to "bankruptcy" have declined over time. This decline coincides with the passage of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, which made it more difficult for consumers and businesses to file for bankruptcy.[18]

Narrative frames and evolving contexts. Youth financial literacy reforms are future-oriented, seeking to inculcate the youth of today with "essential" financial "life-skills," such that they will become the entrepreneurs, investors, and consumers of tomorrow. Slight modifications to the narrative reflect contextual changes in the economy, government, and other actors over time, including economic events, changes in presidential administrations, Federal Reserve chairmanships, and shifts in policy

[18] See Pub. L. 109–8, 119 Stat. 23, enacted April 20, 2005.

advocacy toward privatization and deregulation of the financial industry. The financial literacy narrative pre-dated the past two recessions in the U.S.: the bursting of the dot-com bubble and subsequent 2000-01 recession, and the 2007-09 financial crisis and subsequent Great Recession. These crises serve as "cues" or "environmental jolts" (Weick 1995), adding urgency to the financial literacy narrative:

> WHEREAS, the current economic crisis is putting a financial bind on working people at all income levels, resulting in unprecedented numbers of bankruptcies and home foreclosures;
> WHEREAS, according to the Employee Benefit Research Institute, the percentage of American workers very confident about having enough money for a comfortable retirement fell to 16% in 2010, and more workers expect to work longer to supplement their income upon retirement;
> WHEREAS, an increased percentage of workers report they have virtually no savings and investments;
> WHEREAS, the 2010 Retirement Confidence Survey reports that 27% of American workers have less than $1,000 in savings (Utah, 2011 SCR2).

Following the 2007-09 recession, references began to grow, with "crisis" showing greater prominence than "recession" or "economic downturn," as shown in Figure 1.8.

The academic literature supporting financial literacy describes recent changes in the financial environment globally and in the U.S. more locally, including the privatization of pensions, weakening of the welfare state, and increasing complexity of financial products following financial industry deregulation. These policy changes have resulted in increased responsibility placed on individuals to appropriately manage their finances (CEE 2018a; Lazarus 2016; Lusardi 2015; OECD 2005; Walstad et al. 2016). These depictions are also consistent with Krippner's (2011) notion of "financialization"—the structural shift and increasing emphasis in the U.S. economy on financial activities. The text of resolutions echo these prominent themes, emphasizing the importance of personal responsibility in light of the rising complexity of and

emphasis on financial instruments.

Failure, unacknowledged. While a body of empirical literature demonstrating limited efficacy of financial literacy reforms has grown, there remains no mention of the shortcomings of these reforms in the legislative resolutions analyzed. Instead, the implicit causal model of financial literacy is taken for granted. In several instances, resolutions include text that states that evidence exists that financial literacy reforms are effective. However, the details of these evaluations are not included, nor are quantitative performance measures. To provide just one example:

> WHEREAS, financial literacy is one of the most important skills to help individuals leave poverty; and
> WHEREAS, financial literacy teaches young people how to think critically, forces discipline and organization, helps quantify future goals in a practical way, and demonstrates the importance of trade-offs which encourages thoughtful and informed decisions; and
> WHEREAS, teaching personal finance concepts to young people can help spark an interest in fields such as business and entrepreneurship (Hawaii, 2015 SCR97)

Actors with diverse interests

Guided by Meyer and Zucker's theory, special attention is given to the interests of the actors engaged in financial literacy reforms. Building from Meyer and Zucker's typology of "owners," "managers," and "dependent actors" (1989, 92), a typology of the actors and interests of actors engaged in financial literacy reforms is summarized in Table 1.3. Based on legislative resolutions, four types of actors were identified in state-level legislation: (1) *initiators* include the lobbyists and interest groups who initiated reform, including nonprofit financial education organizations and financial organizations, such as banks and credit unions; (2) *enactors* include the policymakers who adopt reforms, including those from federal, state, and local governments; (3) *implementers* are those responsible for carrying out reform, such as the public school

educators required to teach financial concepts; and (4) *targets* are the intended objects of reforms. For financial literacy reforms, they include students, citizens more generally, and in some instances public-sector educators, who are the targets of "teacher trainings."

Table 1.3
Financial Literacy Reform Actors and Their Interests in Sustaining Reforms

Actor Types	Interests in Sustaining Reforms
Initiators Financial Organizations Financial Education Organizations	**Survival through Environmental Control, Purpose** Profit maximizing, minimizing regulation, doing "good" Resource mobilization, doing "good"
Enactors Government Policymakers	**Status Maintenance, Purpose** Reelection, maintaining public support, doing "good"
Implementers Public Sector Educators	**Organizational Maintenance, Purpose** Employment, supporting a "good" cause
Targets Students and Citizens	**Improved Well-being** Financial well-being, responsibility, economic stability

Notably, resolutions provide incomplete evidence of the interests of actors, reflecting instead carefully crafted narratives as calls to action from the perspective of legislators. Resolutions, like the mission statements of organizations, can be viewed as "front stage" performances (Goffman 1959), while the details as to how and who crafted these normative statements remain hidden from view. As such, the typology in Table 1.3 may not be exhaustive.

Initiators have an interest in promoting reforms to promote their own survival by controlling their environments (Meyer and Zucker 1989,. 56). Specific to financial literacy reforms, financial organizations' interests lie in minimizing regulatory burdens and maximizing profit gains by drawing in new customers (Willis 2008; Willis 2011).[19]

[19] For example, the automotive industry leaders formed AWARE (Americans Well-informed on Automobile Retailing Economics) in 2005 "to provide consumers with information, tools, and other resources to better understand the auto financing system" (AWARE 2013). A description of AWARE on

Similarly, legislative resolutions provide strong evidence that financial education organizations leverage reforms as awareness campaigns for the services they offer in efforts to mobilize resources toward their cause in the form of monetary and volunteer support. Resolutions in many instances both praise and promote the work of initiators, as exemplified below for financial institutions (generally, and Citigroup specifically), professional organizations, and financial education organizations (Junior Achievement), respectively.

> Whereas, there are many excellent money management educational materials available both on the Internet and elsewhere from a variety of consumer education groups, financial institutions, and credit card grantors at little or no cost (Wisconsin, 2001 SJR31).
>
> WHEREAS, in 2004, Citigroup announced a 10-year, $200 million commitment to meet the growing financial education needs of the communities that Citigroup served, and the American Institute of Certified Public Accountants launched a unified financial literacy initiative called "360 Degrees of Financial Literacy" to address the widespread financial illiteracy epidemic (Florida, 2014 SR1728).
>
> WHEREAS, Junior Achievement sustains our democracy by strengthening communities with proven programs that focus on work readiness, entrepreneurship and financial literacy (Pennsylvania, 2017 HR93).

Meyer and Zucker (1989, 108) contend that government actors (in the context of reforms, termed *enactors* here) are primarily interested in status maintenance and enacting "good" policy. For the former, among elected officials, this includes reelection and remaining in good favor with the public. By enacting policy, state legislatures share in the perceived "heroism" of a given reform (Jacobs and Sobieraj 2007), increasing their chances for reelection if these reforms are perceived as "good" by the public.

In many ways, the interests of *implementers* are consistent with Meyer and

---

the organization's website illustrates its motivations: "In educating consumers about auto financing and ways to make informed financing decisions, the group seeks to ensure that financing remains available and affordable to the broadest possible spectrum of consumers. Dealer financing is not only convenient, but it also offers competitive rates for consumers across the country" (AWARE 2013).

Zucker's conception of "dependent actors" who value organizational maintenance in that educators are interested in maintaining employment. Yet, an important distinction exists, where implementers' employment is contingent upon following normative rules and the law, not continent upon the existence of financial literacy reforms. Legislation and resolutions, respectively, require and urge the participation of educators to bring financial literacy reforms to life.

As shown in Table 1.4, resolutions "urge" and "encourage" action or behavior, but rarely "require" it. A majority of financial literacy resolutions urge or encourage educators and individuals to support financial education and financial literacy awareness. This call to action imposes normative constraints on educators, aligning their interests with proposed reforms.

Table 1.4
Directives in State Financial Literacy Resolutions Adopted between 1999 and 2017

Directive	Frequency	
Urge	33	19.5%
Encourage	28	16.6%
Call on	20	11.8%
Declare	19	11.2%
Designate	15	8.9%
Recognize	14	8.3%
Request	14	8.3%
Designate; encourage	13	7.7%

*The remaining 13 directives were referenced once or twice and include: commend, require, applaud, congratulate, express support, honor, proclaim, promote, and recommend.

Further, *implementers* may also have an interest in supporting reforms because they find the purpose of the reforms compelling. They can feel good by doing what they perceive as "doing good" (Karylowski 1982).

Finally, resolutions ascribe interests to the *targets* of financial literacy reforms—

namely, students and citizens. These targets are said to benefit from reforms through greater individual financial well-being and wider social stability and economic success:

> WHEREAS, basic personal financial management, including the principles of saving, spending, credit, investment, taxes, and insurance, is an essential life skill necessary to the well-being of all Montanans (Montana, 2003 HJR10).
>
> WHEREAS, Increased financial literacy empowers individuals to make wise decisions and reduces the confusion caused by the increasingly complex economy; and WHEREAS, A greater understanding of, and familiarity with, financial markets and institutions will lead to increased economic activity and growth (New York, Assembly Resolution No. 278).

Ignorance about failure

Consistent with Meyer and Zucker's theory, together the diverse interests of *initiators*, *enactors*, *implementers*, and *targets* align to propel the adoption of financial literacy reforms. Yet, for most actors, support is contingent upon success, or at least perceived success of these reforms in meeting their stated objectives. As such, the case of financial literacy reform may extend beyond the theory outlined by Meyer and Zucker, which largely assumes knowledge of failure among actors. Indeed, reforms generally may be prone to circumstances where failure is not known due to difficulties in measuring performance outcomes, inadequate measurement, lack of evaluation, or lack of awareness of performance outcomes.

Drawing a nexus between Meyer and Zucker's theory and the principle-agent problem, Siebel (1996,1012) conceives of owners and managers of organizations as "principals" (Fama 1980; Ross 1973), and dependent actors as "agents." In the private sector, principals might be stockholders, and agents the workers and clients of the firm. In the public sector, principals are the public generally as well as their representatives, and agents are the bureaucrats. "Information asymmetries" between "principals" and "agents" can lead to suboptimal outcomes, when principals are not forthcoming about

the quality of goods or services offered (Akerlof 1970; Arrow 1963).

Poor performance among for-profit organizations may be hidden by managers initially. However, failure inevitably becomes known as unprofitability cannot be hidden indefinitely (Siebel 1996, 1012). Yet, in the case of nonprofit organizations, failure may be more difficult to identify, as the stated objectives of these organizations are often more difficult to measure than profitability or efficacy. Unlike public- and private-sector organizations, Siebel contends that nonprofits may not be subject to the same level of scrutiny if they are failing, as their funding is donated voluntarily, whereas tax collections are nonvoluntary, and investors expect returns (Seibel 1996, 1021).

Seibel's argument, however, is that the "principles" of nonprofit organizations (owners and managers) may have an interest in the failure of the "agents" (recipients of nonprofit services) as well as an interest in ignorance about failure in order to mobilize resources for "symbolic problem solving." He contends that the nonprofit sector is more likely to encounter this scenario because nonprofits exist in an "ideological setting" where they are viewed as "doing good" (Karylowski 1982). Further, nonprofits' lack of accountability and profit motives characteristic of public- and private-sector organizations allows for a structural situation where information asymmetries can thrive. In this ideological and structural setting, organizations can "successfully fail" by continuously mobilizing resources.

While Seibel's extension to Meyer and Zucker's theory is compelling, it may fall short of explaining permanently failing reforms under circumstances where failure is not widely known. In the case of financial literacy forms, resolutions and other "front

stage" archival documents offer no evidence of the awareness of failure among those involved in these reforms. We might interpret the lack of acknowledgement of failure as ignorance about failure. A more sinister take would be that one or more groups of actors is actively keeping knowledge of failure under wraps. Indeed, the *initiators* of reform may have a strong interest in suppressing knowledge of failure, similar to Christiansen and Klintgaard's (2010) use of Gibson and Goodin's (1999) conception of a "veil of vagueness" in the cost-benefit analysis of adopting reform. If *initiators* can keep *enactors* and the public in the dark about the ineffectiveness of a reform, the reform remains credible and can continue unabated, serving the interest of initiators. To the extent that *enactors* are made aware of failure, they too may have an interest in employing the "veil of vagueness" in pursuit of "symbolic problem solving" so long as they can be sure that the public remains unware of failure.

However, in each of the above cases, if we can assume that the public has an interest in the efficient and effective use of their tax dollars as Seibel contends, we can assume that the public would hold government actors accountable under circumstances of failure. This being the case, I suggest that we might assume that at least some of the actors in the financial literacy reforms are unaware of its failure. Indeed, ignorance about failure may impose an important context for permanently failing reforms, as described below.

Mechanisms contributing to permanent failure when failure is not known

In exploring the content of legislative resolutions, three mechanisms emerge that appear to contribute to the continued adoption of financial literacy reforms under conditions where failure is not known. In lieu of actual performance measures, these mechanisms

motivate and legitimize reforms, encouraging persistence at an increasing pace of adoption across states. As such, they may offer an extension to Meyer and Zucker's theory when applying their theoretical framework to social reforms. These three mechanisms are described in greater detail below.

Mechanism #1: Leveraging federal government legitimacy. The role of "legitimacy" in the "institionalization" and "rationalization" of social organization has received careful attention by many scholars (e.g., DiMaggio 1983; DiMaggio and Powell 1983; Meyer and Rowan 1977; Weber [1922] 1968). Federal government actors play a special role in legitimization through "normative" and "regulatory" coercion of other actors via spoken creed and rule of law (DiMaggio and Powell 1983; Weber [1922] 1968). These actions both urge and require actions of others. In the instance of financial literacy resolutions, federal government efforts to raise financial literacy awareness and encourage youth financial literacy are frequently cited, providing a call to action to states but falling short of requiring state action. This normative urgency from above legitimizes state-level efforts. State legislative resolutions frequently invoke references to federal government actors, including the Federal Reserve, U.S. Department of Treasury, U.S. Department of Education, and President of the United States. An example from Alabama is shown below.

> WHEREAS, the United States Department of Education released a report that identifies different options for incorporating financial education into schools. Some of these options are including financial education in standards set by state school boards; incorporating financial concepts into material being asked on tests; urging textbook publishers to include more financial education content; incorporating financial education materials into classroom lessons; and training teachers on the importance of financial education (Alabama, 2010 SJR95).

Over time, the source of the calls to action in financial literacy resolutions has changed, owing to changes in federal government leadership and changes in the

regulatory structure of the financial industry as shown in Appendix 1.A. For example, a clear increase in references to the President of the U.S. occur under the Obama Administration beginning in 2008. References to the Consumer Financial Protection Bureau (CFPB) also emerge during this period with the establishment of the agency, under which a large number of financial literacy initiatives are housed (GAO 2011).

Mechanism #2: Narratives with strong institutional logics. Siebel (1996: 1011) argues that the tension between interest in failure and a modern culture that values efficiency requires ideologies as coping mechanisms. Instead of ideology, I argue that "institutional logics" (Friedland and Alford 1991) can balance the tension between ignorance about failure and failure itself. This mechanism may provide taken-for-granted substitutes for the actual, intended outcomes.

The persistent narrative of financial literacy reforms taps into the strong and widely accepted institutional logic of economic liberalism. The deep-seated American belief in a "free-market" economy contributes to the support for financial literacy reforms and sustains belief in their cause and effect. Financial literacy resolutions call for informed and self-interested decision-making to improve the well-being of society as a whole:

> WHEREAS, Increasing the financial literacy of all individuals is documented to improve attitudes, lead to improved decision-making, and provide for a more secure future for the individuals and their families who have been educated in these issues (California, 2008 ACR113).

This causal model echoes an American work ethic of "bootstrapping" and a belief that education can liberate the poor and lead to social mobility. So too, it echoes the neoclassical economic assumption that perfect information portends perfect markets (Akerlof 1970). These calls to action also entail a strong moral component. Financial

literacy is often conflated with financial responsibility. Of the 169 resolutions, 68 (40.2 percent) include the term “responsible” or “responsibility” in the context of responsible financial behavior. Informed decision-making is the responsibility of individuals, educators, and society:

> WHEREAS, Personal financial education is essential to ensure that individuals are prepared to manage credit, debt and investments in order to become responsible workers, investors, entrepreneurs and business leaders (Pennsylvania, 2017 SR66).

Consistent with the findings of Willis (2009), resolutions suggest that packed into the term “financial literacy” is a causal model aligned with the “institutional logics” of a free market economy. A majority (68.0 percent) of resolutions cite statistics that financial *il*literacy is a growing problem:

> WHEREAS, consumer debt obligations have been growing twice as fast as wages and salary gains, and consumer debt in Idaho is approximately $5.4 billion owed to Idaho institutions alone and is growing on an average of $340 million per year; and
> WHEREAS, Idaho's bankruptcy filings, both business and personal, have increased 129 percent over the past five years and, on a nationwide basis, proportion of bankruptcy filers aged 25 years and younger is growing; and
> WHEREAS, recent research has proven a direct relationship between financial literacy and rates of personal bankruptcy with Idaho being one of six states with the highest proportion of households filing for personal bankruptcy (Idaho, 1999 SCR108)
>
> WHEREAS, Our nation's financial system has grown increasingly complex, leaving too many Americans without the means to secure a strong financial future (Rhode Island, 2017 HR6101).

Financial education is the “taken-for-granted” (Garfinkel 1967) solution with the assumed capability of promoting financial literacy, financial health, and a host of other “good” financial behaviors:

> Whereas a person who is financially literate is able to understand finance and make informed judgments and effective decisions about money; and
> Whereas financial literacy encourages greater economic self-sufficiency, higher levels of homeownership and enhanced retirement security, particularly among low- and moderate-income Oregonians; and
> Whereas the personal financial education of all residents, especially youth and other vulnerable populations, will improve the quality of their lives, provide them with skills for success and contribute to positive changes for the communities in which they live and work; and

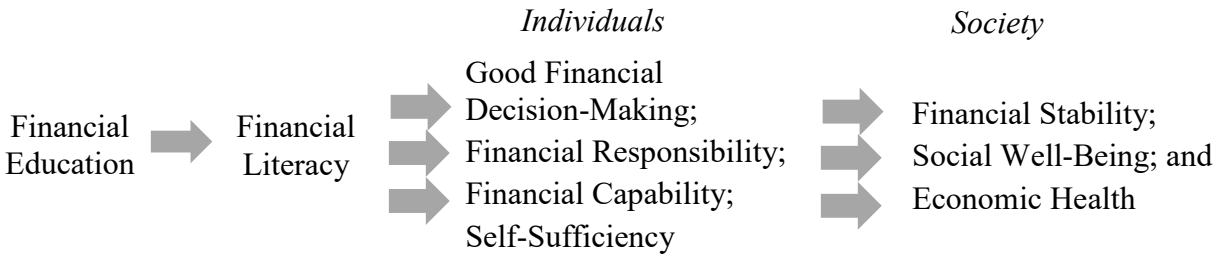
> Whereas personal financial education is essential to ensure that Oregon's youth are prepared to manage money, credit and debt, and to become responsible workers, heads of households, investors, entrepreneurs, business leaders and residents; and
> Whereas financial education has been linked to lower delinquency rates for mortgage borrowers, higher participation and contribution rates in retirement plans, improved spending and saving habits, higher net worth and positive knowledge, attitude and behavioral changes (Oregon, 2011 HCR2).

The causal outcomes envisioned from financial education are many and varied, as demonstrated by Figure 1.8. They include individual well-being, financial responsibility, and self-sufficiency. On a macro-level, financial literacy is said to engender improved economic activity and stability, and the advancement of society:

> Whereas, Financial literacy and learning these skills at an early age encourages greater economic self-sufficiency, higher levels of successful homeownership, and enhanced retirement security, particularly among low- and moderate-income citizens; and
> Whereas, The past decade has seen declining personal savings rates, increased bankruptcy filings, soaring home foreclosures, and rising percentages of family income devoted to servicing household debt; and
> Whereas, Given the current economic conditions facing Michigan, personal financial education and money management skills are crucial to ensure that our young people are prepared to manage credit and debt and become responsible workers, heads of households, homeowners, investors, entrepreneurs, business leaders, and productive citizens; and
> Whereas, The young people of our state represent the nation's single greatest resource who, in the years ahead, will assume leadership positions and responsibility for advancement of our society (Georgia, 2014 HR327).

Based on the 169 resolutions analyzed, the implicit causal model of financial literacy reform is summarized in Figure 1.9, reflecting financial education's assumed contributions to financial literacy and its multiplicity of presumed downstream effects.

Figure 1.9
The Implicit Causal Model of Financial Literacy Legislation



The conflation of financial literacy, financial decision-making, and other

positive economic outcomes is evident in legislative definitions of "financial literacy" and its equivalents as shown in Table 1.5. However, for most states, financial literacy goes undefined, while the taken-for-granted causal logic appears in most resolutions and legislative declarations. Only seven states and the District of Columbia explicitly define the term, while 47 states have adopted policies to promote it.

Table 1.5
Definitions of Financial Literacy in Enacted State Legislation

Legislation	Definition
	Bills
Colorado HB1360 (2004)	…"financial literacy" means knowledge of personal finances that is sufficient to enable a person to manage savings, investment, and checking accounts, to design and maintain a household budget, to manage personal debt, to understand consumer credit and finance, to manage personal credit options, and to understand and select among short-term and long-term investment options.
Florida SB1076 (2013)	Financial literacy includes the knowledge, understanding, skills, behaviors, attitudes, and values that will enable a student to make responsible and effective financial decisions on a daily basis.
Iowa SF2216 (2008)	For purposes of this subsection, "financial literacy" shall include but not be limited to financial responsibility and planning skills; money management skills, including setting financial goals, creating spending plans, and using financial instruments; applying decision-making skills to analyze debt incurrence and debt management; understanding risk management, including the features and functions of insurance; and understanding saving and investing as applied to long-term financial security and asset building.
Maine LD184 (2011)	"Personal finance" means a course of study including instruction in purchasing, using credit, budgeting, saving and investing, banking, simple contracts, state and federal income taxes, personal insurance policies and renting or purchasing a home.
Pennsylvania HB101 (2010)	"Personal financial literacy." The integration of various factors relating to personal financial management, including understanding financial institutions, using money, learning to manage personal assets and liabilities, creating budgets and any other factors that may assist an individual in this Commonwealth to be financially responsible.
Washington, D.C. B17-434 (2008)	"Financial literacy" means the ability to make informed decisions about one's personal finances, based on the understanding of the principles of credit, debt, savings and investments, depository institutions interest, and budgeting.
	Resolutions
Georgia SR781 (2014)	Family and Consumer Sciences is the comprehensive body of research, knowledge, and skills that helps people make informed decisions about their well-being, relationships, and resources to achieve their optimal quality of life
Illinois HR780 (2014)	In 2008, the President's Advisory Council defined financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing"
Washington, D.C. CER22-0063 (2017)	…financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

Mechanism #3: The promotional cycle of persistent failure. Financial literacy resolutions and public statements made by supporters of reforms do not acknowledge the failure of these reforms to meet their stated objectives. Yet, these "front stage" statements do highlight the ongoing (and in many instances growing) problem of financial *il*literacy. Indeed, the framing of the need for financial literacy reforms is motivated by the ongoing failure of these reforms to bring about their stated objectives. After 20 years of financial literacy reform, Americans are no more financially literate than they were before. Indeed, they may even be less so.

In response to this sustained low performance, we don't see revisions to financial literacy reforms. Instead, more and more of the same reform is called for and required at higher and higher levels of specificity. For example, early legislation generally mandates financial literacy curricula without detailing the content of the curriculum. Over time, legislation has required a growing list of financial concepts to be included in curricula or coursework.[20] Calls for financial literacy reforms have become louder, more widespread, and more urgent over time, in part motivated by the failure of

[20] To provide just one example, in 2003 Arizona enacted Senate Bill 41, which required the following curriculum content: "include, but not be limited to, creating household budgets, maintaining checking accounts, basic consumer finance, debt management, credit management, insurance, and taxes." By comparison, in 2017 House Bill 1442 was passed in Arizona and required the following content: "(1) Income, including without limitation taxes; (2) Money management, including without limitation: Household budget creation; Banking practices, including savings account and; Checking account maintenance; (C) Insurance; (D) Charitable giving; and (E) Long-term financial planning; (3) Spending and credit, including without limitation: (A) Basic consumer finance; (B) Identity fraud and theft; (C) Home ownership; (D) Debt management; (E) Credit management; (F) Bankruptcy; and (G) Consumer protection; (4) Saving and investing, including without limitation: (A) Methods of saving; (B) Methods of investing; (C) Retirement planning; (D) Risk and return; and (E) Regulation of savings and investment; and (5) Preparing for employment, including without limitation: (A) Decision making and employment choices; (B) Job seeking skills, including resume building and interview skills; (C) Understanding paychecks, including without limitation: (i) I-9 forms; (ii) W-4 forms; and (iii) Income tax deductions; (D) Employment benefits; (E) Soft job skills, including without limitation: (i) Communication; (ii) Time management; and (iii) Meeting basic employer expectations and requirements; (F) The differences between salaried and hourly employment; and (G) Overtime."

reforms to elicit a more financially literate society. This trend suggests a self-sustaining cycle, whereby a higher dose of the same reform is called for in response to the failure of the reform to elicit its intended outcome. This cycle is illustrated in Figure 1.10.

Figure 1.10
The Promotional Cycle of Persistently Failing Reforms

In extending Meyer and Zucker's theoretical framework to permanently failing reforms, I suggest that if we can assume that the public holds an interest in the effectiveness of reform, we might expect a self-perpetuating cycle of failure when: (1) actors engaged in reform are unaware of the reform's failure; and (2) social mechanisms substitute for actual evidence of success. In the case of financial literacy, prevailing institutional logics and the legitimacy granted by federal government offer two such substitutes for empirical evidence of success.

This extension differs from that of Seibel's on at least two important grounds. First, it engages social reforms, which are characterized by participation of many, varied organizational actors, instead of the experience of nonprofit organizations. Second, it acknowledges that the public may not demand revisions or termination of reforms because they are unaware of failure and may themselves be assuaged by the mechanisms standing in as evidence of success.

CONCLUSIONS AND DISCUSSION

How do we explain the continued adoption of reforms that fail to meet their stated objectives over time? I argue that the theoretical framework of Meyer and Zucker's theory of permanently failing organizations offers insight. Yet, in applying Meyer and Zucker's theory to the case of financial literacy reforms, I find that the context of ignorance about failure among actors engaged in reform requires further theorizing. Toward this end, I identify three mechanisms that may contribute to the persistence of failing reforms under conditions of ignorance about failure.

When failure is not known by actors engaging in reforms, the interests of these actors may be guided by factors other than performance measures, such as strong institutional logics and the legitimization lent by federal government support for reforms. Further, these circumstances may produce a self-promotional cycle, where ongoing failure contributes to the prescription for a higher dose of the failing reform. After twenty years of financial literacy reforms, Americans are just as financially *il*literate as ever. In response to ongoing failure, we adopt a permanently failing logic: when *x* fails to produce *y*, do more *x*.

While financial literacy reforms may fail in reaching their stated objectives of improving financial behavior and social outcomes, these reforms have engendered hope for a better financial future for many. They have also garnered near-universal support and led to a host of educational reforms. These outcomes might themselves be measured as a success on some grounds. Yet, through successful persistence, failing financial literacy reforms have shifted the focus of institutional reforms away from consumer protections, financial industry regulations, and welfare reforms, toward an increasingly

complex financial environment that the individual is responsible for navigating alone.

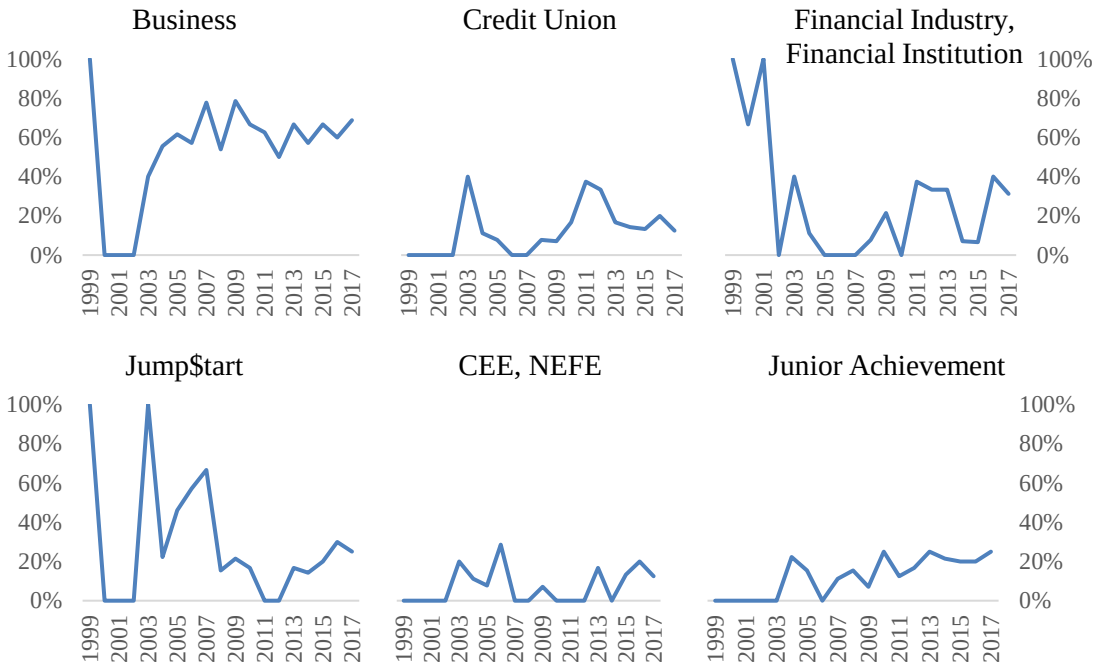
Beyond financial literacy, a theory of failing reforms holds promise worth attention in future research. For example, an exploration of reforms targeting persistent social problems, such as homelessness, drug abuse, and poverty may offer insight toward understanding and developing better theories of failure.

Further research is also needed on the evaluation of reforms and how evaluation processes might influence permanent failure. Measurement issues and lack of measurement plague the ability to learn how, where, and why reforms fail. While we have witnessed the rise of "accounting culture," which increasingly demands data, measurement, and evaluation, evaluation too may be subject to limitations (see Espeland and Sauder 2007; Espeland and Stevens 2008; Fourcade and Healy 2016).

Finally, further research on the role of ignorance of failure in the adoption of failing reforms warrants consideration. To this end, information diffusion processes may require greater attention, exploring when and how empirical evidence fails to attract the attention and interests of enactors of reforms. These and other efforts might lend to a new typology of permanent failure, distinguishing ignorance from strategic ignorance, and differentiating "symbolic problem solving" (Siebel 1996) from other forms of problem-solving, such as problem-solving with blind faith in institutional logics and federal government encouragement.

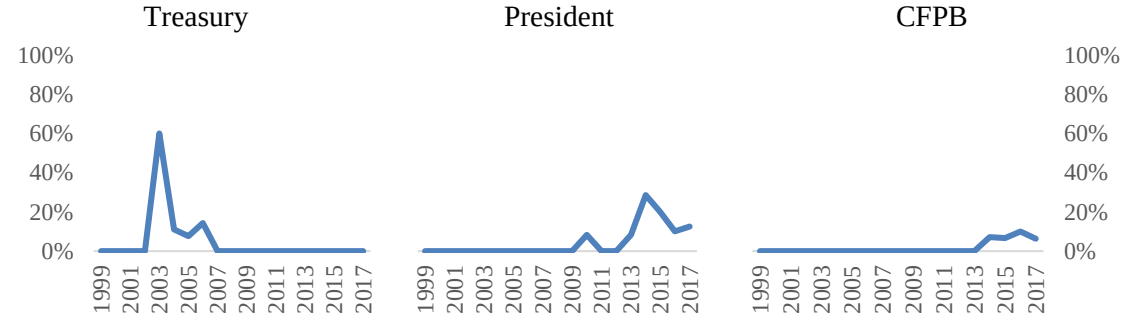
APPENDIX 1.A
Selected Word Frequencies over Time
Share of State-Level Financial Literacy Resolutions that Include Terms

Initiators of Reform



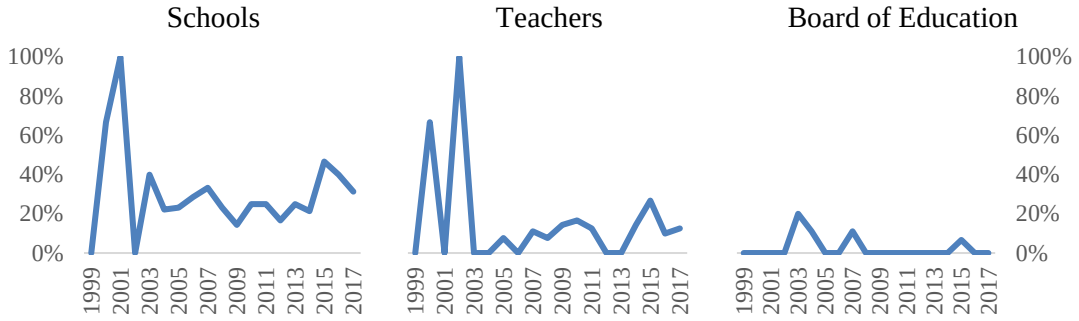
CEE = Center for Economic Education.
NEFE = National Endowment for Financial Education.

Enactors of Reform



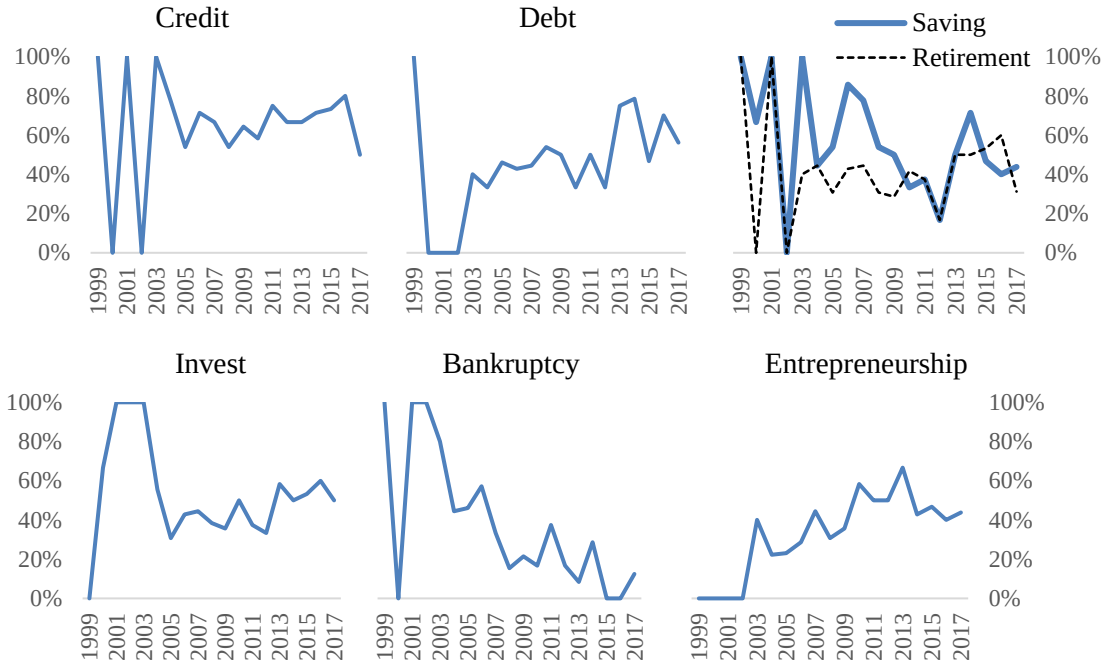
CFPB = Consumer Financial Protection Bureau.

Implementers of Reform

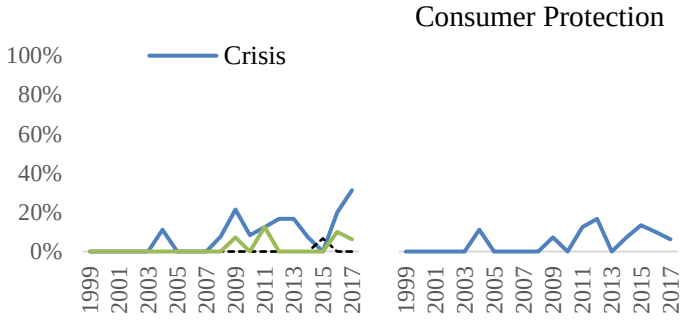


CFPB = Consumer Financial Protection Bureau.

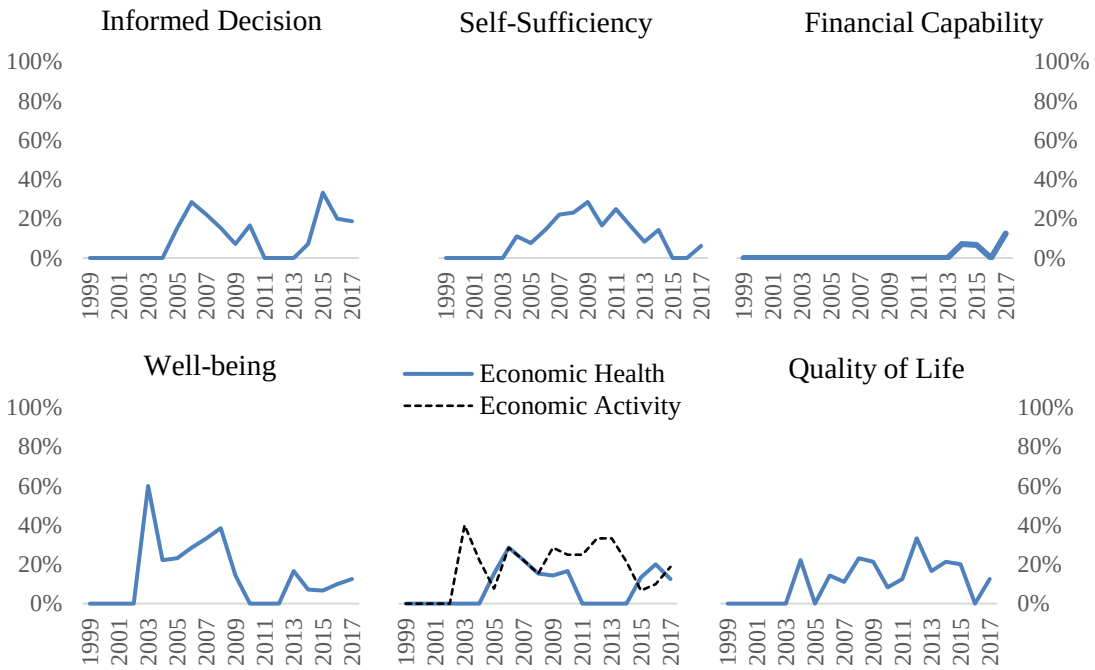
Financial Literacy Concepts



"Framing" and "Logics"



Financial Education/Literacy Outcomes



Source: Author's analysis of state financial literacy resolutions.

CHAPTER TWO

SOCIAL DETERMINANTS OF STATE INCOME TAX PROGESSIVITY

Abstract. Classical scholars variously describe taxation as a cause and consequence of social action, as a symptom of social change, and willingness to comply with revenue extraction. While recent research explores these interactions at the national level, state-level analysis of individual income taxes for the United States has remained underexplored. This chapter employs a panel model analysis to predict the progressivity of state individual income tax rates during the time period of 1981 through 2015—a period characterized as the "permanent tax revolt" (Marin 2008).Tax progressivity is predicted based on socioeconomic characteristics of state populations, including racial composition, income inequality, and degree of urbanization. Findings suggest that higher income inequality is associated with more progressive tax structures, while states with a higher share of the population that is nonwhite are associated with less progressive structures. This confirms similar findings at the national level and state-level findings for property taxes.

INTRODUCTION

Taxation is perhaps the most universally experienced economic and social policy of our time. Indeed, its inevitability is entombed in the idiom: "…in this world nothing can be said to be certain, except death and taxes."[21] Taxes represent a considerable burden to many households, subtracting from the income available for expenditure, while also adding to the cost of most goods. In 2018 the median marginal labor income tax rate among advanced economies for average wage earners was 47.8 percent.[22] The median consumption tax rate on taxable goods and services was 20.5 percent in 2018 among these same nations (OECD 2019b).[23]

Reflecting on the importance of taxation for individuals and society, classical

[21] This idiom is commonly attributed to Benjamin Franklin based on a letter to Jean-Baptiste Leroy dated 1789 (Smith 1907, 69).

[22]Based on data from the Organisation for Economic Cooperation and Development (OECD 2019a). Estimates include the marginal tax rates for OECD member countries for income tax and social security contributions as a share of taxable income. Marginal tax rates range from 10.25 percent in Chile to 65.1 percent in Belgium.

[23] Consumption taxes include national value-added taxes and goods and services taxes. Among OECD countries, tax rates ranged from 5.0 percent for Canada (though Canada has additional regional rates ranging from 13 percent to 15 percent) to 27.0 percent for Hungry.

theorists of economics and sociology, including Joseph Schumpeter ([1918] 1991), Max Weber ([1922] 1968), and Karl Marx (Marx and Engels [1848] 1996), viewed taxation as both a cause and a symptom of economic and social change.[24] For Schumpeter, Weber, and Marx, taxation serves as a source of state authority, and both a cause and an outcome of conflict between classes and social groups. These theoretical underpinnings speak to the complex relationships between the state and society (Skocpol 1985). In recent decades, a growing body of literature identified with the subdiscipline of 'fiscal sociology' has reengaged these themes, providing comparative historical portraits of the complex causal relationships between taxation and social change (for reviews, see Campbell 1993; Martin and Prasad 2014).

Fiscal sociologists, political sociologists, and political science scholars also highlight the role of political control, institutional structure, and the business cycle in shaping fiscal policy, echoing many of the themes of classical theorists, while also engaging new social and structural determinants of tax policy. For example, Steinmo (1989) finds that variations in the decision-making structures of the United States, Sweden, and Britain bias each polity toward different policy outcomes. Among studies of United States federal income tax policy, Allen and Campbell (1994) employ multivariate time-series analysis to examine the influence of macroeconomic conditions, political conditions, and organizational capacities of social classes on United States federal income tax policy between 1916 and 1986. Jacobs and Helms (2001) explore additional social determinants of federal income tax policy, also relying on time-series analysis. When controlling for partisan control of the presidency, the racial

[24] For a brief review of the classical influence on the fiscal sociology literature, see Martin and Prasad (2014, 5-6).

composition of the United States, family incomes, and union strength, they find that civil rights activity leads to more redistributive tax policy. However, this relationship is contingent upon the party control of the presidency; civil rights actions are positively associated with redistributive tax policies under a Democratic president, and negatively so under a Republican administration.

Amid the context of rising income inequality (see Piketty 2014; Piketty and Saez 2006), fiscal sociologists have also turned a keen eye toward the influence and evolution of tax policy on income inequality, studying determinants of tax progressivity as well as taxation as a redistributive method. A progressive tax imposes higher rates for those with higher incomes, while offering greater tax relief for those at lower incomes, who are likely to use what income they earn on basic needs. These scholars engage the mechanisms that can perpetuate income and other inequalities through the tax structure (see Bradley 2018; Campbell 1993; Martin 2008; Martin 2013; Martin and Beck 2017; Martin and Prasad 2014; Prasad 2018).

The vast majority of studies to date engage tax policy at the national level, most commonly through comparative historical analyses (e.g., Dodson 2017; Prasad and Deng 2009; Steinmo 1989). While subnational analyses exist, they are much less common, owing in part to data limitations and the influence of national policy on subnational practices. Yet, important variations exist at the subnational scale. For example, studies of states within the United States have explored the extent to which differences in income tax rates influence migration patterns of high-income earners (Young 2017; Young et al. 2016). Others have found that state-level tax policy contributes to income inequality, yet these analyses have primarily engaged property

and consumption taxes (e.g., Martin 2008; Martin and Beck 2017; Newman and O'Brien 2011).

Subnational data provide a rich variety of geographically unique economic, cultural, and institutional processes that are embedded in larger national identities, institutions, and economic cycles. Recent advances in data collection and econometric methods offer promise in exploring these variations to predict certain tax policy outcomes. Yet, state-level income taxes remain largely underexplored in the sociological literature.

This chapter addresses this gap by exploring determinants of the income tax structure of states in the United States—specifically, the progressivity of state income tax rates. Political shifts in United States politics in the 1960s and 1970s led to what scholars have termed the "permanent tax revolt" (Martin 2008; see also Block 2009). This chapter explores this time period, characterized by heavy pressure to keep taxes low, drawing on data from 1981 to 2015. Leveraging existing empirical work and the theoretical constructs of the classical scholars, this chapter employs panel model analysis that controls for better-known policy determinants, including political control and the fiscal policy shifts that coincide with the business cycle. By controlling for these factors, this analysis seeks to identify possible underexplored social and socioeconomic determinants of tax policy, including the influence of state racial composition, income inequality, and degree of urbanization.

HISTORICAL CONTEXT, 1980-2015

The period between 1980 and 2015, characterized as one of "permanent tax revolt," witnessed some of the lowest federal and state tax rates in modern history (Martin

2008). In his history of property taxes in the United States, Martin (2008) finds that the origins of taxpayer revolts stemmed from a progressive movement against the regressive impacts that occurred through the modernization of property tax administration in the 1960s. The bureaucratization, professionalization, and statistical consistency in administrative methods eliminated property tax privileges granted by politically appointed tax officials. Taxpayer protests culminated in voter approval in 1978 of Proposition 13 in California, which enacted strict limits on property tax increases. The success of Proposition 13 ignited a wave of anti-property-tax measures across states and fueled support for the right-leaning anti-tax movement at the federal level.

At the federal level, support among political elites for social programs including Medicaid, Medicare, and Social Security waned with economic crises in the 1970s. Political elites reversed course, abandoning the payroll tax model by the mid-1970s despite continued public support for these safety net programs (Campbell and Morgan 2005). Block (2009) describes the period leading up to and following the presidential election of Ronald Reagan as one in which political coalitions paired free-market ideology with religious individualism, propelling support for the Republican party to produce a low-tax environment. Because no pro-tax coalition emerged to counter this movement, the United States public sector saw rising demand for public services without the tax revenue to pay for them (Block 2009, 69). As a result, governments across the United States now face an ongoing "fiscal crisis" (the inability to address fiscal spending because of the discontent with tax revenue extraction) (O'Connell 1973). Fiscal crisis has weighed on the center and Left political prospects, perpetuating

the election of political elites that support a low-tax state.

While Block's (2009) account of the 1980s into the 21st century primarily engages federal level politics, similar movements were occurring within the states. Indeed, a notable trend in political control among states is the dramatic decline in Democratic control in "Bible Belt" states.[25] State budgets too began to feel the weight of fiscal crisis. Faced with reduced federal tax revenue on lower tax rates, political elites at the federal level sought incentives to encourage the state match of federal funds for entitlement programs, Medicaid being the largest. States increasingly felt budgetary pressures to meet these requirements but were also met with state-level anti-tax pressures. Political pressures and constitutional constraints at the state level, including tax uniformity, voter approval, and supermajority requirements, tied the hands of legislatures, producing state-level tax cuts and favoring increases in consumption taxes, which are more regressive.[26]

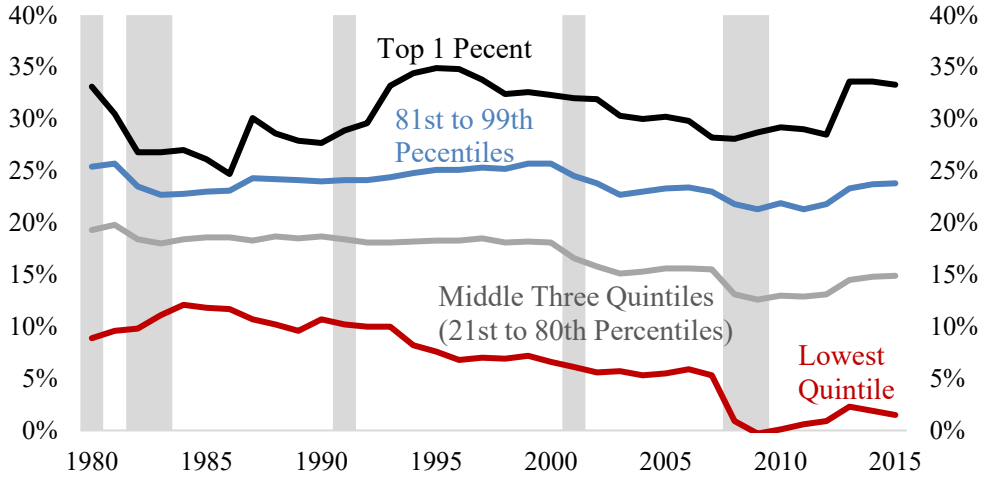
The business cycle and state budgets. Between 1981 and 2015, the United States experienced five business cycles, including the recovery and expansion from the 1980 recession, the 1981-82 recession, the 1990-91 recession, the 2001 recession, and the 2007-09 Great Recession.[27] Recessions have important consequences for state budgets, as demand for state services rises while revenue from consumption and income taxes declines.[28] States tend to enact significant fiscal policy changes during these times, to

[25] Figure 2.B.3 in Appendix 2.B illustrates this trend based on data for the share of state legislature seats state occupied by Democrats.
[26] For an overview of consumption taxes, see Newman and O'Brien (2011). For property taxes, see Martin (2008).
[27] For official recession dates, see the National Bureau of Economic Research website: https://www.nber.org/cycles.html
[28] The ebbs and flows of state unemployment rates shown in Figure 2.B.2 in Appendix 2.B, provides one indicator of the relative magnitude of the business cycle across time and states.

either reduce state spending or increase revenue when federal aid or state savings are exhausted.

Major federal tax policy changes. Figure 2.1 shows the average federal taxes paid during the time period of analysis, including personal and corporate income taxes, payroll, and other taxes. Put in a longer historical context, tax rates are relatively low, especially among higher income groups. Even so, tax rates for most income groups fell further between 1980 and 2015. Federal tax policy changes warrant attention as the federal tax base is the basis for most state-level income taxes,[29] and because of the relative visibility of federal versus state and local taxes. Federal taxes comprise the largest share of taxes paid, historically representing about two-thirds of total taxes paid in the United States according to data published by the U.S. Census Bureau.[30]

Figure 2.1
Average Federal Income Tax Rates by Income Group, 1981-2015



Source: Congressional Budget Office. Data available at: www.cbo.gov/publication/54646.
Note: Grey bars represent recessionary periods. Average federal tax rates are calculated by dividing total federal taxes by total income before transfers and taxes in each income group. Federal taxes consist of individual income taxes, payroll taxes, corporate income taxes, and excise taxes.

[29] For example, see the federal starting points for state income taxes for tax year 2019, published by the Federation of Tax Administrators (2019): https://www.taxadmin.org/assets/docs/Research/Rates/stg_pts.pdf.
[30] See the U.S. Census Bureau, Survey of State and Local Government Finances, available at: https://www.census.gov/programs-surveys/gov-finances.html.

The first major tax policy change occurred under the Ronald Reagan Administration in 1981. Under the Economic Recovery Tax Act of 1981, the highest marginal personal income tax rate was reduced from 70 percent to 50 percent of taxable income. Comparatively, the lowest rate was reduced from 14 percent to 11 percent. The act made other changes to the tax code, including a reduction in the highest capital gains tax rate from 28 percent to 20 percent, with tax brackets for which the rates apply indexed to inflation. The Tax Reform Act of 1986 further reduced the highest personal income tax rate from 50 percent to 38.5 percent, with additional reductions to 28 percent in following years. The 1986 act included several other provisions reforming federal tax code, including increasing the highest capital gains tax rate from 20 percent to 28 percent.

During the Clinton Administration, income tax policy remained relatively constant. One notable change was a tax rate increase on high-income earners enacted in 1993. Republicans regained control of Congress in 1994, stemming additional changes to the tax code. In 1997, President Clinton struck a deal with Republicans in Congress to pass the Taxpayer Relief Act, which reduced the top marginal tax rate for capital gains taxes and increased the estate tax exemption, among other changes.

The "Bush tax cuts" occurred through two pieces of legislation and were made permanent through subsequent legislation.[31] Finally, under the Obama Administration,

[31] First, the Economic Growth and Tax Relief Reconciliation Act of 2001 reduced the top marginal tax rate from 39.6 percent to 35 percent and reduced rates for several other tax brackets. Then, the Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated rate reductions under the 2001 act, reduced capital gains taxes, and expanded certain tax credits and deductions. Subsequently, the Working Families Tax Relief Act of 2004 and Tax Increase Prevention and Reconciliation Act of 2005 (enacted in 2006) extended and accelerated the 2001 and 2003 tax cuts.

the American Recovery and Reinvestment Act of 2009 was signed into law, setting into motion the largest tax rate reductions for lower-income households during the period of analysis. The act was part of the economic stimulus package following the Great Recession and included an Alternative Minimum Tax reduction, the Making Work Pay Credit, and the expansions of the Earned Income Tax Credit and Child Tax Credit. Subsequent legislation made these changes permanent.[32]

DETERMINANTS OF TAX PROGRESSIVITY

In a review of the literature, Allan and Campbell (1994) identify four different types of determinants of tax progressivity: macroeconomic conditions, state imperatives, political control, and organizational capacities of social groups. State imperative explanations run deep in fiscal sociology literature, with taxes described as the "lifeblood" of the state (Marx [1852] 1963). Tax revenue increases are mobilized through wartime needs or to address fiscal crises brought about by economic or geopolitical rifts (e.g., Schumpeter [1918] 1991). Tax rates and tax progressivity are described as both cause for and consequence of economic development (e.g., Campbell 1993). Tax increases become more palatable as incomes rise across classes in society (North 1985). Yet, there exists an ongoing tension between extracting tax revenue from businesses and households, investment of these business and households in the economy, and support for government. As economic activity ebbs and flows, so too does support for tax increases (Block 1980).

[32] The Tax Relief, Unemployment Insurance Reauthorization, And Job Creation Act of 2010 extended the Bush tax cuts and the ARRA expansion of the EITC and Child Tax Credit for two years through 2012. The American Taxpayer Relief Act Of 2012 made permanent most of the Bush tax cuts and expanded the ARRA expansions of EITC and Child Tax Credit for five additional years. Finally, the Protecting Americans from Tax Hikes Act of 2015 permanently expanded the EITC and Child Tax Credit.

Finally, political control and the organizational capacities of labor unions representing lower-income classes of society are identified as a key determinant of tax structures (e.g., Goldscheid [1925] 1962). Several scholars draw upon the influence of elite politics and political coalitions, and, among the more recent literature, explore the overarching anti-tax movements in the Unites States. Martin (2008) identifies a progressive anti-property tax movement seeking protection from rising home values as a determinant of support for a broader and federal anti-tax sentiment. Block (2009) identifies a political coalition teaming religious individualist ideology with business free market ideology as sources of the federal anti-tax movement. In a quantitative analysis specific to tax progressivity, Jacobs and Helms (2001) find that events that are perceived positively for racial minorities, such as peaceful civil rights demonstrations, are associated with progressive changes in the federal tax code. Conversely, negatively perceived events, such as violent urban riots, are associated with regressive changes to federal taxes.

While empirical studies show support for state building and macroeconomic conditions influencing tax progressivity, the role of political control has been less clear in some studies (Jacobs 1998; Jacobs and Waldman 1983). Indeed, income tax progressivity may be more symbolic than real, with differences in effective tax rates smaller than political rhetoric or tax codes might suggest (Allen and Campbell 1994).

Fiscal sociology has a long history of engaging the role of state development and war on taxation (see Martin, Mehrotra, and Prasad 2009 for a review of the literature). Much of the classical literature explains the role of economic and fiscal crisis in changes in and support for social and tax policy broadly (Schumpeter ([1918] 1991;

Marx and Engels ([1848] 1996). Among more recent scholarship aligned under the new fiscal sociology, several studies highlight the progressive structure of the United States tax system relative to other highly developed countries, which for many serves as paradox, given the capitalist structure of the United States (see Prasad and Deng 2006; Steinmo 1989). More recent studies argue that neoliberalism in the United States might explain its relatively more progressive tax structure (Campbell and Morgan 2005, Prasad 2006). Drawing from cross-country analysis for the years 1981 through 1998, Swank (2006) argues that the high visibility of 1986 tax reform in the United States shaped the diffusion of neoliberal policies elsewhere. Yet, the costs and benefits of adoption of similar policies is dependent upon the relative interest and potential economic gains associated with adoption.

The structure of tax codes and institutional processes are also highlighted as determinants of tax structure more broadly. For example, Pearson (2014) finds that in drawing support for taxation, both structure and sequencing matters. She finds that successful tax increases in the 1960s and early 1970s were dependent upon the mobilization of interest groups, knowledge among voters of the policy change, and the perceived costs and benefits of the change. More specifically, tax increases were enacted in states where rate increases were already in effect and thus voters already fully understood their costs and benefits. Constitutional provisions allowing for taxes to be increased prior to voter approval were therefore central in the permanent enactment of increases.

Martin (2008) highlights the structure of direct democracy and federalism, which produce multiple "veto-points" for tax increases and encourage innovative policy across

states—many of which reduce taxes. Martin argues that protesters matched their behavior to these institutional environments in order to successfully enact tax rate cuts. Martin's account highlights the layered role of federal, state, and local politics in determining policy outcomes. Newman and O'Brien (2011) point to the influence of supermajority requirements in states as a determinant of increased reliance on regressive consumption taxes. These impacts have been particularly profound in the South.

Finally, the interplay between demands for state services and revenue extraction require attention. Leroy (2010) draws from de Tocqueville's ([1835] 2004) *Democracy in America*, in particular his presentation of Wagner's Law, where public expenditures rise with income expansion. Others note a range of difference in social spending across states (Friedland 1976; Hicks 1979), which may be influenced by tax revenue or other policy features of states.

Consequences of regressive taxes

Many studies document associations between more regressive tax structures and the racial composition of states. Using data for 1995 through 2007, O'Brien (2017) finds an association between changes in racial composition and the progressivity of state and local tax systems. In particular, states with a higher percentage of Latinos are associated with more regressive state and local tax systems. In an earlier study, Jacobs and Waldman (1983) find a similar association, where states with a higher proportion of black residents had more regressive tax systems. Both studies take a more comprehensive approach to subnational tax systems, using an indicator that encompasses data for multiple tax sources, including income, property, and sales taxes

for both state and local governments.

Martin and Beck (2017) study the effect of limitations on growth in property tax revenue on the distribution of the property tax burden among homeowners of different racial and ethnic groups in the United States. Drawing from data from 1986 through 2011, they find that black homeowners self-report approximately two property tax mills greater than comparable white homeowners. On average, homeowners of all racial and ethnic groups enjoy savings under property tax limitations. Yet, black and Latino homeowners received the least benefit from these policies because these homeowners, respectively, are more likely to own relatively low-value homes or to have purchased homes more recently.

Research hypotheses

Drawing from existing sociological theory, the following hypotheses are presented regarding the social determinants of United States state-level tax policy. In efforts to extend sociological research on taxation, these hypotheses leverage existing fiscal sociology literature reviewed above as well as sociological literature extending beyond the subfield of fiscal sociology.

Hypothesis 1: With rising population density, marginal income tax rates will become more progressive.

Building from the hypotheses forwarded by Louis Wirth ([1938] 1969), population density has long been recognized as a determinant of human behavior. Specifically, Wirth theorized that as population density increases, societal stresses also rise, manifesting in higher levels of social disorder relative to less-populated areas. Drawing from this theory, we might expect tax rate increases to fund a higher level of state

intervention intended to offset the social consequences of urbanization. Indeed, studies have documented a higher cost of state services in more densely populated areas (e.g., Ladd 1992; Carruthers and Ulfarsson 2008).[33]

Hypothesis 2: A rise in racial diversity will coincide with a more regressive tax structure.

Sociological studies document the institutionalization of racism in United States tax systems (e.g., Martin and Beck 2017; Newman and O'Brien 2011; O'Brien 2017). Many of these studies explore historical tax structures, particularly those of the southern states following the Civil War (see O'Brien 2017 for a review). However, analyses of modern tax structures suggest that tax-related racial inequalities persist, owing in part to new mechanisms that reproduce inequalities. For example, using a fixed effects analysis of state and local tax data, O'Brien (2017) finds that areas with a higher proportion of Latinos tend to have more regressive tax systems. Further, drawing from a nationally representative survey, O'Brien finds that individual preferences for taxation tend to be influenced by changes in the racial composition of a community. Specifically, the author finds in-group solidarity as a meaningful predictor of support for taxation. These studies suggest that the racial composition of a region portend different tax policy outcomes that may perpetuate income inequalities across race and ethnicities.

Hypothesis 3: Higher income inequality will coincide with a more progressive tax structure.

[33] As might be expected due to its geographical implications, much attention has been paid to the impact of rising population densities on property tax rates (e.g., Brueckner and Kim 2003). However, the impact of population density on income tax policies has remained largely underexplored. Studies that do exist engage the influence of taxation on population growth and economic activity (e.g., Mark et al. 2000), leaving the inverse causal relationship unexplored.

In a review of the literature, Bradley (2018) summarizes the many ways scholars have found that tax policies perpetuate inequality through class, gender, race, and ethnicity. This literature highlights the rise of tax expenditures—the preferential benefits of tax credits, deductions, and exemptions—in the United States tax code, and the disproportionate benefits of these preferences for white, higher-income married males (Howard 1997; McCaffery 2009,;Prasad 2011). Because of the presence of these tax preferences, we might expect to see higher-income taxpayers willing to endure higher tax rates, because tax preferences offset these higher rates.

DATA AND METHODS

The following presents a correlation and panel model analysis of time series data that explores possible socioeconomic determinants of income tax progressivity across states. States without an income tax were excluded from analysis. These states include Alaska, Nevada, Texas, Washington, and Wyoming. New Hampshire and Tennessee are also excluded, as these states only tax income from capital gains. Washington, D.C. is excluded as an outlier because it exhibits unique characteristics that are more like a local than a state government. Finally, Nebraska is excluded as the party affiliation of members of the state legislature is not available because Nebraska has a nonpartisan legislature.

Dependent variable: Income tax rate progressivity

In the analysis that follows panel models are used to predict state income tax progressivity. More specifically, models predict the difference between the effective tax rates of joint filers with taxable income of $100,000 and those with taxable income of $25,000, as well as the tax rates for each of these income groups. Data from the

National Bureau of Economic Research (NBER's) TAXSIM model for state-level individual incomes are used.[34,35] Appendix 2.A shows effective tax rates across five income groups for which TAXSIM data are available, including rates for the $100,000- and $25,000-income groups used in this analysis. Figure 2.B.1 in Appendix 2.B, shows the difference between rates for these groups. States with more progressive tax structures will have a larger gap between high- and low-income taxpayers, while more regressive states see limited to no difference in tax rates between these groups.

Effective tax rates measure a taxpayer's total tax liability relative to their income. Put slightly differently, such rates reflect taxpayer burden as a share of income. As lower-income families spend a larger share of their income on basic necessities, the difference in tax rates between low- and high-income households may be an inadequate measure to capture the distributional implications of income tax inequality. Additionally, tax rates for lower and higher incomes may be influenced by unique factors. To explore these variations, the tax rates of lower- and higher-income households are modeled separately from the difference between these rates.

While TAXSIM data includes measures for five income groups ($10,000, $25,000, $50,000, $75,000, and $100,000), the income groups of $25,000 and $100,000 were selected based on their representation of groups across the income distribution in the United States. The income of $25,000 is also favored over $10,000 for the variation in tax rates. For many states, households with an income of $10,000 have an effective

[34] TAXSIM data and documentation can be found at: http://users.nber.org/~taxsim/.
[35] TAXSIM data offer four household type units of measurement: single filers, joint filers, a measure for a family of four, and a measure for taxpayers over the age of 65. I propose analyzing single and joint filers, as they represent a more broad-based representation of households, accounting for a range in the number of dependents.

tax rate of 0 percent, and a handful of states have a negative tax rate.

The selected income groups of $25,000 and $100,000 approximate the top end of the lowest quintile of the United States population and bottom of the top quintile, respectively. Figure 2.2 shows real household incomes adjusted for inflation to 2005 dollars over the period of analysis of 1980 to 2015.These amounts reflect total income, not taxable income, and therefore may overstate the amount of taxable income across each fifth of the United States population.[36] As shown in Figure 2.2, the highest income among the lowest fifth of the population remained at just under $20,000. The highest income for the fourth quintile of the population and lowest for the fifth quintile shows the strongest growth over this period and ranges from a low of $73,630 to a high of $96,398.

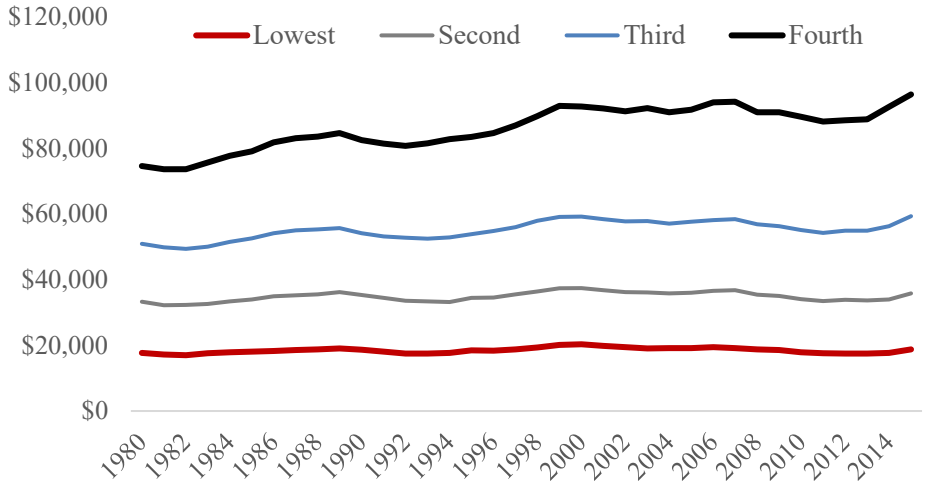
Data analyses rely on real (inflation-adjusted) income tax data to control for the influence of changes in prices over time.[37] TAXSIM data has increasingly been used as a more reliable source for state-level tax data than survey data. Indeed, due to rising nonresponse rates and data quality issues, beginning in 2013 TAXSIM data has been used as a substitute for household survey data for the U.S. Bureau of Labor Statistics, Consumer Expenditure Survey (Paulin and Hawk 2015). Relative to other data sources, such as actual state-level income tax data that are subject to access limitations and differences in aggregation methodologies, TAXSIM data offer a reliable and consistent,

[36] For example, in Colorado for tax year 2015, 46.2 percent of taxpayers had incomes between $0 and $25,000, while 19.8 percent of taxpayers had incomes between $0 and $10,000. Comparatively, 15.0 percent of the population had incomes over $100,000 (author's calculations based on data from the Colorado Department of Revenue, adjusted to 2005 levels using the U.S. gross national product (GNP) deflator, published by the U.S. Bureau of Economic Analysis). These percentage shares exclude taxpayers with negative incomes. Such taxpayers tend to be higher-income business owners who report a net operating loss for one or more businesses.

[37] Real data are adjusted to 2005 levels using the U.S. gross national product (GNP) deflator, published by the U.S. Bureau of Economic Analysis.

"apples-to-apples" comparison of income tax liabilities across states for representative households. Data are based on federal income tax data and account for differences in state individual income tax rates and standard deductions. However, a notable limitation of these data is that they fail to account for other state-specific income tax deductions (e.g., retirement income deductions) or tax credits (e.g., state Earned Income Tax Credits) that further reduce tax liabilities for many households.

Figure 2.2
Income Limits for Each Fifth of the U.S. Population, 1980-2015



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, with author's inflation adjustments using the U.S. Bureau of Labor Statistics Consumer Price Index (CPI-U) for all urban areas. Census Bureau data are published as Historical Income Tables (Table H-1) here: https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html.

As shown in Figure 2.B.1 in Appendix 2.B, tax progressivity remained stable over the period of analysis across many states, and roughly the same number of states saw an increase in progressivity relative to those with a reduction in progressivity. Several states made significant changes to their tax structures during this time period, resulting in sizable changes in the progressivity of tax rates between those with incomes of $25,000 and $100,000. Connecticut and Maine show the largest increases in progressivity. In the early 1980s the difference between rates among income groups was

at or near zero. By 2015, the differences rose to near 5 percent, with the largest jump in tax rates for the higher income group in 1986. Based on the differences between high- and low-income groups, Maine is the most progressive, while Pennsylvania is the least. Pennsylvania shows no difference between rates throughout the period of analysis.[38]

Predictor variables

Proposed predictor variables include indicators of the macroeconomic impacts of the business cycle on state budgets, state-level political party control, and socioeconomic indicators of income inequality, racial composition of states, and degree of urbanization. All variables are time varying. While the data proposed here were selected based on their relative availability and reliability, they remain subject to limitations, including survey error in many instances. Appendix 2.B provides a time series of each of the variables used over the period of analysis and across relevant states. Table 2.1 presents descriptive statistics for the data used in the analysis.

Table 2.1
Descriptive Statistics

	Rate Diff.	Unemploy-ment Rate	Non-white	Democrat	Gini	Density	$25K Rate	$100K Rate
n	1400	1400	1400	1400	1400	1400	1400	1400
min	0	0.023	0.014	0.1524	0.45889	0.005	-0.0037	0
max	0.0588	0.1780	0.7390	0.9714	0.7105	1.2062	0.0566	0.0871
range	0.0588	0.1550	0.7250	0.8190	0.2516	1.2012	0.0603	0.0871
median	0.0233	0.0570	0.1960	0.5537	0.5651	0.0980	0.0210	0.0453
mean	0.0231	0.0610	0.2285	0.5613	0.5650	0.2046	0.0214	0.0446
SE mean	0.0003	0.0006	0.0040	0.0046	0.0012	0.0071	0.0003	0.0004
CI mean 0.95	0.0007	0.0011	0.0079	0.0090	0.0024	0.0139	0.0006	0.0007
Var	0.0002	0.0004	0.0227	0.0297	0.0020	0.0703	0.0001	0.0002
std. dev	0.0124	0.0210	0.1507	0.1722	0.0451	0.2652	0.0113	0.0133
coef.var	0.5339	0.3443	0.6595	0.3068	0.0798	1.2966	0.5290	0.2986

Business cycle. Changes in tax policy often coincide with significant changes in

[38] Notably, Colorado's TABOR Amendment resulted in refunds that produce a disproportionate reduction in tax rates for lower-income taxpayers in tax years 1997 through 2001.

economic activity. In particular, tax rates historically have been reduced during times of economic expansion and increased during economic downturns to offset contractions in state revenue (Vegh and Vuletin 2015). This analysis uses average annual state unemployment rates published by the U.S. Bureau of Labor Statistics to control for cyclical policy changes and the influence of the business cycle.[39] State unemployment rates exhibit unique patterns representative of state-level economies (Figure 2.B.2 in Appendix 2.B).Like policy responses to economic downturns, unemployment rates typically lag the start of a downturn in economic activity. As such, they offer indicators of the business cycle unique to the timing and nature of state-level economic activity.

Political control. To control for the influence of political representation and political control, the model uses the share of the state legislature affiliated with the Democratic Party (Figure 2.B.3 in Appendix 2.B). Data were obtained from the Council of State Government's *Book of States*.[40] The share of legislative seats occupied by Democrats was calculated by combining political control of both houses of state legislatures.[41] This measure serves as both proxy to a state's political affiliation of voters as it does the political control of state legislatures. It does not, however, indicate who controls either chamber of the state legislature, nor does it account for the party control of the Governor. Data prior to 2004 are only available bi-annually. In odd years, the prior year of data is assumed to account for these limitations. That said, very little change occurs in odd years due to two-year election cycles.

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[39] Data and documentation available at: https://www.bls.gov/lau/.

[40] Data and documentation available at: http://knowledgecenter.csg.org/kc/category/content-type/content-type/book-states. Data are from Table 3.3.

[41] All states have two houses (a senate and a house of representatives) except Nebraska, which has a unicameral legislature.

Race/ethnicity. The percentage of the state population that is nonwhite (more specifically, the population that is nonwhite, non-Hispanic) is used as the indicator for racial composition of states. U.S. Census Bureau state-level Census and intercensal population estimates were used in the analysis.[42] The share of the nonwhite population was selected based on its continuous, time varying nature and as a more comprehensive measure of the composition of the state population. This measure has been used in other studies (e.g., Jacobs and Helm 2001; Hayes and Vidal 2015), as have dummy variables for specific races (e.g., Martin and Beck 2017). Future model iterations may consider different operationalizations of the racial composition of states. Racial and ethnic diversity continues to grow among states in the United States, as illustrated by slight upward trends in the share of the population that is nonwhite (Figure 2.B.4 in Appendix 2.B).

Income inequality. State income inequality has many measures (see Frank 2017). The Gini coefficient, however, is perhaps most widely known. This analysis employs the time-varying state-level Gini coefficient published by Frank (2017).[43] The coefficient ranges from 0 to 1, with 0 representing perfect equality and 1 representing perfect inequality across incomes within an area's population.[44] Similar to findings in recent country-level analyses (e.g., Piketty 2014; Piketty and Saez 2006), state inequality has risen considerably in recent years, as illustrated by the upward trend in state Gini coefficients between 2004 and 2015 (Figure 2.B.5 in Appendix 2.B).

Degree of urbanization. Finally, the degree of urbanization is measured by population

[42] Data and documentation available at: https://www.census.gov/topics/population/race/data/tables.html.
[43] See also Frank (2014) for additional information on methodologies for state inequalities estimates.
[44] For a description of the methodology used to generate state Gini coefficients, see Frank (2017).

per square mile, or population density, in each state (Figure 2.B.6 in Appendix 2.B). State population data were obtained from the U.S. Census Bureau and divided by the U.S. Census Bureau measures of the square mileage of each state based on the geographic landmass. Density has risen over time across states with growing population. While time-varying, population density has grown modestly over the time period of analysis.

Other relevant variables not included. Based on findings among sociology and political science scholars, additional variables may be considered in future analyses, including indicators of unionization (e.g., Jacobs and Helms 2001), business and religious political coalitions (Block 2009), trust (e.g., Hastings 2018), public opinion of government (e.g., Roberts et al. 1994), and civil rights, riots, and crime (e.g., Jacobs and Helms 2001). Structural and control variables that account for political control (e.g., party affiliation of the Governor, and control of each house of the legislature) have been used in other studies (Allen and Campbell 1994). Alternative model specifications may allow models to control for more precise mechanisms than those captured by the indicators used here.

Panel model with time and state fixed effects

Panel modeling allows for the analysis of time series data, accounting for the influence of time, exogenous variables, and unobserved effects, while also allowing for controls for individual observational units (in this instance, each state) (Halaby 2004; Gelman and Hill 2007; Woodridge 2002). Recent advances in these statistical methods suggest that panel models may be a preferable means of exploring causal inference, particularly when analyzing time-series data over longer time periods (see Acemoglu et al. 2019;

Alvarez and Arellano 2003). Panel data allow for "more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency" (Baltagi 2005, 5).

The analysis that follows employs a fixed effects panel model with time effect that analyzes the variation in differences in income tax rates between higher- and lower-income taxpayers.[45] This approach accounts for variation in the social and control variables identified above as well as fixed effects for states and time. State fixed effects are intended to net out time-invariant state-specific characteristics that may be associated with predictor and dependent variables. Fixed effects for years net out national-level trends and federal tax policy shifts that affect states equally. The model used in analysis takes the following form:

$$Y_{it} = \beta_0 + \beta_1 X_{1,it} + \ldots + \beta_k X_{k,it} + \gamma_2 E_2 + \ldots + \gamma_n E_n + \delta_2 T_2 + \ldots + \delta_t T_t + u_{it} \text{ [eq. 1]}$$

Where:
Y_{it} is the dependent variable, where i = state and t = time.
$X_{k,it}$ represents independent variables.
β_k is the coefficient for the independent variables.
u_{it} is the error term.
E_n is the state entity for n states. States are treated as binary (dummy) variables with n-1 entities included in the model.
γ_2 is the coefficient for the binary state regressors.
T_t is time as binary (dummy) variable, with t-1 time periods.
δ_t is the coefficient for the binary time regressors.

ANALYSIS AND RESULTS

As the classical scholars allude, tax policies are both cause and consequence of social action. Therefore, findings from models are careful not to overstate causal relationships,

[45] This analysis uses the statistical software package R, specifically using the "plm" package. The plm package offers a comprehensive range of options for specifying models, including fixed and random effects models; specifying individual effects, time effects, or both; and various diagnostic tests commonly used by econometricians to identify areas of model misspecification. For documentation on the plm package, see: https://cran.r-project.org/web/packages/plm/vignettes/plmPackage.html.

and instead highlight the associations implicated by modeling that may hold promise for additional consideration in future research. Overall, findings are consistent with expectations for the second and third hypotheses presented above: higher income inequality is associated with more progressive tax rates, while a higher share of the population that is nonwhite is associated with a less progressive tax structure. Analysis suggests that the influence of population density, however, is less predictive of tax policy outcomes.

Correlations among variables

Table 2.2 presents correlation coefficients for variables used in analysis. These correlations reflect data across states with an income tax between 1981 and 2015 (25 years across 40 states, or 1,400 observations). Correlation tables suggest higher income tax progressivity in states with higher income inequality and a higher share of the population that is nonwhite.

Table 2.2
Zero-Oder Correlations among Key Variables in the Analysis

	Rate Diff.	Unemploy-ment Rate	Non-white	Democrat	Gini	Density	$25K Rate	$100K Rate
Rate Diff.	1.0000	-0.0734	0.1066	-0.0195	0.1584	-0.1069	-0.3713	0.6113
Unemployment	-0.0734	1.0000	0.0669	0.2099	-0.1672	-0.0094	0.0091	-0.0604
Nonwhite	0.1066	0.0669	1.0000	0.2622	0.327	0.1338	-0.1158	0.0002
Democrat	-0.0195	0.2099	0.2622	1.0000	-0.1852	0.2884	0.0853	0.0545
Gini	0.1584	-0.1672	0.327	-0.1852	1.0000	0.0682	-0.2133	-0.0349
Density	-0.1069	-0.0094	0.1338	0.2884	0.0682	1.0000	-0.09	-0.1758*
Rate for $25K	-0.3713	0.0091	-0.1158	0.0853	-0.2133	-0.09	1.0000	0.5078
Rate for $100K	0.6113	-0.0604	0.0002	0.0545	-0.0349	-0.1758*	0.5078	1.0000

*p-value < 0.10.No statistically significant correlations are present.

More progressive tax rates (those with a larger rate difference), showed modest positive correlations with higher state Gini coefficients, suggesting that states with higher income inequality have more progressive income tax rates. Higher inequality is

negatively correlated with income tax rates for both income groups, though the negative correlation is stronger for those with incomes of $25,000. This suggests that as income inequality rises, those with lower incomes tend to see a larger reduction in tax rates relative to those at higher incomes. Including a variable for higher income earners (e.g., $500,000 or $1,000,000) may offer additional insight into associations between tax progressivity and inequality.

More progressive tax rates are also positively correlated with a larger share of the state population that is nonwhite. Lower-income taxpayers see a modest negative correlation, while higher-income taxpayer see a negligible positive correlation. This suggests that with increased racial and ethnic diversity, rates for lower-income taxpayers are lower relative to their higher-income counterparts.

Population density shows a modest negative correlation with tax rate progressivity. Higher population density shows a significant negative correlation with lower tax rates for those with an income of $100,000, and minimal negative correlation $25,000-income taxpayers. This suggests lower rates overall in higher population density areas for both income groups. Again, including a variable for even higher-income earners may offer additional insight on tax progressivity, as high-income taxpayers (those above $100,000) may bear higher tax rates and a higher share of taxes in more urban areas.

Regarding control variables, states with a higher share of Democrats in the legislature show a positive correlation with higher tax rates across both income groups. Counterintuitively, a modest negative correlation is present for the difference in rates across income groups. Finally, higher unemployment rates are modestly correlated with

lower tax rates for those with incomes of $100,000, and minimally correlated with higher rates for the lower-income group.

Panel model analysis

Table 2.3 summarizes model estimates for effective tax rates for joint filers with an income of $25,000, those with an income of $100,000, and the difference between the two rates. The tables shown in Appendix 2.C include six model iterations for each dependent variable. All panel models are statistically significant and balanced, with 35 years of observations spanning 1981 to 2015 across the 40 states with an income tax. Diagnostics confirm that a state fixed effects model with time effects is preferred.[46] Because time and state-specific effects are included in each model, coefficients should be interpreted to control for unexpected variation or special events, and slopes and intercepts of linear regressions are unique to each state. Models are robust to variations in lagged structures. Unlagged models are presented here.

Model coefficients suggest that higher income inequality is a significant predictor of a more progressive tax structure. These findings are consistent across model iterations (see Appendix 2.C). Across the income groups, the association is stronger and statistically significant for those with incomes of $100,000. Model output suggests very little relationship between income inequality and the $25,000 income group. These findings are consistent with those in other studies at the federal level (e.g., Allen and Campbell 1994). This finding perhaps begs more questions than it answers. Existing literature suggests a willingness among high-income taxpayers to endure

[46] For each model iteration, the Chow test suggests that a fixed effects model is preferred to a pooled model (*p*-value of less than 0.001). The Hausman's specification test suggests a fixed effects model is preferred to a random effects model (*p*-value of less than 0.001). Finally, the *F*- test suggests the presence of time fixed effects (*p*-value of less than 0.01).

higher rates due to tax expenditures (including credits, exemptions, and other privileges) that effectively lower rates (see Bradley 2018). The tax rates used as dependent variables here fail to account for all tax expenditures, which tend to disproportionately benefit higher-income taxpayers. As such, tax rate measures used here may be viewed as partly symbolic. Other intervening variables also warrant further exploration, including the role of political coalitions and unionization in representing different class groups and mobilizing more progressive rates.

Table 2.3
Panel Regression Models

	Rate Difference	$25K Rate	$100K Rate
Unemployment	0.103***	-0.006	0.098***
	(0.016)	(0.014)	(0.019)
Democrat	0.007***	-0.010***	-0.003
	(0.002)	(0.002)	(0.002)
Nonwhite	-0.075***	-0.018*	-0.092***
	(0.011)	(0.010)	(0.014)
Gini	0.036***	0.003	0.039***
	(0.009)	(0.008)	(0.011)
Density	0.009	-0.030***	-0.021
	(0.012)	(0.010)	(0.014)
Observations	1,400	1,400	1,400
R2	0.066	0.067	0.077
Adjusted R2	0.01	0.012	0.023
F-Statistic	18.552***	18.896***	22.045***
df	5; 1322	5; 1322	5; 1322

Note: All models feature year fixed effects.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

Confirming findings elsewhere for consumption taxes, property taxes, and state and local tax systems (see Martin and Beck 2017; Newman and O'Brien 2011; O'Brien 2017, respectively), income tax rate progressivity is negatively associated a higher share of the population that is nonwhite. These findings are consistent across model iterations.

A nonwhite population predicts lower tax rates across both income groups, though with a stronger negative association for the higher-income group. This analysis suggests that racial inequalities in income tax have persisted into recent decades under the anti-tax movement that began in the 1970s. While these findings have been found at the federal level (see Allen and Campbell 1994), this analysis points to racial inequalities in state income tax systems. Additional model specification is needed to uncover differential impacts of tax rates on different racial and ethnic groups.

This finding also suggests that tax systems along with welfare systems (see Gilens 1999) may extend preferable benefits or favorable tax treatment to middle and even upper class citizens while being stingy about low-income households. Gilens (1999) argues that stereotypes of the poor as disproportionately Black and nonworking and have eroded support for low-income welfare programs in the U.S. This has contributed to a lack of support among politicians to expand assistance programs for the poor despite public support to help the poor. Low-income welfare programs have been "reformed" to include work requirements that reflect individualist ideals that lower-income households "pick themselves up by their bootstraps". Meanwhile, other welfare systems that benefit all incomes, such as Social Security and Medicare, have been left untouched. Further research is needed to uncover the mechanisms contributing to political support (or lack thereof) for more progressive tax regimes. Gilens research offer hypotheses toward this end.

Models suggest a modest positive relationship between population density and tax progressivity, albeit a nonsignificant one. Higher population density is associated with a lower tax rate among both income groups, with the lowest-income group

showing a stronger negative relationship to tax rates. On net, this may suggest that higher population density is associated with more progressive tax structures. While findings here are inconclusive, future analyses may employ alternate variables, such as a more proximate variable for demand for state services. While time-varying, population density changes only modestly over time.

This lack of variation likely contributes to non-substantive and nonsignificant coefficient estimates in the models presented in Table 2.3. The positive and statistically significant (*p*-value of less than 0.1) correlation between population density and the tax rate for the higher income group suggests a relationship between population density and state tax structures. Further model iterations without the Gini coefficient and nonwhite variables suggest statistically significant relationships between predictor and outcome variables (see Appendix 2.C). As population density, increased racial diversity, and Gini coefficients tend to rise in tandem, collinearity across variables likely also contributes to the nonsignificant coefficient estimate in the models shown in Table 2.3.

Control variables generally confirm documented and intuitive assumptions that the business cycle produces tax policy changes that tend to be more progressive, and a stronger Democratic presence in legislatures leads to more progressive tax rates. Higher unemployment rates are a significant predictor of higher rates among the high-income group and lower (though nonsignificant) rate for the lower-income group. Confirming the findings from the correlation analysis, a larger share of Democrats in state legislatures predicts a more progressive tax rate structure across states. Running counter to the correlation analysis and confirming more intuitive findings, once controlling for other variables, a higher share of Democrats predicts a lower tax rate for both income

groups.

Model limitations. Overall, models exhibit modest explanatory power of the differences in tax rates across states, as measured by adjusted R-squared and considering the size of predictor variable coefficients. Additionally, regression diagnostics point to several areas where models may be improved in subsequent analyses. Diagnostics suggest serial correlation of the error terms.[47] Wooldridge's test for unobserved effects suggests the presence of unobserved effects. Finally, standard errors are not clustered in this analysis, as the plm package in R does not currently include an option for clustered standard errors like that available in the software package Stata using the xtreg command. Accurate standard errors are crucial for obtaining unbiased and consistent estimates of regression coefficients. Using clustered standard errors allows errors to be correlated within clusters but not across clusters. As a result, standard errors and *p*-values shown here may be misleadingly small.

DISCUSSION AND CONCLUSION

The anti-tax political climate of the past three decades has reshaped tax policy in the United States, serving as both cause and consequence of income and racial inequalities. These trends echo the words of classical sociological theorists, including Schumpeter ([1918] 1991), Weber ([1922] 1968), and Marx (Marx and Engels [1848] 1996), who variously describe taxation as a cause and consequence of social action, as a symptom of social change, and willingness to comply with revenue extraction. Consistent with other recent empirical studies documenting state and local property and consumption

[47] The consequences of this include inefficient estimation of the regression coefficients, under-estimation of the error variance, under-estimation of the variance of the regression coefficients, and inaccurate confidence intervals.

tax racial inequalities (e.g., Martin and Beck 2017; Newman and O'Brien 2011), the findings here suggest that racial inequalities also exist in state-level income tax systems. Superficially, I find that states with a larger nonwhite representation tend to have less progressive income tax structures. Racial inequities in tax systems—like welfare systems (Gilens 1999)—by design may under-privilege nonwhite low-income households under individualist political narratives of "a hand up, not a hand out" to the poor.

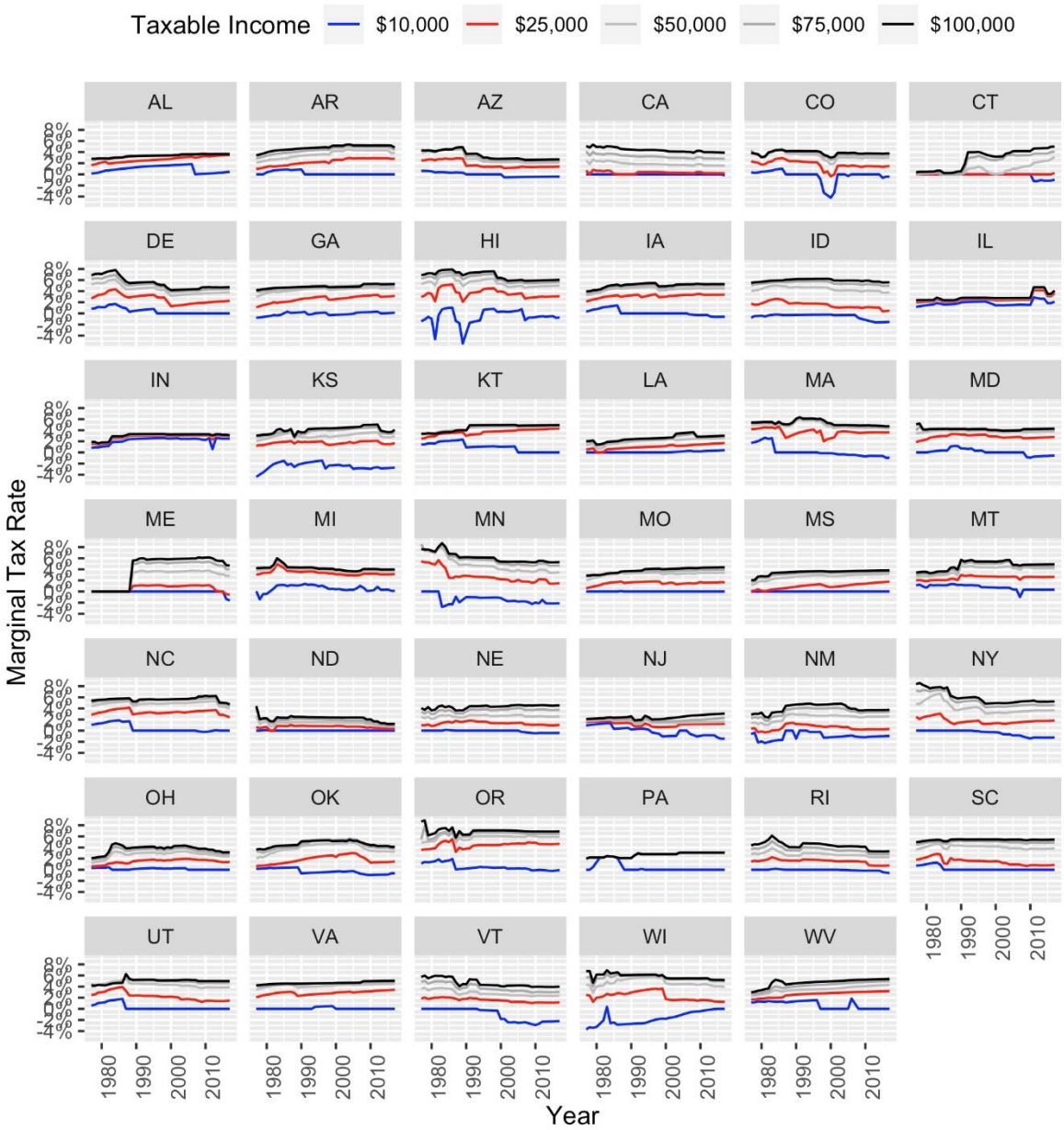
I also find that higher income inequality is associated with more progressive state-level income tax structures. This points to an increased willingness among the polity to accept higher tax rates at higher income levels as income inequality rises. These findings contribute to existing fiscal sociology literature that emphasizes the determining role of geopolitical, economic, or fiscal crisis in motivating willingness to pay taxes (see Campbell 1993 and Martin and Prasad 2014 for reviews). Complementing these findings, income inequality also appears to be a meaningful determinant.

The consequences of tax policy are critical not only to the extraction of income from different classes in society, but for the redistribution of income and services essential for the wellbeing of individuals and classes in society. Indeed, beyond taxation's burden on household incomes, the availability and provision of state services has important consequences for educational, health, and other outcomes. As such, both the amount of revenue generated from taxes and the means with which it is extracted (the tax source and progressivity of the tax) is consequential.

Future research is needed to identify underlying interactions between

institutional structures and other factors that perpetuate tax structures and, with them, existing inequalities. For example, studies need to investigate where, when, and what sequences give rise to tax policy changes and unequal outcomes across race and class. Drawing from Gilens (1999), studies of the racial and other perceptions of low-income households across states and the influence of these perceptions on tax policy outcomes across income groups warrants attention. Future analysis may also be improved with additional variables that control for a state's reliance on income tax, or other structural factors, such as voter approval requirements for tax increases. Additional or alternative predictor variables may also be considered, including the influence of political coalitions, or other social indicators, such as measures of social connectedness, social solidarity, or social capital across states. To further isolate associations, variables measuring differential impacts across racial and ethnic groups, or across political geographies (e.g., the south) warrant exploration. Finally, as data availability improves, more nuanced measures of tax progressivity may become available that account for state-specific tax expenditures (e.g., credits, exemptions, and deductions).

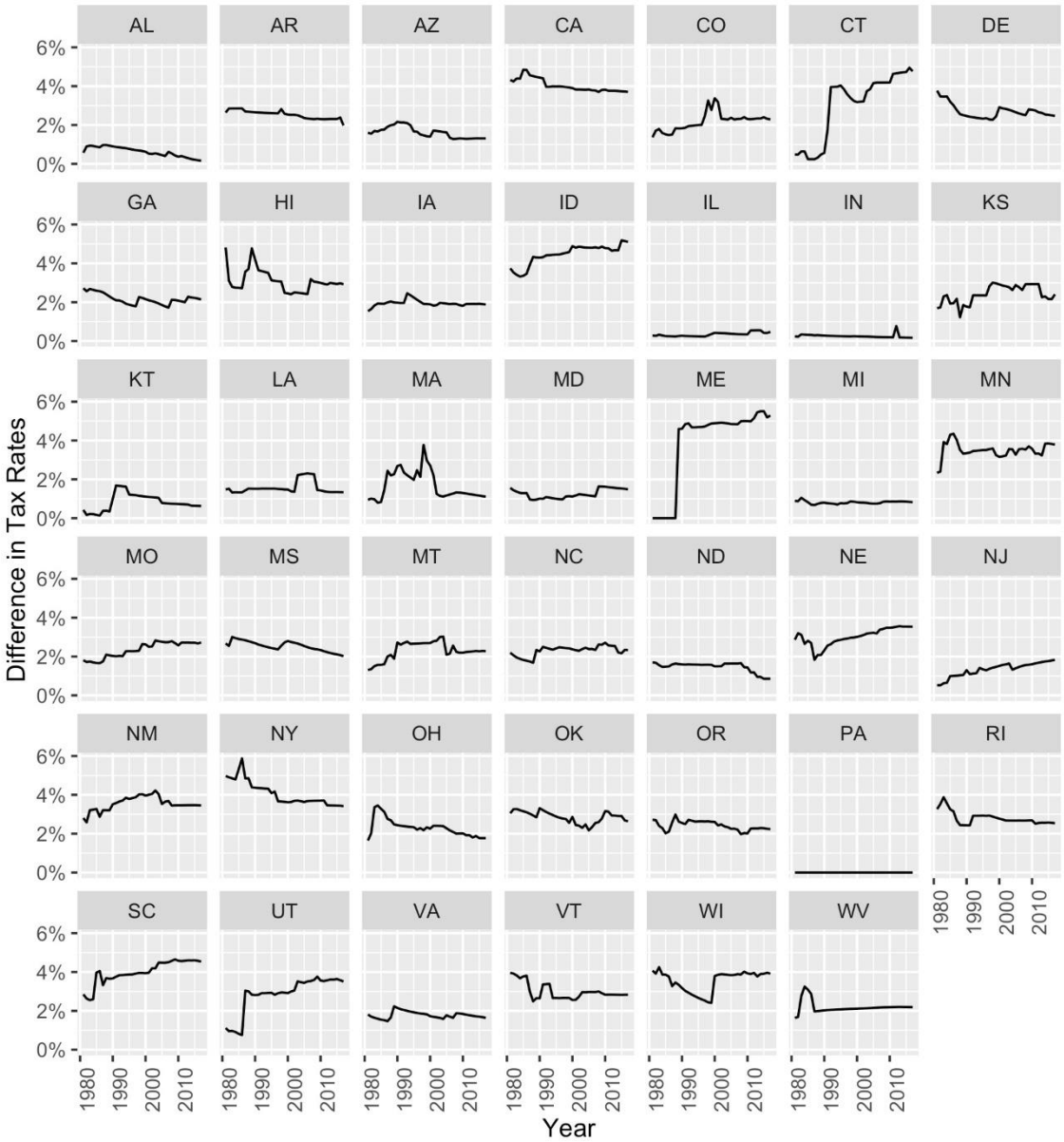
APPENDIX 2.A
Marginal State Income Tax Rates by State, Joint Filers*



Source: NBER, TAXSIM and author's calculations.
*States without an income tax are excluded. These states include Alaska, Nevada, Texas, Washington, and Wyoming. New Hampshire and Tennessee are also excluded, as these states only tax income from capital gains.

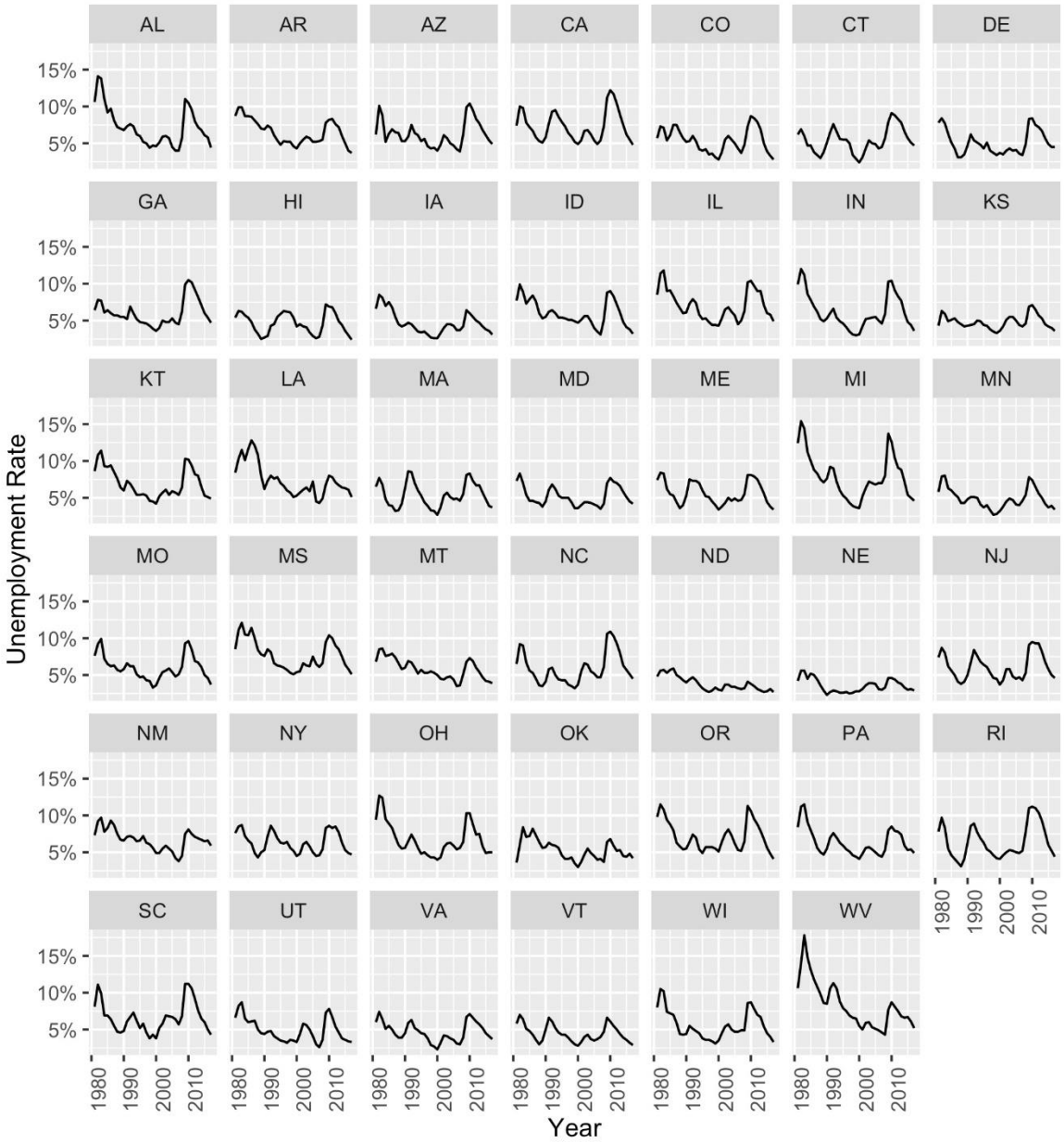
APPENDIX 2.B

Figure 2.B.1
Difference in Marginal State Income Tax Rates by State, Joint Filers*
Marginal Tax Rate for Taxpayers with Income of $100,000 less those with Income of $25,000



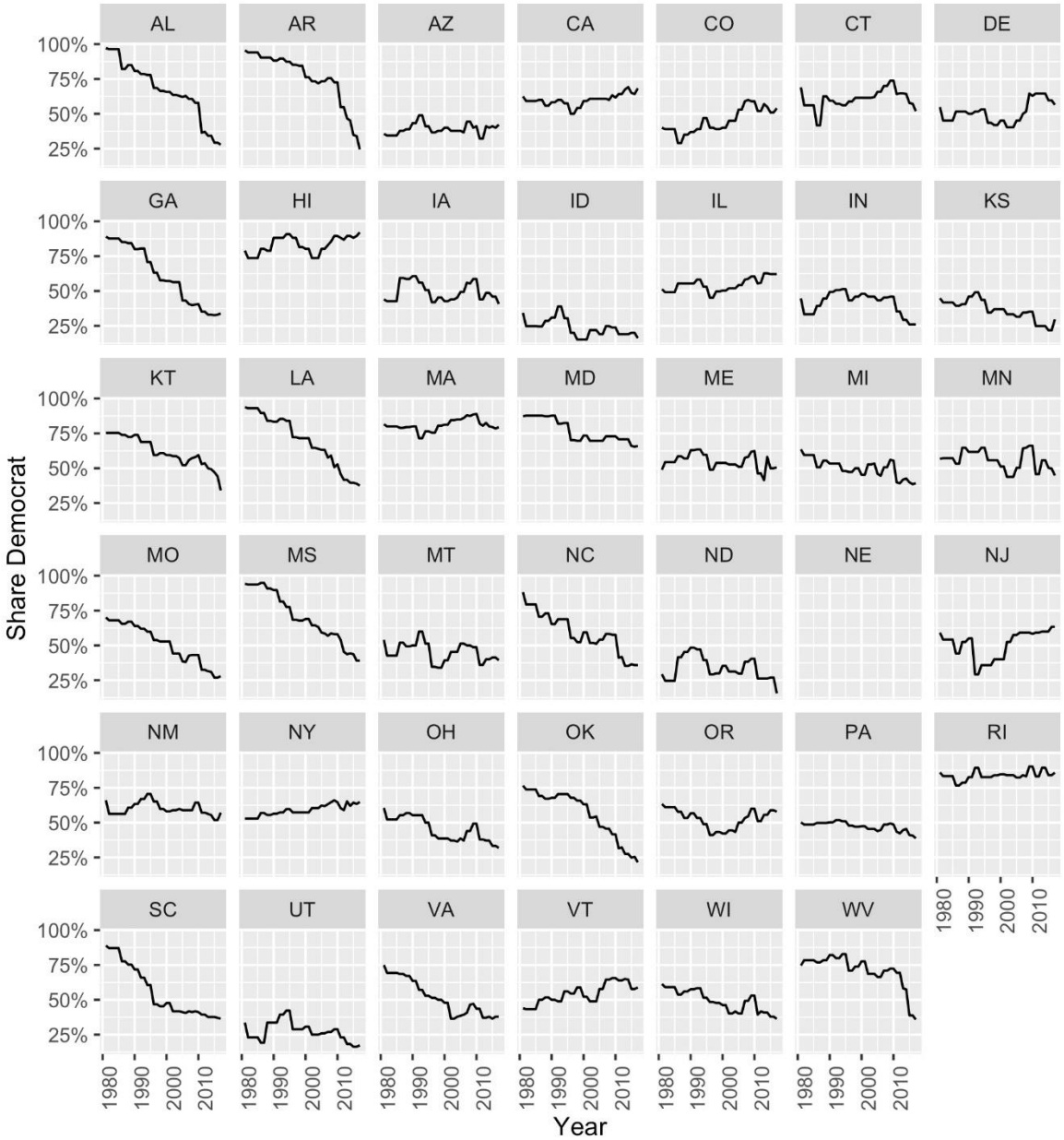
Source: NBER, TAXSIM and author's calculations.
*States without an income tax are excluded. These states include Alaska, Nevada, Texas, Washington, and Wyoming. New Hampshire and Tennessee are also excluded, as these states only tax income from capital gains. Additionally, Nebraska is excluded due to data limitations for the party affiliation of state legislators.

Figure 2.B.2
State Unemployment Rates



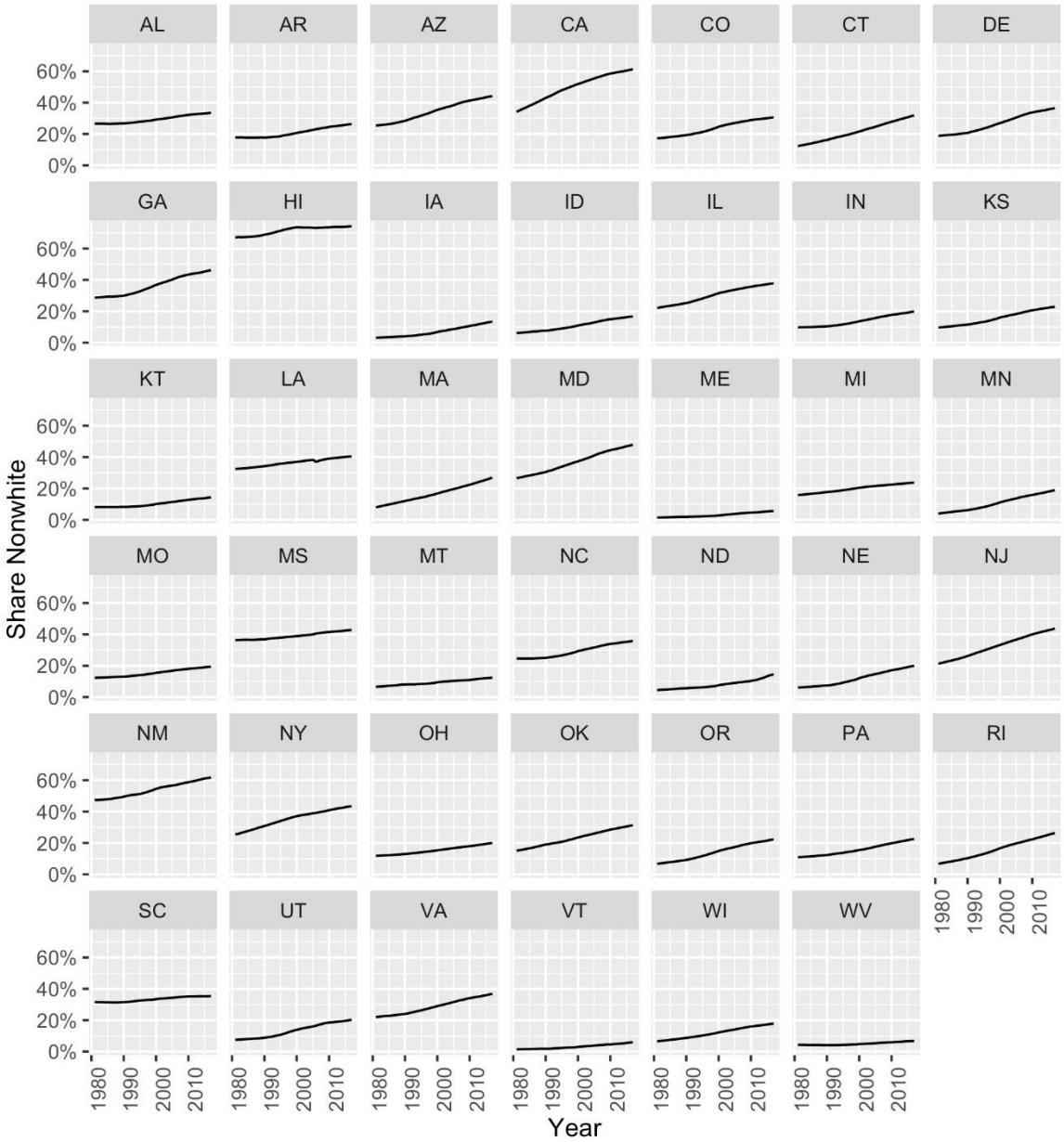
Source: U.S. Bureau of Labor Statistics.

Figure 2.B.3
Democratic Share of the State Legislature



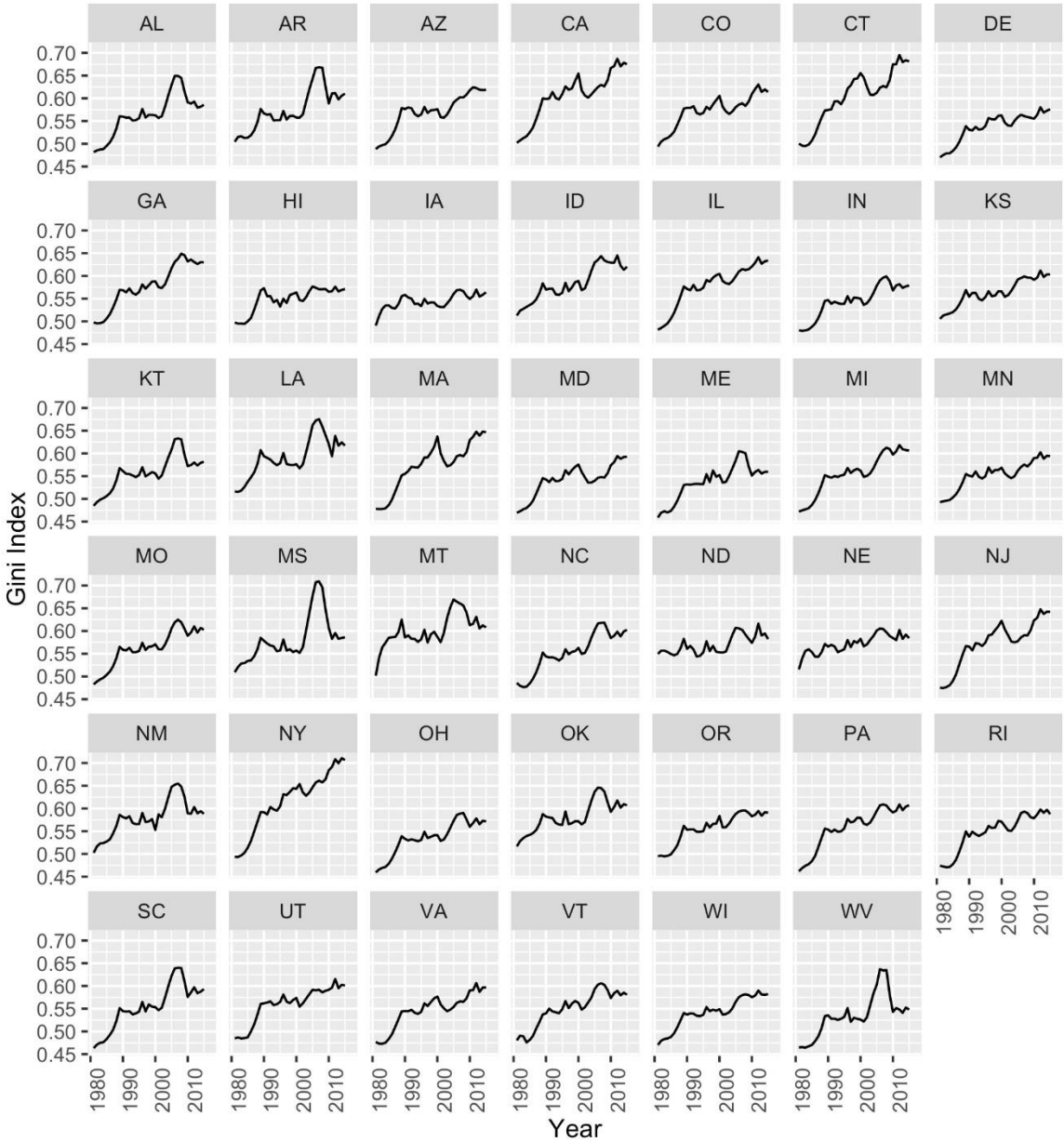
Source: Council of State Governments, Book of the States.
Note: Nebraska has a nonpartisan legislature.

Figure 2.B.4
Percent of the State Population that is Nonwhite



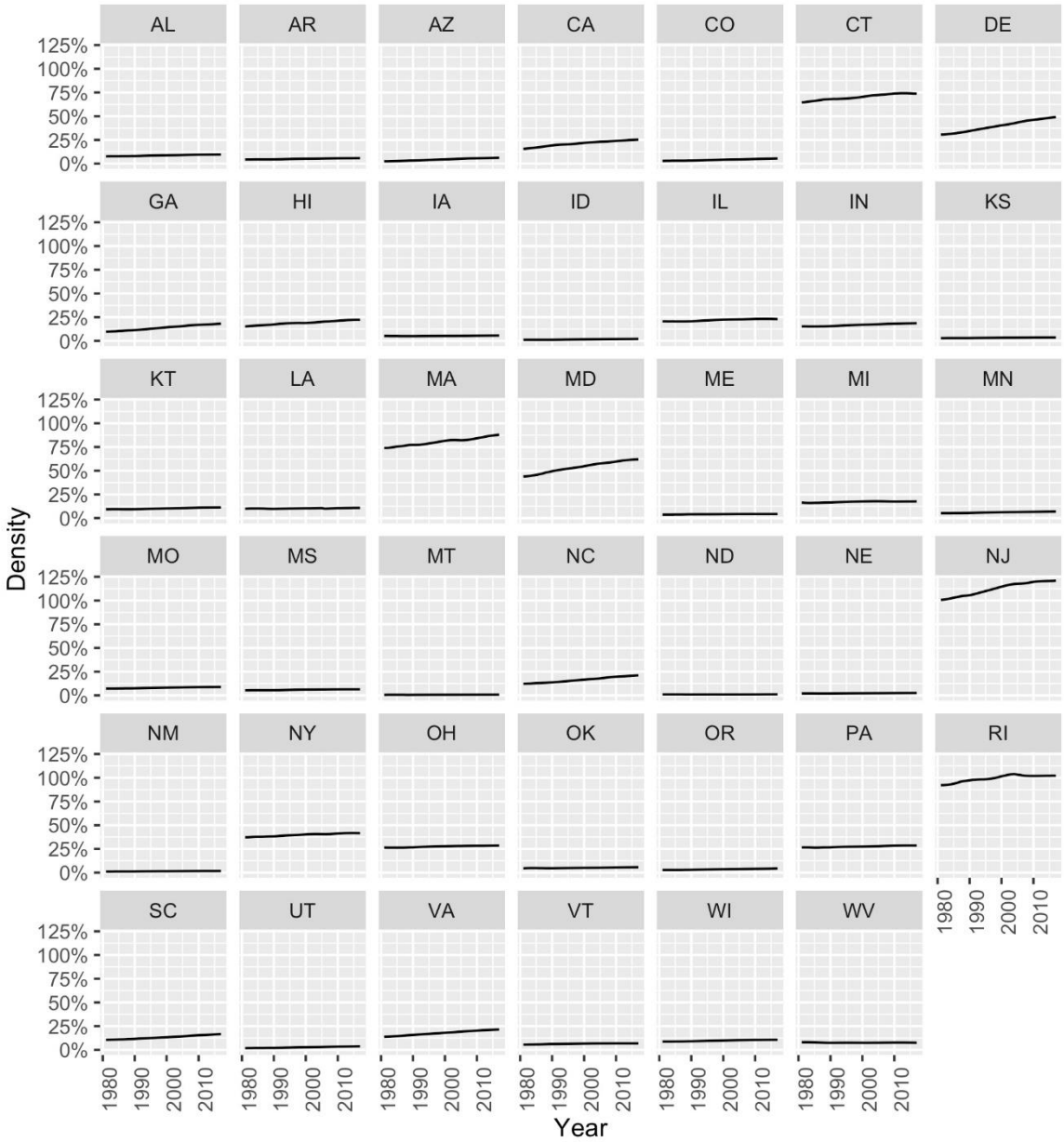
Source: U.S. Census Bureau and author's calculations.

Figure 2.B.5
State Gini Coefficients



Source: Frank (2017).

Figure 2.B.6
State Population Density
Population per Square Mile



Source: U.S. Census Bureau and author's calculations.

APPENDIX 2.C
Panel Regression Model Output

Table 2.C.1
Panel Models Predicting the Difference in Marginal Tax Rates Across Incomes

	Difference in Marginal Tax Rates Across Incomes					
	(1)	(2)	(3)	(4)	(5)	(6)
Unemployment	0.071***	0.108***	0.066***	0.086***	0.082***	0.103***
	(0.015)	(0.016)	(0.015)	(0.016)	(0.016)	(0.016)
Democrat	0.003*	0.006***	0.003*	0.004**	0.004**	0.007***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Nonwhite		-0.063***				-0.075***
		(0.009)				(0.011)
Gini			0.025***		0.030***	0.036***
			(0.009)		(0.009)	(0.009)
Density				-0.029***	-0.034***	0.009
				(0.010)	(0.010)	(0.012)
Observations	1,400	1,400	1,400	1,400	1,400	1,400
R2	0.021	0.054	0.026	0.028	0.035	0.066
Adjusted R2	-0.034	-0.0002	-0.03	-0.028	-0.021	0.01
F-Statistic	14.206***	25.238***	11.835***	12.517***	11.959***	18.552***
df	2; 1324	3; 1323	3; 1323	3; 1323	4; 1322	5; 1321

Note: All models feature year fixed effects.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

Table 2.C.2
Panel Models Predicting Tax Rates for Joint Filers with an Income of $25,000

	Tax Rate for Joint Filers with $25,000 Income					
	(1)	(2)	(3)	(4)	(5)	(6)
Unemployment	-0.030**	-0.01	-0.029**	-0.01	-0.011	-0.006
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.014)
Democrat	-0.012***	-0.010***	-0.012***	-0.011***	-0.011***	-0.010***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Nonwhite		-0.034***				-0.018*
		(0.008)				(0.010)
Gini			-0.005		0.001	0.003
			(0.008)		(0.008)	(0.008)
Density				-0.040***	-0.040***	-0.030***
				(0.008)	(0.008)	(0.010)
Observations	1,400	1,400	1,400	1,400	1,400	1,400
R2	0.048	0.061	0.048	0.064	0.064	0.067
Adjusted R2	-0.006	0.007	-0.006	0.011	0.01	0.012
F-Statistic	33.468***	28.495***	22.422***	30.357***	22.757***	18.896***
df	2; 1324	3; 1323	3; 1323	3; 1323	4; 1322	5; 1321

Note: All models feature year fixed effects.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

Table 2.C.3
Panel Models Predicting Tax Rates for Joint Filers with an Income of $100,000

	Tax Rate for Joint Filers with $100,000 Income					
	(1)	(2)	(3)	(4)	(5)	(6)
Unemployment	0.041**	0.098***	0.037**	0.075***	0.072***	0.098***
	(0.018)	(0.019)	(0.018)	(0.019)	(0.019)	(0.019)
Democrat	-0.008***	-0.004*	-0.008***	-0.007***	-0.006***	-0.003
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Nonwhite		-0.097***				-0.092***
		(0.011)				(0.014)
Gini			0.020*		0.031***	0.039***
			(0.011)		(0.011)	(0.011)
Density				-0.069***	-0.074***	-0.021
				(0.012)	(0.012)	(0.014)
Observations	1,400	1,400	1,400	1,400	1,400	1,400
R2	0.014	0.067	0.016	0.039	0.045	0.077
Adjusted R2	-0.042	0.014	-0.041	-0.016	-0.011	0.023
F-Statistic	9.185***	31.911***	7.148***	17.941***	15.407***	22.045***
df	2; 1324	3; 1323	3; 1323	3; 1323	4; 1322	5; 1321

Note: All models feature year fixed effects.
* $p < 0.1$.
** $p < 0.05$.
*** $p < 0.01$.

CHAPTER THREE

SHEDDING LIGHT ON THE 'HIDDEN WELFARE STATE': DOES STATE TAX EXPENDITURE EVALUATION INFLUENCE TAXPAYER INEQUALITY?

Abstract. Seeking to bridge fiscal and political sociological theory with the sociology of evaluation literature, this chapter investigates the role of tax expenditure evaluation on taxpayer inequality outcomes drawing from the experience of the state of Oregon from 1995 through 2018. I find that formal tax expenditure evaluation played a role in policy outcomes. Yet, its influence was secondary to other key determinants. Namely, under a Democrat supermajority legislature, an institutional shift toward automatic tax expenditure sunsets motivated by budgetary shortfalls following the Great Recession enabled more rigorous evaluation that has resulted in an incrementally more progressive tax structure for the state. This suggests that evaluation processes alone may not be sufficient to overcome policy 'lock-in effects' (Pierson 1993). I offer a conceptual model theorizing that policy evaluation processes are embedded in institutional, political, and economic environments.

INTRODUCTION

A striking trend has emerged in the U.S., whereby the wealthiest taxpayers have witnessed a marked decline in effective tax rates over time (see Saez and Zucman 2019; Zucman 2014). Using data that combines federal, state and local taxes, Saez and Zucman (2019) estimate that the effective tax rates[48] for top U.S. income earners shrunk from over 70 percent in 1950 to just over 23 percent by 2018. During the same time, effective rates for the bottom 50 percent of income earners rose from about 18 percent to nearly 27 percent.[49]

[48] Effective tax rates are a measure of actual taxes paid as a percent of taxable income. These rates account for tax preferences, including deductions or tax credits available to a taxpayer. By contrast, marginal tax rates apply to certain levels of income and do not account for tax credits. For example, in tax year 2018 for a married couple filing jointly, federal taxable income up to $19,050 is taxed at a marginal rate of 10 percent, income between $19,050 and $77,400 is taxed at a marginal rate of 12 percent, and income between $77,400 and $165,000 is tax at a marginal rate of 22 percent, with higher marginal rates taxpayers earning higher levels of income.

[49]The tax returns of recent U.S. Presidential candidates exemplify the low-tax environment of certain high-income taxpayers. For example, a recent *New York Times* article (Buettner et al. 2020) reports that President Trump paid just $750 dollars in federal income tax in 2016. The 2011 federal income tax returns of wealthy Presidential candidate Mitt Romney suggest he paid a 14.1 percent effective tax rate

Contributing to these trends, federal and state income tax structures allow wealthy taxpayers to write off certain business losses and deduct certain expenditures. As a result, many high-income earners pay taxes at rates much lower than lower-income households who rely on income earned for basic necessities. Put simply, many federal and state tax structures exacerbate pre-tax income inequalities. Beyond their impacts on after-tax income distributions, lower levels of tax revenue have important implications for the safety net and redistributive impacts of government services (Prasad 2011). Every dollar claimed in tax credits is one dollar less in government funding for social programs.

The term "tax expenditure" is commonly used to as an umbrella term for the tax privileges or tax loopholes codified in federal and state law.[50] Tax expenditures include tax credits and deductions, as well as the structure of a tax base (i.e., what is and is not taxed). These privileges are an important source of tax relief for many households and businesses and a mechanism capable of both exacerbating and alleviating pre-tax income inequalities. Tax expenditures for business owners tend to be inherently and intentionally unequal, as they privilege certain industries in efforts to 'incentivize' behavior in favor of economic development or other outcomes. In other instances, tax expenditures are explicitly intended to alleviate income inequality by engendering a more progressive tax structure. Indeed, some refundable personal income tax credits, such as federal and state Earned Income Tax Credits and Child and

(Rucker et al. 2012), while the marginal tax rate for multimillion-dollar income earners exceeded 34.8 percent in the same year.

[50] There is significant disagreement about the definition of a "tax expenditure." For a review of the literature, see Burton and Sadiq (2013). See also Prasad (2011). The definition used here is one generally used among fiscal sociologists (e.g., Martin 2008).

Dependent Care Tax Credits, serve as a source of supplemental income to many low- and moderate-income households.

The U.S. first call for greater transparency in the federal "tax expenditure budget" in came in a 1967 speech by then Assistant Secretary of the Treasury, Stanley Surrey. More recent proliferation in state-level evaluations have followed, many drawing upon Christopher Howard's (1997) *The Hidden Welfare State*, which highlighted the 'hidden' role of tax expenditures in providing income support to American households.[51] Howard contends that the institutional structure of tax expenditures contributes to their 'lock-in effects' (Pierson 1993) in that tax expenditures go and grow largely ignored once enacted because they lack a review process like that of the annual budgeting process for direct social welfare programs.

In efforts to shed light on the "hidden welfare state", taxation and revenue departments in most U.S. states began publishing reports estimating the tax revenue of tax expenditures in the 1980s and 1990s, with greater or lesser degrees of precision and accuracy.[52] More recently, requirements for a new form of formal tax expenditure evaluation have been enacted across most states in the U.S. In these evaluation, state

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[51] Greater attention to tax expenditures at both state and federal levels have emerged in conjunction with a growing 'audit culture' in government, one that holds bureaucracy accountable for effective and efficient social policy using quantitative measures (for a review of the literature, see Shore 2008; see also Power 1997). For examples of the rising interest in tax expenditure evaluation, see GAO 2005; Citizens for Tax Justice 2009; ITEP 2012; Levitis et al. 2009. Interest in greater accountability for tax expenditures has emerged from both left- and right-leaning advocacy organizations. A large body of academic literature has also amassed from the fields of sociology, economics, and public administration quantifying the impacts of tax expenditures on firm and household behavior and outcomes (e.g., Russel 2018; Sykes et al. 2015).

[52] Most state reports explicitly cite data limitations in published reports. Some tax expenditures are not required to be reported individually on tax forms, while in other instances data that are reported are not collected. Data limitations can also arise from limitations of optical scanners for paper returns. Where these and other data limitations exist, some state agencies publish estimates of tax expenditures based on third party sources of information (e.g., economic indicators published by the U.S. Bureau of Economic Analysis).

agencies assess the extent to which a given tax expenditure meets its "stated policy objectives."[53] Currently, 32 states have enacted iterations of this new form of tax expenditure evaluation.[54] These formal evaluations complement the evaluative processes inherent in lawmaking itself, including committee hearings and floor debates on pending legislation. While these evaluations may shed light on the "hidden welfare state", their influence on policy outcomes has gone unexplored to date.

Renewed interest in 'fiscal sociology' among sociologists and other scholars frequently engages the role of taxation in inequality. Drawing from the formative work of Joseph Schumpeter ([1918] 1991), these works highlight the roles of institutional structures and historical contexts that perpetuate 'lock-in effects for tax policies that perpetuate inequalities (e.g., Avram 2018; Bradley 2018; Martin 2008; Martin and Prasad 2014; O'Brien 2017; Prasad 2018). Similarly interested in determinants of inequality, political sociologists have turned a keen eye on the role of policy 'lock-in effects' on inequality outcomes (see Pierson 2004), while sociology of evaluation literature explores the influence of evaluation on inequality outcomes (see Lamont 2012; Lamont 2014).

Drawing from the case of formal personal income tax evaluation in the state of Oregon from 1995 through 2018, this chapter seeks to bridge these three bodies of

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[53] While the evaluation criteria among states varies, most states require that an assessment be made regarding the extent to which a tax expenditure meets its stated purpose as identified in state law or through public testimony. Most states include criteria of budgetary efficiency and effectiveness (meeting its stated objectives), while others include equity and other considerations and criteria.

[54] The National Conference of State Legislatures (NCSL) and Pew Charitable Trusts regularly organize conferences for legislators and their staff. The topic of tax expenditure evaluation has been engaged regularly in recent years among the "fiscal leaders" of states. These organizations also promote "best practices" for tax expenditure evaluation (e.g., NCSL 2014; NCSL 2017), and published state rankings for evaluation methods that highlight leading and lagging states (Pew 2017).

sociological work by investigating the role of tax expenditure evaluation on taxpayer outcomes as they relate to income tax progressivity and distributional inequalities among taxpayers. Oregon offers a fruitful case study, as the state has required formal evaluation of tax expenditures since 1996 and its evaluative methods have evolved, growing more robust and deliberative over time. Additionally, lacking a consumption tax, the state relies heavily on income taxes, which make up more than 80 percent of state General Fund revenues. As such, income tax expenditures serve as meaningful and consequential sources of post-tax income and revenue reductions for state services.

In the analysis that follows, I find that formal tax expenditure evaluation played a role in policy outcomes. Yet, its influence is secondary to other key determinants. Namely, under a Democrat supermajority legislature, an institutional shift toward automatic tax expenditure sunsets motivated by budgetary shortfalls following the Great Recession enabled and prompted more rigorous evaluation. The changes made as a result of these factors has produced an incrementally more progressive tax structure for the state. This suggests that evaluation reporting alone may be insufficient to overcome policy lock-in effects and produce meaningful outcomes for taxpayer inequality. I offer a conceptual model theorizing that policy evaluation processes are embedded in institutional, political, and economic environments.

SOCIOLOGICAL THEORY ON POLICY DEVELOPMENT

For decades, political sociologists have pursued a research agenda seeking to identify the origins and mechanisms of ‘feedback’ and ‘lock-in’ effects that keep existing

policies and policy outcomes in place (see Béland 2010, Pierson 1993 and Steenland 2006 for reviews). Identifying these causal mechanisms is essential in developing a theoretical framework that explains policy continuity and change.

'Lock-in effect' is a term commonly used to describe institutional, political, or other structures that contribute to the persistence of tax policies over time. Drawing from the work of North (1990), Pierson (1993, 608) articulates the concept as follows: "Policies may create incentives that encourage the emergence of elaborate social and economic networks, greatly increasing the cost of adopting once-possible alternatives and inhibiting exit from a current policy path. Individuals make important commitments in response to certain types of government action. These commitments, in turn, may vastly increase the disruption caused by new policies, effectively 'locking in' previous decisions." Since, others have engaged the concept across multiple policy arenas (see Howard 1997; Russel 2018; Vasseur 2016). Similarly, a 'Feedback effect' may contribute policy lock-in. Positive feedback locks policies into place, while negative feedback leads to a shift away from a particular policy (e.g., from public to private sector administration of retirement payment systems, see Hacker 2002).

Several key concepts and processes have been identified among political sociologists as determinants of political development as well as an approach for uncovering determinants of feedback and lock-in effects. Drawing from the works of Skocpol (1992) and Hall (1993), Pierson (1993) summarizes the historical institutionalist approach, under which political processes are analyzed using a comparative historical approach that draws upon carefully selected case studies that through their comparison tease out differences in political and other social structures.

These case studies allow for the identification of key social structural constraints emanating from government that influence individual actions, including political behavior, and contribute to continuity and change in the policy sphere.

Using this approach, mainstream theoretical frameworks for policy development highlight the role of several key social forces in policy development, the most prominent of which includes: business interests, social movements, the role of government bureaucrats and political elites, and the institutional structure of the polity (see Amenta 1998 for a review of the literature). These mainstream frameworks are rooted in the classical scholarship of Max Weber's ([1922] 1968) and Alexis de Tocqueville's ([1838] 2004) scholarship engaging bureaucracy and political institutions, and Karl Marx's ([1984] 1996) engagement of social movements and capitalist interests.

Drawing from rational choice theorists, these frameworks acknowledge the influence of actor's resources and interests in shaping outcomes. Further, interest groups also play active roles in influencing outcomes. Yet, interest groups are in turn influenced by the constraints of existing political systems—that is the institutions through which incentives and resources are constrained and allocated (Skocpol 1992). Fiscal sociologists have also highlighted the influential role of institutional mechanisms that 'lock in' certain outcomes in tax policies (e.g., Howard 1997, Pearson 2014).

More recent modifications to these theories of policy development are more attentive to the role of 'culture' and 'ideas' (Hall 1993; Campbell 2002; Skocpol 1992; Steenland 2006). For example, Steensland (2006) contends that "cultural categories of

worth" are deeply embedded in public policy, including welfare policy (see Katz 1986; Patterson 1994). This work highlights that some individuals and households are considered more worthy of government assistance than others, perpetuating existing inequalities and policies. Drawing from the works of Hall (1993) and Amenta et al. (1987), among others, Pierson (1993) reviews the literature on 'ideas' and 'learning' and their influence on policy development. The nature and outcomes of learning depends on the insulation of actors as well as policy complexity. The number of actors making decision and who provides ideas to these actors have consequences for policy outcomes. Additionally, the technical proficiency required to understand a policy issue and the multiplicity of responses to that issue influence the nature of learning and amount of social investment in a given policy (Pierson 1993, 618). Further, learning takes place at different stages of the policy-making process.

Beyond the above determinants of policy outcomes, fiscal sociologists highlight the role of geopolitical, economic, and fiscal crisis in prompting tax policy change. Specifically, historical institutionalist approaches demonstrate that crisis can motivate broader willingness to pay among elites and the broader taxpaying population, relaxing the influence and special interest groups in favor of providing resources for the provision of government services (see Campbell 1993 and Martin and Prasad 2014 for reviews).

These existing theoretical frameworks form a useful basis in which to the influence of formal tax expenditure evaluation on policy outcomes that may have consequences for taxpayer inequality across income groups.

SOCIOLOGY OF EVALUATION

To date, political and fiscal sociologists have largely left the role of policy evaluation in policy development untouched. Evaluation has, however, been given careful attention among cultural sociologists and policy evaluation practitioners. Indeed, drawing from the work of Pierre Bourdieu (1979, 1993), sociology of evaluation literature, which has received invigorated interest in recent years, highlights the role of evaluation in knowledge production, the cultural fields in which evaluation occurs, and the influence of evaluation on the creation and perpetuation of inequalities (e.g., Beljean et al. 2016, Lamont 2012, Lamont et al. 2014). This literature identifies varied processes involved in evaluation, including categorization and classification (Forcaude and Healy 2013), standardization (Timmermans and Epstein 2010), quantification (Espeland and Stevens 2008), and commensuration (Espeland and Sauder 2007) of evaluative measures and criteria.[55]

Taking the lead from Bourdieu (1979, 1993), the sociology of evaluation literature to date has primarily engaged the evaluation of cultural objects, including art (e.g., Lewandowska and Smolarska 2020), performing arts (e.g., Shrum 1991), film (e.g., Baumann 2007), and literary works (e.g., Chong 2013). These studies highlight how evaluation is informed by the actors competing to define criteria for excellence (Bourdieu 1979). Additionally, evaluators may assign a range of meanings to

[55] Sociologists have studied the role of valuation in the public policy sphere in myriad ways. In a review of the quantification sociology literature, Minnicken and Espeland (2019) highlight the prominent role of numbers in governance practices. Drawing upon the works of other scholars, they note that quantification within government practices has proliferated under financial capitalism and various neoliberal regimes (e.g., Chiapello and Walter 2016). Scholars have noted the shifting of economic into noneconomic areas through accounting (Centeno and Cohen 2012; Chiapello 2015; see Mennicken and Espeland 2019 for a review).

evaluative criteria (Lamont 2009). Further, the perception of the quality of a cultural or other objects may be determined by external norms perpetuated by codes of ethics (e.g., see Chong 2013 on the evaluation of literary fiction).

Among evaluation practitioners, contributions to public policy evaluation journals from various fields also highlight the power dynamics and inequalities inherent in evaluation, drawing on practitioner experience, primarily among health, education, and economic development spheres. Summarizing these works in an edited book, Taylor (2005, see also Taylor and Balloch 2005) contends that evaluation is inherently political and is nested within existing power structures. Further, evaluation as a process of knowledge generation that informs policy development and implementation. Drawing from findings in multiple policy domains, including health care and education, Taylor highlights the power structures and shortcomings of new and old evaluation processes alike. These include "evidence-based" policy evaluation, "theory-based" evaluation (Shaw and Compton 2003), and more recent processes that attempt to bring voice to the disempowered, including "culturally responsive" approaches (Acree and Chouinard 2020), "participatory evaluation" (for a review, see Taylor and Balloch 2005, 6), and 'empowerment evaluation' Fetterman (2001).

Taylor argues that evaluation should be explicitly viewed among practitioners and those consuming evaluation reports as "socially located and understood as politically contested" (2005: 603). Further, the political roots of evaluation should be understood at numerous levels, including those of formal political strategy, discursive construction, informal political processes, and counter politics aimed at producing radical alternatives. Taylor draws heavily upon the work of Alain Desrosières, who

refused to privilege realist over constructivist approaches to quantification. Numbers have been and in many instances are still taken as pure fact; indeed, they promise the depoliticization of politics (Desrosières 1998). Yet, in doing so, they obscure power relations. As the process of producing statistics and other quantitative measures is inherently nested in power dynamics (Power 1997).

Like quantification, upon which evaluation often relies, evaluation is a process of knowledge creation that informs public policymaking. Considering the gendered, racial (Stanfield 1999), and other disparate implications of evaluation, in efforts to uncover the power dynamics influencing evaluation, Taylor begs that evaluators, policymakers, and the discerning public ask: What constitutes 'evidence'? Whose evidence is it, and why (Taylor and Balloch 2005, 5)?[56]

NORMATIVE FOUNDATIONS OF TAX EXPENDITURE ANALYSIS

With the intent of uncovering hidden budgetary consequences, then-Assistant Secretary of the Treasury Stanley Surrey developed the concept of 'tax expenditures' in a 1967 speech to a New York financial group: "…through deliberate departures from accepted concepts of net income and through various special exemptions, deductions and credit, our tax system does operate to affect the private economy in ways that are usually accomplished by expenditures" (Surrey 1973: 4).

In this speech and subsequent works, Surrey articulates grave concern with tax provisions that could be substituted as direct spending programs. Surrey highlights the popularity of tax expenditures among lawmakers—not because they make for good

[56] For an example of an application of this approach see Rutkowski and Sparks (2014). The authors identify the power dynamics inherent in the evaluative methods and discourse of multilateral economic development organizations.

policy, but because they are easier to enact and pander to popular political attitudes. Unlike direct expenditures, they not subject to an annual budget process or review. Instead, once enacted, they grow without evaluation or attention. Noting the unattended holes these 'expenditures' make in the budget, Surrey argues for greater accountability and a performance review system that impartially judges whether tax expenditures are fulfilling their stated objectives.

In *Pathway's to Reforms*, Surrey (1973) outlines a set of criteria for analysis and evaluation, asking that Congress evaluate the equity, effectiveness, and the simplicity of tax expenditures.[57] In later works, Surrey identifies two primary criteria of equity and efficiency. Surrey and McDaniel adopt the Schanz-Haig-Simons definition of equity, which derives from the 'ability to pay' principle, whereby taxes ought to be levied according to a taxpayers' ability to pay them. In other words, those with higher incomes should pay higher taxes. Further, Surrey and McDaniel (1985) propose an 'ideal tax system' defined as the consensus of tax policy experts. This is intended to form the basis of rational, if not 'scientific' and objective, criteria for an ideal system (Murnane 2004; Burton and Sadiq 2013, 9).

Regarding the efficiency criteria, Surrey is primarily concerned with minimizing or neutralizing economic distortions. Though, other principles related to

[57] "The principal criterion is generally found in the concept of 'equity,' a broad and often imprecise standard, but nevertheless a standard that legislators appreciate and feel…An income tax seeks to tax fairly and equitably by placing the same income tax burden on those substantially in the same economic position…The tax expenditure items represent departures from tax structure and tax equity and therefore must be defended…The task for the tax experts is to assist the legislators in developing the image of a proper tax structure and in analyzing the problems of structure and theory at the borderline. There is utility in describing how complex the tax structure really is, how incomplete are various theoretical concepts and approaches in explaining all the various parts of that structures, and how many points of decision there are in shaping the structure…We must also strive constantly to develop the criteria that permit both order and rational criticism of disorder… (Surrey 1973: 49).

efficiency include: enforceability, administration, simplification, and effectiveness (Fleming and Clifton 2008).

Since Surrey's initial conception, others have weighed in on the evaluative criteria for tax expenditure evaluation. Synthesizing tax expenditure evaluation practices to date, Burton and Sadiq (2013) argue that the concept of the tax expenditure is morally laden, and subjective. Citing Shannon (1986), they note that tax expenditure reform concerns spending reform or tax reform, the former concerned largely with efficiency, while the latter concerns equity and public engagement, whereby the policy process lays to bare who ought to get what tax privilege and at what cost.

Indeed, applications of tax expenditure evaluation in the U.S. have evolved over time. Evaluation criteria too has evolved, though Surrey's initial evaluation criteria largely remain. For example, a 2008 working paper authored by the federal Joint Committee on Taxation (JTC), nonpartisan JTC staff proposed new processes of evaluating tax expenditures, calling again for greater accountability in tax expenditure budget using Surrey's criteria of equity, efficiency, and ease. Additionally, the authors highlight that the labeling of tax expenditures warrants review. They argue that the ere is no "normal" tax system upon which to compare certain tax expenditures. Instead, they propose a new typology of "tax subsidies" and "tax-induced structural distortions". The former includes "a specific tax provision that is deliberately inconsistent with an identifiable general rule of the present tax law" (39), while the latter is defined as: "structural elements of the Internal Revenue Code (not deviations from any clearly identifiable general tax rule and thus not Tax Subsidies in our

classification) that materially affect economic decisions in a manner that imposes substantial efficiency costs" (41).[58] Additional calls for modifications to tax expenditure evaluation continue to emerge, spanning state, federal, and transnational jurisdictions (see Davis 2009; Dean 2012; GAO 2013).

DATA AND METHODS

This chapter offers an historical institutionalist analysis of Oregon state personal income tax expenditure reporting and evaluation and the distributional impacts of these processes across taxpayers between 1995 and 2018. Analysis draws from the sociology of (e)valuation framework proposed by Lamont (2012), which suggests analyzing the outcomes of evaluation as they relate to inequality, while searching for key 'mechanisms' (Hedström and Swedberg 1998) influencing the evaluative process that elicit these outcomes. Specifically, Lamont proposes analysis of the nature of evaluators, and the tools and criteria used for evaluation. Under this approach, analysis is necessarily historical and institutional, presenting an historical account of the institutions and actors involved in tax expenditure evaluation.

Prasad (2011) argues that determining whether a 'tax preference' has distributional influences, it should result in greater income redistribution, risk pooling, or ongoing government services. The analysis that follows primarily engages outcomes as they relate to the taxpayers befitting from tax expenditures. Though, importantly, each $1 revenue reduction caused by a tax expenditure is a $1 more available for the taxpayer who claims the tax expenditure but $1 less in available

[58] For current and historical federal U.S. tax expenditure budgets, see the U.S. Department of Treasury website: https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

government services. The fungibility of money and lack of a counterfactual complicate the ability to trace the direct impact of tax expenditures on government spending. Though, the revenue reducing implications of tax expenditures are not lost or forgotten here. Changes to risk pooling are a less likely outcome resulting from policy changes to tax expenditures in the case of Oregon during the period of analysis.

The analysis that follows relies on legal and archival documents and data published by Oregon state agencies. This includes state statutes used to construct a legislative history of requirements and criteria for formal tax expenditure evaluation, the affiliations of authors and content of formal evaluation reports, the affiliation of reviewers and committee structures of policy evaluation, and state taxpayer data to identify changes in taxpayer distributions over time. Primary sources used in archival analysis are the Oregon Governor's tax expenditure reports;[59] and tax credit studies, revenue measure reports, and other publications from the Legislative Revenue Office (LRO), an agency comprised of nonpartisan staff of the state legislature that estimate revenue impacts of legislation and provide institutional histories of revenue bills.[60]

Determining the distributional outcomes of evaluation processes faces several known challenges, including data limitations and intervening factors influencings policy changes outside of evaluative processes. Individual taxpayer data is not available for public use due to taxpayer confidentiality requirements. In lieu of individual taxpayer data, personal income tax statistics published by the Oregon

[59] Tax expenditure reports can be found online, at: https://www.oregon.gov/DOR/programs/gov-research/Pages/research-tax-expenditure.aspx
[60] LRO publications can be found online, at: https://www.oregonlegislature.gov/lro/Pages/publications.aspx

Department of Revenue are used to analyze changes in the distributional impact of tax expenditures on taxes paid.[61] Specifically, average taxpayer data across adjusted gross income tiers are used for all returns filed for tax years 1999 through 2018. Due to changes in the reported adjusted gross income tiers between 1998 and 1999 reports, trend analysis is not possible in prior years.

ANALYSIS AND FINDINGS

Since its early iterations, formal tax expenditure evaluation in Oregon has grown more robust, incorporating increasingly complex methods for evaluation and offering more nuanced information to policymakers and the public on the distributional impacts of tax policies. Yet, in spite of these changes in evaluation practices, the impact of formal evaluation on policy outcomes has been secondary to other key determinants.

As the following demonstrates, shifts in the political, economic, and institutional environments in which evaluations take place precipitated more substantive changes in tax policy and precipitated changes in the evaluation processes itself. Specifically, Democrats gained supermajority control of the legislature in 2007, allowing the party to overcome constitutional limitations on revenue increases from the modification or repeal of tax expenditures. Further, the budget shortfalls created by the Great Recession motivated enactment of automatic sunsets for most income tax credits. These dynamics allowed for limitations on and the repeal of several sizable business tax credits that tend to go to higher-income individuals, which helped to partially offset General Fund revenue declines and more extensive cuts in government

[61] Oregon Personal Income tax Statistics can be found online (see Table B in the Appendices of each publication), at: https://www.oregon.gov/dor/programs/gov-research/pages/research-personal.aspx

services.

Oregon tax expenditure evaluation has primarily been concerned with evaluative criteria of "efficiency" in the context of state government budgeting, and the "effectiveness" of the tax expenditure in meeting its policy objectives. While "fairness" is included as an evaluative criteria in the Governor's tax expenditure evaluation reports, in practice these reports have lacked assessments of fairness. In the tax credit evaluations published beginning in 2015, equity considerations and distributional impacts are addressed but were motivated by legislator interest instead of the explicit evaluation criteria in these more robust evaluation reports. Tax expenditure evaluation reporting has added context to policy discussions and debates and has helped to legitimize policy outcomes. Yet, this analysis suggests that evaluation reporting alone is insufficient to produce substantive policy outcomes.

The following summarizes Oregon's income tax structure and tax expenditure evaluation processes, and provides an analysis of the distributional impacts of tax policy changes between 1995 and 2018. I conclude by forwarding a conceptual model for policy evaluation and their influence on policy outcomes, whereby evaluation processes are embedded in institutional, political, and economic environments and as such may be characterized by 'institutional isomorphism' (DiMaggio and Powell 1983), evolving with and reflecting their external policy environments.

Oregon's state income tax

Importantly, tax expenditures are only one part of the whole of state tax structures. The following provides a brief overview of Oregon's income tax structure, including how income tax revenue is spend by the state and the amount of revenue impacted by

tax expenditures relative to other structural components.

Oregon's personal income tax is the largest single source of revenue to the state of Oregon, accounting for about 82.3 percent of total state General Fund revenue over the period of analysis (Figure 3.1).[62] Remaining General Fund revenue sources include corporate income taxes (6.3 percent of General Fund revenue), with the beginning fund balance and insurance tax, inheritance tax, tobacco tax, and other non-tax-revenue sources comprising the rest of available revenue for the general operating budget.

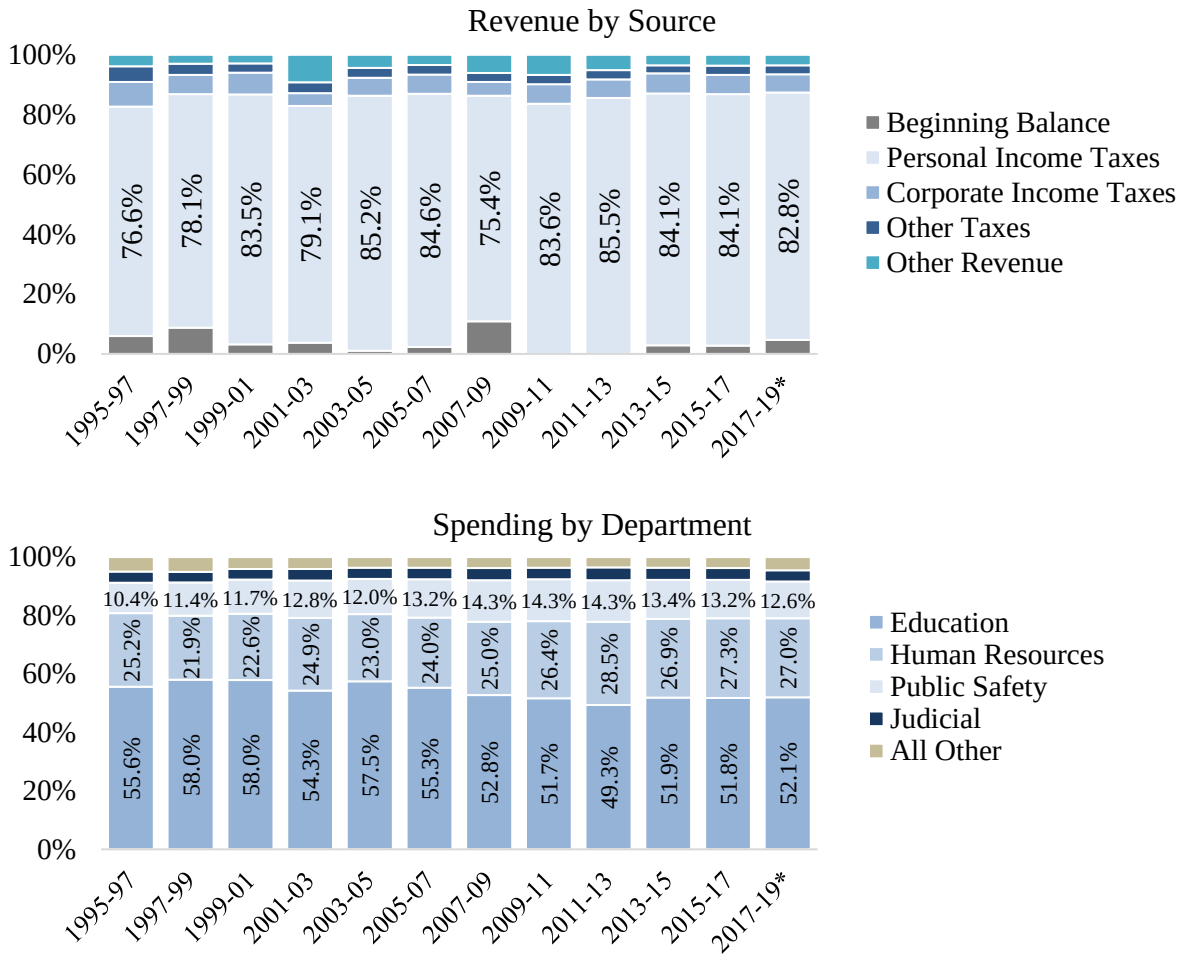
General Funds are more flexible that other sources of revenue that are statutorily or constitutionally required to be spent for certain purposes. Such funds are commonly referred to as "cash funds". These funds also exclude federal funds (e.g., for Medicaid or Temporary Assistance for Needy Families), which are also mandated to be spent for certain purposes. Figure 3.1 illustrates the sources of General Fund revenue and the state departments funded for the 2017-19 biennium. As shown, education and human services receive the largest share of General Fund dollars.

Figure 3.2 summarizes the calculation of Oregon's personal income tax. Generally, the state income tax base (taxable income) has mirrored federal taxable income, with a 'rolling reconnect' to federal tax policy in existence across most federal tax law provisions since 1997.[63] By adopting federal taxable income as a

[62] Based on revenue data for 1995-97 through 2017-19 biennium (LRO 2019a).
[63] Historically, there have been periods where state taxes disconnected from certain federal tax provisions during periods of economic downturns or when changes in federal policy under consideration without known budgetary impacts at the state level. Oregon has decoupled from the federal deductions for domestic production activities (IRC section 199) and prescription drug subsidies (IRC 139A). For more information, see Oregon Department of Revenue (Unknown date): 1.

starting point for the state tax base, Oregon adopts existing federal tax deductions (both "above" and "below" the line), as well as any other structural components of the federal tax base as its own. For example, in assuming federal taxable income as a starting point, Oregon adopts the mortgage interest deduction, and deductions for charitable contributions, and health care expense deductions.[64]

Figure 3.1
General Fund Revenue and Spending, 1995-97 through 2019-21



Source: Oregon Legislative Revenue Office (2019a), B4. Figures are based on the legislatively approved budget.
*Preliminary.

[64] Most states use federal adjusted gross income (before federal dedications are applied) as a starting point of the tax base, while Oregon and five other states use federal taxable income as its starting point. The Tax Foundation published an annual summary of the starting points for state tax bases. See for example: https://www.taxadmin.org/assets/docs/Research/Rates/stg_pts.pdf.

Oregon has state-specific income tax subtractions and deductions beyond those adopted from the federal tax base. These modifications to taxable income subtract additional sources of income from the state tax base. Notable state income tax exemptions include Social Security income that is federally taxable, and retirement income from federal pensions.

Figure 3.2
Calculating Oregon's State Income Tax

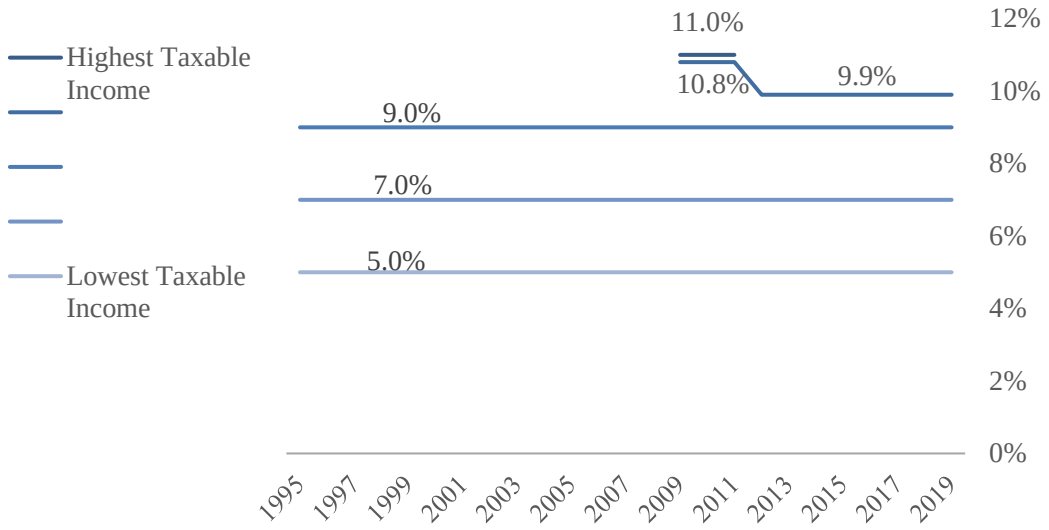
Adjusted Gross Income*
- State-specific Deductions and Subtractions
+ State-specific Additions
= State Taxable Income
× State Graduated Income Tax Rates
- State-specific Tax Credits
= State Taxes Owed

*Generally consistent with the federal income tax base, including nearly all federal deductions.

Similar to federal personal income taxes, Oregon has a graduated income tax, meaning that households are taxed differently depending on their amount of taxable income. Like federal income taxes, graduated rates apply to certain levels of income. For example, for the 2019 tax year, the lowest rate of 5 percent applies to taxable income up to $3,550. The 7 percent rate applies to taxable income between $3,550 and $8,900, the 9 percent cent rate applies to taxable income between $8,900 and $125,000, and the highest 9.9 percent rate applies to taxable income above $125,000. For joint filers, income tiers are double these amounts. The first three tiers are indexed to inflation using the U.S. city average consumer price index (CPI-U), while the fourth (and currently highest) income tier has remained at $125,000 since tax year 2009 (Oregon Department of Revenue 2019).

Figure 3.3 provides a history of graduated income tax rates for Oregon since 1995. Notably, for budget balancing purposes, following the Great Recession, graduated tax rates were expanded from three to five tiers. Then, once incomes recovered, the number of tiers was reduced to four beginning in tax year 2013.

Figure 3.3
Oregon Marginal Personal Income Tax Rates, Tax Years 1995 to 2019



Source: Oregon Department of Revenue (2001, 2019).

The final step in calculating state taxes owed subtracts tax credits. Nonrefundable tax credits are limited to a taxpayer's income tax liability, while refundable tax credits can extend beyond one's tax liability, resulting in a tax refund. Most tax credits are nonrefundable, with many containing provisions that allow a taxpayer to transfer (sell) a tax credit to another taxpayer, and others allow credits that are not claimed due to limited tax liabilities to be carried forward into future tax years. Over the past five biennia, the largest Oregon state income tax credits are the Personal Exemption Credit, Earned Income Credit, the Working Family Household and Dependent Care Credit, and the Business Energy Facilities Credit.

Unique to Oregon is a revenue limitation commonly called the "kicker", whereby the state must refund excess revenue to taxpayers when actual General Fund revenue exceeds the forecast amount by more than 2 percent. If General Fund revenue (less corporate income tax collections) exceeds the forecast, the total excess is refunded to individuals through the personal income tax program.[65] The excesses is refunded through a refundable tax credit (not limited to a taxpayer's tax liability). The kicker is calculated as a share of the prior tax year's personal income tax liability.

In 2007, the Oregon Legislature change the basis for the kicker credit to pre-tax credit tax liability instead of the post-tax credit tax liability. This impacted the distribution of funds, not the amount. Notably, the kicker credit is not included in formal tax expenditure evaluation processes. The distributional impacts of the kicker favor those with higher taxable incomes.

Tax expenditure evaluation processes

Table 3.1 provides a summary of the evaluative requirements enacted between 1995 through 2018. Table 3.1 also summarizes major legislative changes to tax credits during this time. Importantly, other evaluative processes also exist in conjunction with formal evaluation. These include the traditional processes inherent with state legislative processes, including committee hearings with public testimony and floor debates. Additionally, executive branch budgeting processes and requirements and external evaluations also influence these policy outcomes.[66] The following provides a

[65] The corporate income tax kicker is refunded separately to corporations. However, with the passage of Measure 85 in 2012, excess corporate income tax revenue is allocated to the General Fund for kindergarten through twelfth grade education funding.

[66] Evaluations have also been published outside of the processes established in law. For example, Individual development account contributions includes an evaluations outside of the Governor's tax

brief summary of the formal evaluation processes in Oregon.

Table 3.1
Legislative Changes to Oregon's Formal Tax Expenditure Evaluation Processes and Major Income Tax Expenditure Policy Changes, 1995 to 2018

Year Enacted & Bill Number	Summary of Major Provisions
1995 HB 2255	**Budget Accountability Act:** Requires the Governor to publish tax expenditure reports each biennium, including recommendations for extending tax expenditures subject to sunset and evaluations of each existing tax expenditure conducted by staff from state agencies.
2007 HB 2067	Created or modified nine tax credits with revenue increase offset by phasing down the Personal Exemption Tax Credit.
2009 HB 2067	**Automatic six-year sunsets:** Beginning in 2010, each tax credit, and beginning in 2014, all tax expenditures, are subject to an automatic six-year sunset unless otherwise identified by the Oregon Legislature. The bill also established staggered sunsets for all but three tax credits, beginning in 2012.
2010 HB 3680	Significant policy changes to the Business Energy Tax Credit.
2011	**Joint Committee on Tax Credits created:** The Oregon Legislature creates a new committee to hear legislation pertaining to state tax revenue.
2011 HB 3672	Omnibus tax credit bill emerging from 2011 sunset reviews.
2013 HB 2002	**Legislative tax credit studies:** Requires the Legislative Revenue Office to publish studies of tax credits before they are scheduled to expire.
2013 HB 3367	Omnibus tax credit bill emerging from 2013 sunset reviews.
2015 HB 2171	Omnibus tax credit bill emerging from 2015 sunset reviews.
2015 HB 3542	**Statement of purpose:** Requires a statement of purpose for each proposed tax credit along with the review of estimated revenue impacts of tax credits.
2016 HB 4110	Increases the Earned Income Credit from 8 percent to 11 percent of the federal credit for taxpayers with dependents under the age of 3.
2016 SB 1507	Makes technical changes and policy changes to two tax credits.
2017 HB 2066	Omnibus tax credit bill emerging from 2017 sunset reviews.
2018 HB 4028	Modifies four existing tax credits.

Source: Oregon Revised Statutes, LRO (2019b).

Governor's tax expenditure reports.[67] Formal tax expenditure evaluation first began in Oregon in 1995 with the passage of the Budget Accountability Act, requiring the Governor to produce a tax expenditure report each biennium (two-year budget

expenditure reports or LRO's reports: https://oregonidainitiative.org/evaluation/

[67] Reports can be found at: https://www.oregon.gov/dor/programs/gov-research/Pages/research-tax-expenditure.aspx

cycle).[68,69] As defined in the act, the reports are required to provide "a review of the fairness and efficiency" of all tax expenditures and is required to identify tax expenditures with a full or partial sunset, the fiscal impact on the state or on school districts for the next biennium, and the Governor's opinion on whether the full or partial sunset of the tax expenditure should be allowed to take effect as scheduled or should be revised to a different date.[70] The content of tax expenditure reports are required to:

> (a) List each tax expenditure;
> (b) Identify the statutory authority for each tax expenditure;
> (c) Describe the purpose of each tax expenditure;
> (d) Estimate the amount of revenue loss caused by each tax expenditure for the coming biennium;
> (e) List the actual amount of revenue loss in the preceding biennium for each tax expenditure or an estimate if the actual amount cannot be determined;
> (f) Determine whether each tax expenditure is the most fiscally effective means of achieving each purpose of the tax expenditure;
> (g) Determine whether each tax expenditure has successfully achieved the purpose for which the tax expenditure was enacted and currently serves, including an analysis of the persons that are benefited by the expenditure; and
> (h) Categorize each tax expenditure according to the programs or functions each tax expenditure supports (1995 HB 2255).

The report is prepared by the Governor's staff and the state of executive branch agencies, with the data reporting and assistance from staff from the Department of Revenue and Department of Administrative Services, which includes the executive branch's central budget office. While some staff may identify as "nonpartisan" or "apolitical", executive branch staff are hired under the leadership of politically

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[68] The Budget Accountability Act is now codified in ORS Chapter 291. Original legislation included Sections 62, 63, and 65 of Oregon Laws 1995, Chapter 746 (HB 2255).
[69] Tax expenditures are defined as "…any law of the federal government or this state that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates and tax credits" (ORS 291.201).
[70] ORS 291.214.

appointed department heads. Evaluations of tax expenditures are performed by staff from over thirty state agencies, based on the topical area of the tax expenditure.

Over the past 20 years, the methods and content of reports have seen little to no substantive change. The content of reports is limited to five sections provided for each tax expenditure, combined limited to one to two pages: a table estimating revenue impacts from and a description of the tax expenditure, a summary of the purposes of and who benefits from the tax expenditure, and an evaluation of whether or not the tax expenditure meets it intended purpose. The purpose of the tax expenditure is drawn from state law, legislative declarations, or the presumed policy purpose based on documentation from fiscal analyses or other archival materials at the time of adoption or based on the nature of the tax expenditure itself.

While the legislative intent of the 1995 Budget Stabilization Act includes the evaluative criteria of "fairness",[71] in practice evaluations generally only included metrics for assessing the efficiency and effectiveness of a tax expenditures. In limited instances, the qualitative assessment of the tax expenditure includes some language on the impact of a tax expenditure on incomes or outcomes for individuals claiming the tax expenditure. Though, quantitative and qualitative distributional analysis or analyses of fairness or equity concerns are not included. Indeed, in a keyword search

[71] "…a review of the fairness and efficiency of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits. These types of tax expenditures are similar to direct government expenditures because they provide special benefits to favored individuals or businesses, and thus result in higher tax rates for all individuals.....It is in the best interest of this state to have prepared a biennial report of tax expenditures that will allow the public and policymakers to identify and analyze tax expenditures and to periodically make criteria-based decisions on whether the expenditures should be continued. The tax expenditure report will allow tax expenditures to be debated in conjunction with on-line budgets and will result in the elimination of inefficient and inappropriate tax expenditures, resulting in greater accountability by state government and a lowering of the tax burden on all taxpayers" (1995 HB 2255).

of the terms “fair”, “distribution”, “equity”, and “equal”, outside of the requirement to produce a “review of the fairness and efficiency” of tax expenditures, the matched terms were limited to “fair market” and “equity investment”.

Political, institutional, and economic change: Democratic supermajorities, automatic tax expenditure sunsets, and changes to committee review processes. Up until 2011, informed by the Governor’s recommendations for tax expenditure sunsets and the Governor’s tax expenditure reports, the state legislature determined tax policy changes via its various legislative committees. From 1995 through 2006, few substantive tax expenditure policy changes were enacted (Table 3.2). Of the 123 tax expenditures subject to sunset since the 1997-99 biennium, 11 received the Governor’s recommendation to sunset. Ten of the 11 tax expenditures were subject to federal tax law sunsets and would have become obsolete regardless. More tax expenditures were allowed to expire than those recommended by the Governor. Though, these changes were largely inconsequential for both taxpayers and the General Fund budget.[72]

In 2007, a shift in supermajority control (three-fifths) of the legislature by the Democratic Party allowed for substantive changes to be made to tax credits that increased the availability of General Fund revenue for state programs.[73] Oregon’s state constitution requires a three-fifths vote by the legislature to increase revenue.

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[72] See the LRO reports on the revenue measures passed during each legislative session, available at: https://www.oregonlegislature.gov/lro/Pages/publications.aspx

[73] Democrats have maintained control of the Governorship since 1987 and control of both chambers of the state legislature since 2007, with the exceptions of 2011 and 2012 when the House was split equally between Democrats and Republicans. For much of the decade prior to 2007, Republicans held control of both the House and Senate, while the Governorship has been maintained by Democrats throughout the period of analysis.

Reduction or elimination of tax expenditures was interpreted as a revenue increase.[74] Recent court rulings have provided new interpretations to the constitutional provisions.[75] In 2007, HB 2067 created or modified nine tax credits, resulting in a revenue increase that was offset by phasing down the Personal Exemption Tax Credit.

The Great Recession posed historic challenges to state budgets, necessitating sources of new revenue to balance budgets. Tax expenditures, effectively a leak for state revenues, were subject to more thorough reviews of their budgetary impacts as a result. Oregon's response to state fiscal crisis following the recession included several revenue enhancing measures that eliminated tax preferences.[76] It also came with significant changes to the formal tax expenditure evaluation process in the state, including automatic sunsets for tax expenditures and the creation of a new legislative committee to review tax credits.

In 2009, the passage of HB 2067 subjected all but three tax credits to automatic sunsets of six years unless the Legislative Assembly specifies an alternate sunset.[77] This mechanism effectively defaults to the repeal of tax credits unless action is taken by the Oregon Legislature. This institutional shift requires proponents of policy to defend their continuation, mimicking the budget process for expenditures—though every six instead of two years for the biennial budget process. All but three credits were issued sunset dates in 2012, 2014, or 2016 with the expectation that those subject

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[74] In 1996, Oregon voters approved a legislatively referred constitutional amendment (Measure 25) requiring a three-fifths vote of both houses of the legislature to enact "bills for raising revenue."
[75] The 2015 Oregon Supreme Court ruling in *City of Seattle v. Department of Revenue* subsequently clarifies that reforming or repealing tax expenditures only require a simple majority of the legislature.
[76] To name one, in 2009 the legislature passed HB 2649, which increased marginal tax rates for higher income earners and required voter approval. In a January 2010 a special election, voters approved Measure 66, confirming the passage of the bill.
[77] ORS 315.037.

to sunset would receive a review in the legislative session prior to their sunset. The three credits left without a sunset date were considered part of the "normative tax base" and include the Personal Exemption Credit, the credit for taxes paid to another state, and the claim of right income credit (LRO 2019a: 7). These credits happen to be among the largest of all credits.

In 2011, the legislature created the Joint Committee on Tax Credits to review the twenty tax credits set to expire under 2009 HB 2067. The Joint Committee on Tax Credits is comprised of members of the house and senate revenue committees. The committee has grown from twelve members in 2011, split equally between democrats and republican membership, to fourteen members in subsequent years and an increasing majority democrat representation.[78] The evaluative criteria employed by the committee conforms with the statutory requirements of legislative tax studies described in greater detail below and includes the following:

> When reviewing the tax credit sunset extension bills and proposed new credits, the Joint Committee on Tax Credits intends to address the follow questions:
>
> - What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?
> - Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?
> - What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?
> - What background information on the effectiveness of this type of credit is available from other states?
> - Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?

[78] In 2015 legislative session, the committee had eight democrat and six republican members, and in 2017 legislative session, the committee was appointed with nine democrat and five republican members.

- What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?
- Could this credit be modified to make it more effective and/or efficient? If so, how?

(Oregon Legislative Revenue Office 2015, 100)

As shown in the text above, the criteria employed by the committee centers on the budgetary efficiency and effectiveness of tax expenditures in meeting its stated purpose, and excludes explicit criteria for "fairness," "equity" or distributional concerns. To assist in evaluation, in 2015, the legislature passed HB 3542, which required each tax credit to include a stated purpose.

Legislative tax credit studies. In 2013, Oregon's legislature enacted HB 2002, which requires an additional tax expenditure report—one specific to tax credits and one performed by legislative staff and presented to the state legislature in advance of the sunset of expiring tax credits. These studies are intended to assist the Joint Committee on Tax Expenditures in their deliberations on expiring tax credits. Studies are authored by Oregon's Legislative Revenue Office (LRO), a nonpartisan legislative service agency providing research and other information to legislators regardless of their political affiliation.[79] The LRO is staffed by economists who specialize in forecasting and researching state tax and other revenue policies.

Similar to the evaluative criteria used by the Joint Committee on Tax Credits, the studies are intended to document the effectiveness and efficiency of tax expenditures and are required to include the following:

> The report required in subsection (1) of this section shall set forth:
> (a) The stated public policy purpose, if any, of the credit.
> (b) The expected timeline for achieving the public policy purpose, if a timeline exists.

[79] The LRO was established in 1975 (ORS 173.800 through ORS 173.850). For additional information see: https://www.oregonlegislature.gov/lro.

> (c) The best means of measuring achievement of the public policy purpose.
> (d) The taxpayers or other entities or individuals that directly benefit from allowance of the credit and whether the credit is intended to benefit particular targets.
> (e) The effectiveness of the credit in benefiting its targets and any evidence that demonstrates its impact on its targets.
> (f) The expected results if the credit is allowed to expire under current law and any potential results of making incremental changes in the value of the credit rather than allowing it to expire.
> (g) Background information on the effect of similar credits allowed in other states.
> (h) Information regarding whether use of a tax credit is an effective and efficient way to achieve the stated policy goal.
> (i) The administrative and compliance costs associated with the credit.
> (j) Analysis of whether a direct appropriation might achieve the stated public policy purpose of the credit more efficiently.
> (k) What other incentives, including state or local subsidies or federal tax expenditures or subsidies, are available in this state that have a similar policy purpose (ORS 315.051).

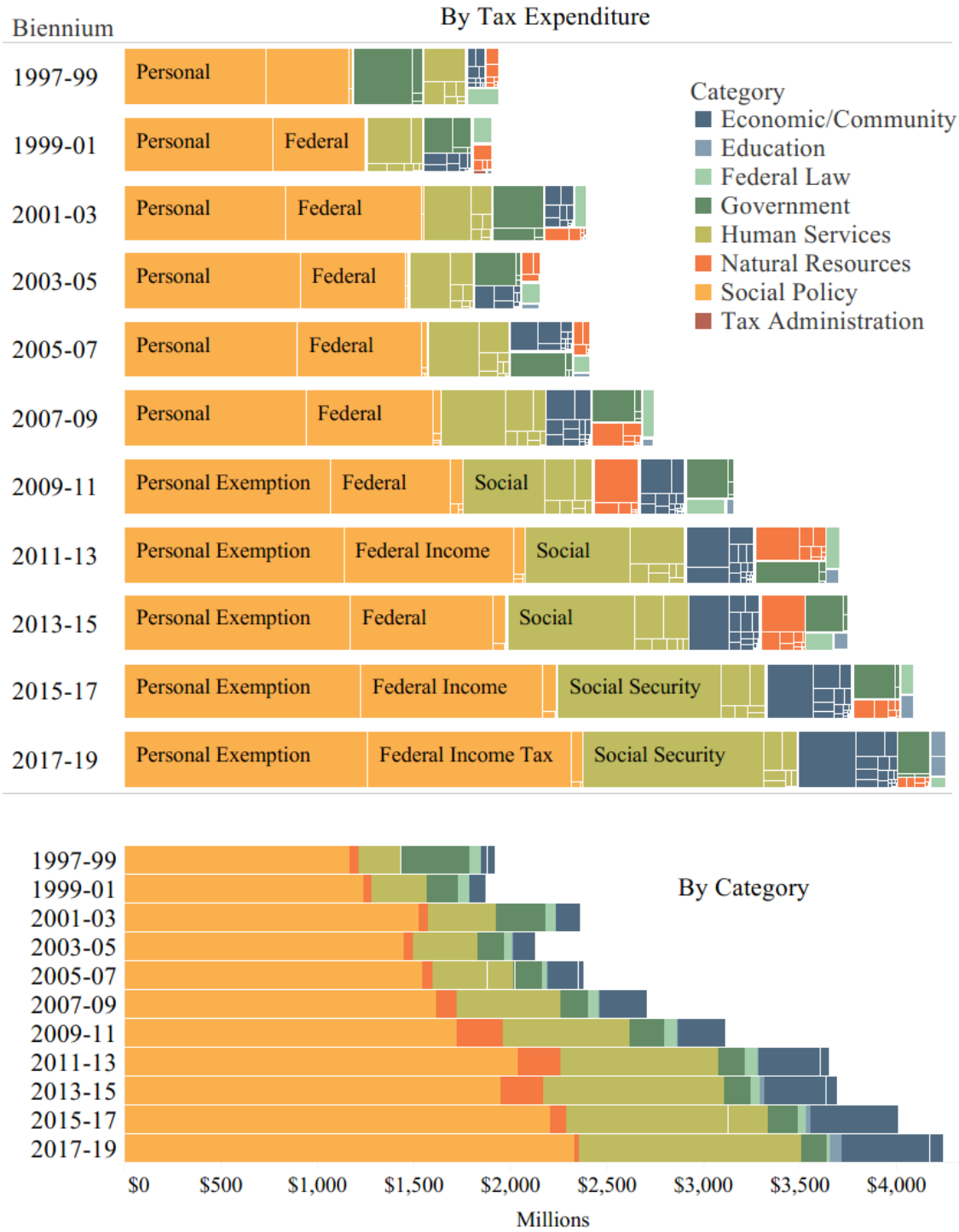
Relative to the Governor's tax expenditure reports, the LRO studies offer longer, more detailed, and well documented analyses with findings supported by data and other supplemental information. In many instances, evaluations include data visualizations and brief overviews of the distributional impacts of tax expenditures. Beginning in 2016, reports include supplemental information for all expiring tax credits on the distribution of who received credits by filer type, as well as age, adjusted gross income, industry, and geography (county) in selected cases where data are available.[80]

While tax credits represent a sizable revenue impact, they are by no means the largest among tax expenditures. Indeed, the "normative tax base" and other subtractions and deductions create much more significant taxpayer savings. In particular, the Personal Exemption Credit, federal Income Tax Subtraction, and deduction for Social Security benefits well exceed those of any other tax expenditure. Figure 3.4 visualizes the state General Fund revenue impact of income tax

[80] See for example, see Oregon LRO (2017b and 2019b).

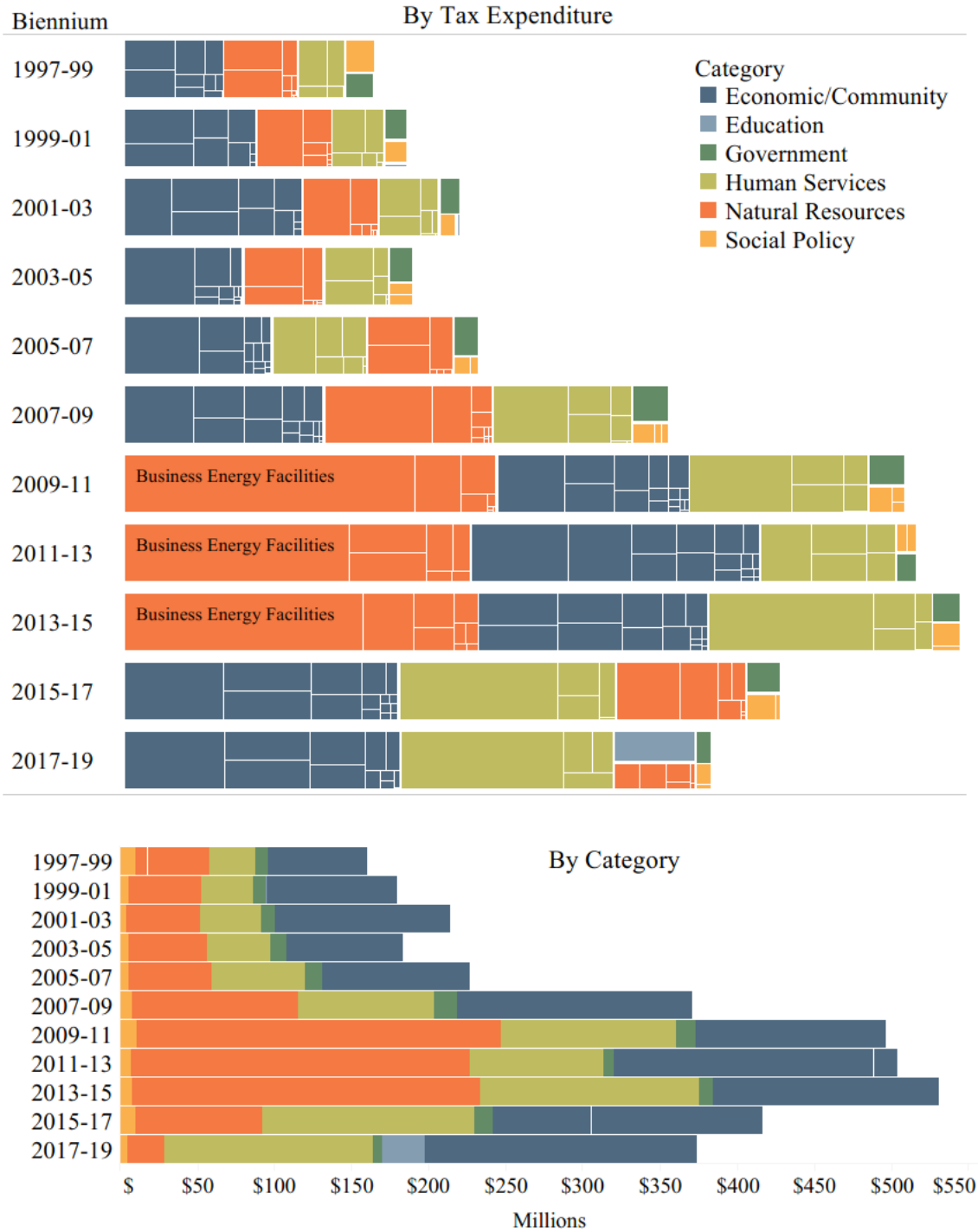
expenditures over the past 20 years. The figure adopts the same tax expenditure categories as those used in tax expenditure reports. Figure 3.5 shows only tax credits evaluated beginning in 2011. Notably, the tax credits treated as part of the normative tax base are excluded from Figure 3.5.

Figure 3.4
General Fund Revenue Impact of Tax Expenditures by Category*



Source: Oregon tax expenditure reports.
*Actual revenue impacts will differ from the amounts shown here. For example, see page 5 of the 1997-99 tax expenditure report for more information on data limitations. Revenue impacts of less than $100,000 are shown as $100,000.

Figure 3.5
General Fund Revenue Impact of Tax Credits by Category*



Source: Oregon tax expenditure reports.
*Actual revenue impacts will differ from the amounts shown here. For example, see page 5 of the 1997-99 tax expenditure report for more information on data limitations. *Revenue impacts of less than $100,000 are shown as $100,000.* Excludes tax credits considered part of the "normative tax base".

Distributional impacts of tax policy changes and outcomes of evaluation

Relative to changes to other income tax structures, the policy changes made to the tax expenditures formally evaluated in Oregon largely play only at the margins of taxpayer distributions. Meaning, the changes over the period of analysis had impacts on a relatively small share of taxpayers relative to other tax policy changes that originated outside of formal evaluative processes. The most significant changes came with scaling back the Business Energy Facility Credit (claimed by 1,260 taxpayers, representing 0.1 percent of the total taxpayer population in 2016) and the expansion of the Earned Income Credit (claimed by 282,530 taxpayers, or 13.8 percent of total taxpayers) and Working Family Household and Dependent Care Credit (claimed by 34,500 taxpayers, or 1.7 percent of total taxpayers).[81]

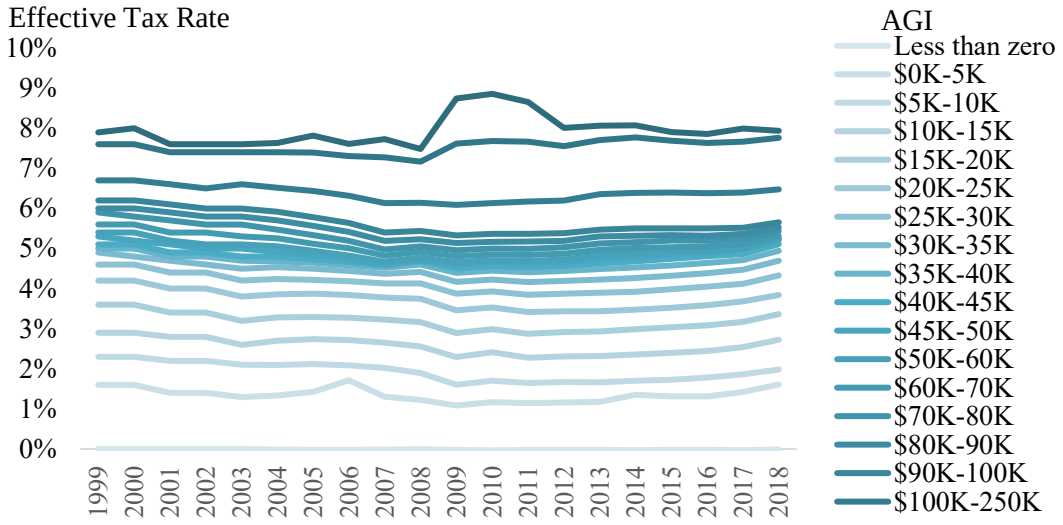
At the individual taxpayer level, there are many different ways to examine the distributional impacts of tax policy changes over time. However, taxpayer confidentiality requirements and data reporting limit publicly available data to aggregate totals and averages across taxpayers grouped by adjusted gross income (AGI) tiers. Figure 3.6 provides average effective tax rates over time by AGI tier. Over the period of analysis, the average state income tax liability remained relatively constant over time relative to AGI, with the exception of the highest income tiers.

The largest tax policy changes enacted over the period of analysis, and those with the most substantive impacts across taxpayer income distributions, originated

[81] Amounts reflect the total number of taxpayers claiming each credit (including full-year, part-year, and nonresidential filers) and do not reflect the change in taxpayers eligible for the credit resulting from tax policy changes during the period of analysis. Taxpayer data is for the 2016, the most recent year for which actual taxpayer data are available. Data shown are as published in the Oregon 2019-2021 Tax Expenditure Report, available at: https://www.oregon.gov/dor/programs/gov-research/Documents/te1921%20-%20Final.pdf

outside of the formal evaluative process and instead were motivated to address fiscal crisis and were motivated by economic downturns (fiscal crisis). The most significant change to tax policy change emerged from voter approval of Measure 66 in January 2010. The measure increased the tax rates on income above $125,000 ($250,000 if filing jointly). The measure also added two new tax brackets with higher marginal tax rates for higher income earners for tax years 2009 through 2011 (Figure 3.3).These rates are merged beginning in tax year 2012 at a rate higher than those in tax year 2008. Finally, the measure phased out the federal income tax subtraction for taxpayers with an adjusted gross income of $125,000 ($250,000 if filing joint).

Figure 3.6
Effective Tax Rates: Average Net Personal Income Tax Paid as a Share of AGI



Source: Oregon Department of Revenue, Personal Income Annual Statistical Reports 1999-2018.
AGI = Adjusted gross income.

The first round of tax credit review in 2011 primarily engaged credits for economic development, agriculture and environmental policy that benefited businesses. In 2011, HB 3672 scaled back these tax credits and produced sizable General Fund savings to address a state budget shortfall. Specifically, the bill

eliminated nine credits and put limitations on seven credits, the remaining four credits subject to sunset were extended without modification. The most significant changes came to the Business Energy Facilities Credit. On net, these changes increased General Fund revenues by $322 million, or 2.3 percent of the General Fund budget in 2011-13 biennium.[82] Again, in 2017 under HB 2066, recognizing a budget shortfall for the 2017-19 biennium, the legislature allowed several business tax expenditures to sunset—many of which were targets of tax credit reductions and limitations in 2011.

Table 3.2 summarizes the tax credits evaluated and policy changes made to the credits evaluated. Figure 3.5 visually illustrates estimates General Fund revenue impacts of the tax credits evaluated. As Table 3.2 and Figure 3.5 suggest, over time, tax credits have experienced a shift from business incentives toward credits for lower-income, rural, or disabled populations (categorically, this shift has gone from natural resources toward economic and community impacts). For lower-income taxpayers, the most significant policy change came from the refundability of the Oregon Earned Income Credit beginning in tax year 2006. The credit was initially set at 5 percent of the federal credit and was increased to 6 percent in 2008 and to 8 percent in 2013. In 2016 under HB 4110, the credit was expanded again from 8 percent to 11 percent of the federal credit. While the credit was formally evaluated, the origin of the expansion was motivated by interest groups advocating on behalf of low-income families and children.[83]

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[82] Authors calculations based on revenue amounts in LRO (2019) and revenue impact amounts in LRO (2011: 12). If all tax expenditures were allowed to sunset, this amount would have been $353 million, or 2.5 percent of General Fund revenues with higher amounts in subsequent years.
[83] For testimony and a list of witnesses who testified on the measure, see: https://olis.leg.state.or.us/liz/2016R1/Measures/Exhibits/HB4110

Table 3.2
Tax Expenditures Subject to 2009 HB 2067 Sunset Reviews and Subsequent Policy Outcomes*

Key	Allowed to expire	Expanded
	Reduced or limited	Extended without modification

Scheduled for Sunset in 2011	**Revenue Impact** 2009-11 Biennium	**Policy Outcomes** Pursuant to 2011 HB 3672
Water Transit Vessel Manufacturing	<$100,000	Allowed to sunset
Crop Gleaning	<$100,000	
Riparian Lands Removed from Farm Production	<$100,000	
Diesel Truck Engines	<$300,000	
Energy Conservation Lender's Credit	<$100,000	
Biofuel Consumer Credit	$1.3 million	
Biodiesel Used in Home Heating	Not reported	
Reforestation	$200,000	
Workers' Compensation Assessments	$3.0 million	
Film Production Development Contributions	$15.6 million	Reduced cap; increased and extended following subsequent evaluations
Qualified Research Activities	$13.9 million	Reduced maximum amount, extended
Alternative Energy Devices	$29.3 million	Scaled back, extended
Alternative Fuel Stations	<$100,000	Modified, extended
Business Energy Facilities	$142.7 million	Limited; broken into three credits
Production or Collection of Biomass	$14.6 million	Limited, extended
Fish Screening Devices	<$100,000	Extended without modification
Long-term Rural Enterprise Zone	Not reported	
Electronic Commerce Enterprise Zone	$900,000	
Fire Insurance	$8.2 million	
Scheduled for Sunset in 2013	**Revenue Impact** 2011-13 Biennium	**Policy Outcomes** Pursuant to 2013 HB 3367
Workers Compensation Tax Credit	$0	Sunset
Rural Medical Practice	$16.9 million	Added eligibility requirements, extended
Political Contributions	$6.9 million	Limited by income threshold, extended
Earned Income Credit	$32.5 million	Extended without modification
Employer Provided Scholarships	<$100,000	
Volunteer Rural Emergency Medical Technicians	<$100,000	
Farmworker Housing Lender's Credit	$1.5 million	
Mobile Home Park Closure	<$100,000	
Oregon Cultural Trust	$3.3 million	
Retirement Income	$400,000	
Reservation Enterprise Zone	<$100,000	

Table 3.2 (Continued)
Tax Credit Reports and Distributional Analyses Begin in 2015

Scheduled for Sunset in 2015	**Revenue Impact** 2013-15 Biennium	**Policy Outcomes** Pursuant to 2015 HB 2171
Long-Term Care Insurance	$0	Allowed to sunset early
TRICARE Health Care Providers	$3.4 million	Allowed to sunset
Child Care Division Contributions	$500,000	Reduces credit percentage, extended
Severe Disability	$5.3 million	Limited to certain income threshold
Public University Venture Development Fund	$700,000	Structure clarified in 2013, extended without modification in 2016
Child and Dependent Care	$8.6 million	Combined and expanded
Working Family Child Care	$21.8 million	
Individual Development Account Contributions	$7.7 million	Extended without modification
Oregon Life and Health IGA Assessments	<$100,000	
Child with a Disability	$5.2 million	
Oregon Veterans' Home Physician	<$100,000	
Scheduled for Sunset in 2017	**Revenue Impact** 2015-17 Biennium	**Policy Outcomes** Pursuant to 2017 HB 2066
Electronic Commerce Enterprise Zone	$2.1 million	Allowed to sunset
Alternative Energy Devices (Residential)	$23.9 million	
Renewable Energy Development Contributions	$600,000	
Energy Conservation Projects	$6.3 million	
Transportation Projects	$4.9 million	
Fire Insurance	$3.2 million	
Rural Medical Practice	$14.8 million	Modified eligibility, extended
Production or Collection of Biomass	$5.4 million	
Rural Medical Provider Tax Credit	$14.8 million	Limited by income, extended four years
Reservation Enterprise Zone Program	<$100,000	Extended without modification
Affordable Housing Lender's Tax Credit	$8.7 million	
Fish Screening Credit	<$100,000	

Table 3.2 (Continued)
Tax Credit Reports and Distributional Analyses Begin in 2015

Scheduled for Sunset in 2019	**Revenue Impact** 2017-19 Biennium	**Policy Outcomes** Pursuant to 2019 HB 2164
Earned income credit	$117.6 million	Expanded in 2016 (HB 4110), extended
Individual Development Account Contributions	$14.7 million	Expanded, extended
Political contributions	$5.6 million	Reduced, extended
Cultural Trust contributions credit	$4.0 million	Extended without modification
Manufactured dwelling park closure credit	<$100,000	
Certain retirement income credit	$600,000	
Volunteer rural emergency medical services providers credit	$100,000	
Employer provided scholarships credit	<$100,000	
Farmworker housing construction credit	$3.3 million	
Crop donation credit	$300,000	

Source: Oregon Revised Statutes, Oregon tax expenditure reports, LRO (2011, 2013, 2015a, 2015b, 2017a, 2017b, 2019b).
*Does not reflect a comprehensive legislative history and may exclude impacts of subsequent legislation.

Also impacting lower-income taxpayers and emerging directly from the formal evaluation process, in 2015 under HB 2171 the Child and Dependent Care Tax Credit was combined with the Working Family Household and Dependent Care Tax Credit.[84] The Working Family Household and Dependent Care Tax Credit offers a refundable tax credit at a higher income threshold. This change marked a relative expansion of the credit, increasing its revenue impact as well as disposable income for a larger number of households.

A conceptual model of policy evaluation processes and policy outcomes

The case study of Oregon's tax expenditure evaluation process suggests that Oregon

[84] Subsequent minor technical modifications were made to the credit thereafter in 2017 (SB 162) and 2018 (HB 4028).

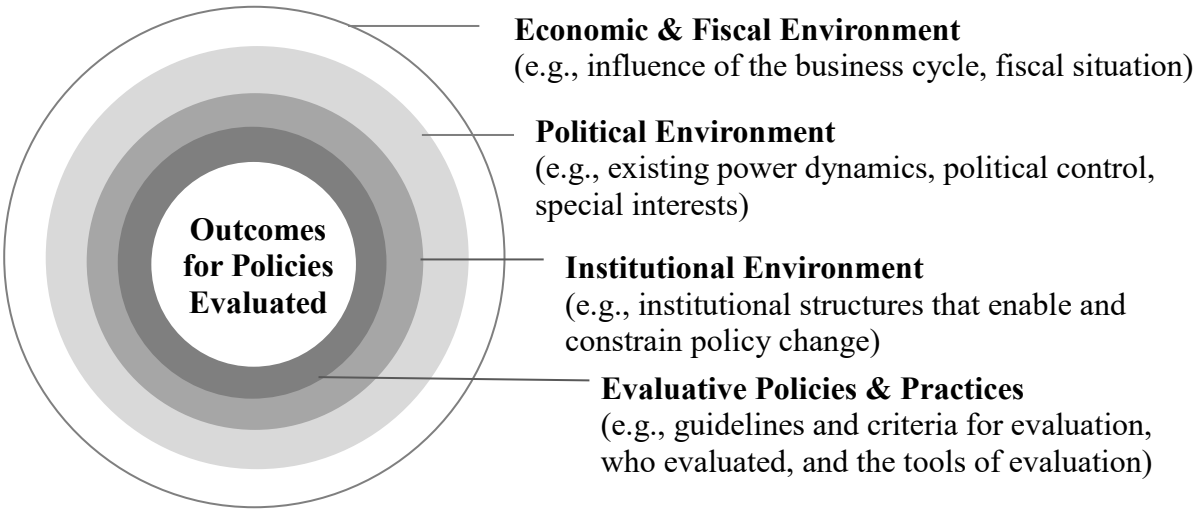
tax policy outcomes are embedded in political, institutional, and economic contexts. Indeed, the Oregon case suggests that fiscal crisis met with a Democratic supermajority paved the way for institutional change. Specifically, automatic sunsets of most income tax credits necessitated a more deliberate review process and called for more thorough formal evaluation reporting from nonpartisan staff.

As evaluation processes evolve with this policy landscape, they might be considered to exhibit a sort of "institutional isomorphism" (DiMaggio and Powell 1983). In the case of Oregon, institutional isomorphism is reinforces by the evaluation criteria itself, whereby 'effectiveness' evaluation criteria center on whether or not a policy is meeting its intended purpose, as laid out when the policy was enacted. This reinforces the political environment in which the policy is made. Further, the budgetary 'efficiency' criteria for evaluation weighs a policy's import against fiscal conditions of the state. Yet, the ability to make changes to a policy relies upon the institutional structures that enable such change and the political will to make change relies on budgetary pressures. While equity concerns were not an explicit evaluative criteria, policy changes over the period of analysis did have minor distributional consequences—the policies promoting such changes originating from Democratic bill sponsors seeking to balance budgets or offer tax relief for low-income taxpayers.

Figure 3.7 offers a conceptual model illustrating the nested spheres of influence in which evaluation processes and policy outcomes occur. Policy environments include key determinants of policy development identified by fiscal and political sociology scholars, including fiscal conditions of the state and presence of 'fiscal crisis' (e.g., Schumpeter ([1918] 1991); Martin and Prasad 2014), as well as the

political control and institutional structures of the state (e.g., Amenta 1998; Skotcpol 1992; Weber ([1922] 1969).

Figure 3.7
A Conceptual Model of Policy Evaluation Practices and Policy Outcomes



This conceptual model is hardly at odds with the power structures imbued in evaluation processes as suggested by Taylor (2005) and Taylor and Balloch (2005). This model does, however, suggest multiple key determinants of the environment in which policy evaluations and outcomes occur. While "everything is political", policy evaluation is also influenced by institutional and economic factors.

CONCLUSION AND DISCUSSION

This chapter seeks to contribute to existing theoretical frameworks for policy development, bridging theoretical constructs from political and fiscal sociology with those of the sociology of evaluation literature. In analyzing formal tax expenditure evaluation in Oregon, I find that evaluative processes are secondary to other key determinants of policy change. Specifically, under a Democrat supermajority legislature, an institutional shift toward automatic tax expenditure sunsets motivated

by budgetary shortfalls following the Great Recession prompted more rigorous evaluation processes and studies. The policy changes made following these institutional changes shifted the availability of tax expenditures from business owners toward lower-income households. The impacts of these changes affected a relatively small share of taxpayers, yet their impacts had consequential re-distributional implications for the taxpayers who claimed the credits. Further, the repeal and reduction in tax credits for business owners has at multiple times assisted in offsetting General Fund budget shortfalls, allowing for the provision of more state services or spending.

The findings here suggest that evaluation reporting alone may be insufficient to overcome policy 'lock-in effects' or influence distributional outcomes. Instead, I find that evaluation processes are both symbolic and symptomatic of institutional, political, and economic environments. To escape policy lock-in effects, a shift in political consensus, motivated by crisis and/or changes in political control, may be necessary.

These findings resonate with existing theoretical frameworks forwarded by Weber ([1922] 1968), Schumpeter ([1918] 1991), and Marx ([1984] 1996) that highlight the influential roles that institutions, fiscal crisis, and political control play in policy and inequality outcomes. More proximate to existing literature on tax expenditures, these findings confirm that institutional mechanisms—namely, automatic continuation of policies without budgetary review—promote policy lock-in effects (e.g., Howard 1997). Replacing these institutional mechanisms with new mechanisms—in this instance, enacting automatic sunsets for policies—serves as a

source of policy change by necessitating action by the legislature to continue a policy or program.

Future research might test the conceptual model forwarded here—this model posits that evaluation processes and their policy outcomes are embedded in institutional, political, and economic environments and as such become isomorphic to these environments. Future research might also consider the variation in political, economic, and institutional environments across states in the U.S. or across nation-states and the degree to which variation influences evaluative, tax policy, and inequality outcomes. Finally, future research might consider to what extent policy evaluation is more symbolic than elucidating for policymakers and the extent to which it legitimizes policy decisions.

CONCLUSION

The three chapters of this dissertation highlight the consequential role social structures play in influencing U.S. state-level policies and their outcomes, including inequality outcomes across income and race. These works leverage and add to existing sociological theory by identifying several 'mechanisms' (Hedström and Swedberg 1998) contributing to the 'locking-in' of policies—including policies that persistently fail. The chapters included here also investigate the varied influences of political control, socioeconomic dynamics, and institutional structures on policy change, echoing the formative theoretical constructs of classical sociological theorists, including Joseph Schumpeter ([1918] 1991), Max Weber ([1922] 1968), and Karl Marx (Marx and Engels [1848] 1996).

In the first chapter, I explore the adoption of financial literacy legislation across U.S. states. These policies have received near-universal support yet their adoption has failed to produce intended outcomes. I argue that the theoretical framework of Meyer and Zucker's (1989) theory of permanently failing organizations offers insight. Yet, in applying Meyer and Zucker's theory to the case of financial literacy reforms, I find that the context of ignorance about failure among actors engaged in reform requires further theorizing than that originally engaged by Meyer and Zucker. Toward this end, I identify three mechanisms that may contribute to persistence of failing policy reforms under conditions of ignorance about failure. When failure is not known by actors engaging in reforms, the interests of these actors may be guided by factors other than performance measures, such as strong

institutional logics and the legitimization lent by federal government support for reforms. Further, these circumstances may produce a self-promotional cycle, whereby ongoing failure contributes to the prescription for a higher dose of the failing reform.

In the second chapter, employing panel analysis of state income tax progressivity and various socioeconomic determinants, I find that greater income inequality is associated with more progressive state income tax structures, while states with a higher share of the population that is nonwhite tend to have less progressive structures. This confirms similar findings for federal income taxes (e.g., Jacobs and Waldman 1983) as well as state-level consumption and property taxes (e.g., Martin and Beck 2017; Newman and O'Brien 2011).

In the third chapter, I find that formal tax expenditure evaluation in Oregon plays a secondary role to other key determinants of policy outcomes. Namely, under a Democrat supermajority legislature, an institutional shift toward automatic tax expenditure sunsets motivated by budgetary shortfalls following the Great Recession enabled more rigorous evaluation that has resulted in an incrementally more progressive tax structure for the state of Oregon. This suggests that evaluation reporting alone may be insufficient to overcome policy 'lock-in effects' (Pierson 1993). I offer a conceptual model theorizing that policy evaluation processes are embedded in institutional, political, and economic environments.

These chapters offer a new theoretical framework explaining permanently failing policies and a conceptual model for the influence of policy evaluation on policy outcomes. Future research might test these theoretical frameworks, exploring whether the mechanisms identified apply more broadly across policies or across nation-states.

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