

prevented from doing. To make their financial statements look balanced, states underfund long-term obligations, defer payments, restructure debt, and borrow money from designated funds to cover general fund deficits. These moves are largely designed to get state governments cash in the short term while piling up debt obligations in the long term. This study reveals the extent to which this sort of deficit financing in all but name goes on, and raises questions about the transparency of state financial statements.

- **Hong, Souman.** "Fiscal Rules in Recessions: Evidence From the American States." *Public Finance Review* (2014). doi:10.1177/1091142113515050.

As discussed in this chapter, the vast majority of states are legally required to balance their budgets. This study uses the comparative method to see just how those rules do—or do not—work in practice. What it finds is that the impact of balanced-budget rules depends on political and economic context. For example, balanced-budget rules are more likely to be adhered to in recessionary years than in years when the economy is doing well. Gubernatorial partisanship also seems to be a difference that makes a difference. If there is a Republican in the governors' mansion, states are considerably more likely to cut budgets to meet balanced-budget rules. The size of those cuts, though, is

mitigated if there is divided control of state government (i.e., if there is a Democratic legislature and a Republican governor or vice versa). The general takeaway point of this study, then, is that having a balanced-budget rule is one thing. How that rule is enforced, however, is something else and is dependent on the political and economic environment of a state.

- **Kelly, Nathan, and Christopher Witko.** "Federalism and American Inequality." *Journal of Politics* 74 (2012): 414–426.

One of the most contentious issues in current American politics is income inequality. Do the haves get too much and the have-nots too little? If so, should government do anything to balance things out? In an era of tight budgets and bruising arguments over who, if anyone, should be taxed more and how that money should or should not be spent, answers to these questions are contested and controversial. This debate has played out primarily on a national stage, but this study uses the comparative method to show that state-level factors contribute greatly to income inequality. Kelly and Witko look at more than three decades' worth of state-level data and find that factors such as a state's demographics, the degree of unionization in its labor pool, and the partisan makeup of its government are differences that make a difference to income inequality.