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Mundane cash management policies in the American states: a preliminary assessment using the political economy model

David W. Allen*

Department of Political Science, Colorado State University, Fort Collins, CO 80525, USA

Abstract

A political economy model, incorporated curved and interactive terms, is used to explain levels of five dimensions of cash management policies in the American states. Results point to a predominant role for economics, political culture, and interest groups as the explanation for policy levels. Further, the explanations are, in many instances, curved and conditional. © 2002 Elsevier Science Inc. All rights reserved.

1. Introduction

The political economy model has predicted policy levels in the American states in such diverse areas as *welfare*, *medicaid*, and *disability policy* (Barrilleaux & Miller, 1988; Erickson, Wright, & McIver, 1987; Hanson, 1983; Hwang & Gray, 1991; Wright, Erickson, & McIver, 1987), *education policy* (Hwang & Gray, 1991), *abortion* (Meier & McFarland, 1992), *environmental regulation* (Ringquist, 1993), *economic development* (Brierly & Feiock, 1993), *consumer protection* (Meier, 1987a), *public utility, insurance, and banking regulation* (Skalaban, 1992, 1993), *tax policy* (Hansen, 1990; Johnson & Meier, 1990), *the death penalty* (Nice, 1992), and *drug abuse policy* (Meier, 1992). However, policy areas studied in the cited literature either engendered controversy or periodically experienced some crisis event which caused the issue to percolate to the top of the policy agenda. Under these conditions, the model worked: developed economic and political forces, existing bureaucratic structure, and the presence of well-organized interest/advocacy groups combined to, one degree or another, explain public policy. But what about policy areas which, by comparison, are comparatively mundane, banal, or everyday in nature? Can the political economy model explain policy levels in these areas as well?

* Tel.: +1-970-491-5751.

E-mail address: dwallen@vines.colostate.edu (D.W. Allen).

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Mundane means, for purposes of this research, that the policy domain operates in an environment relatively free from crisis or controversy. A policy area is therefore classified as mundane only by comparison to other policy areas (Allen, 1999). Cash management policies are one such area. State governments have adopted a broad range of policies which govern such items as allowable state investments and banking relations/investment practices—to name but a few. Nestled with these dimensions are a host of individualized policies—such as policies governing investment of U.S. Treasury obligations, competitive bidding practices on deposits and compensatory balances, account reconciliations services and state authority to invest in Eurodollars. These items do not attract high levels of public scrutiny or agenda attention. Nor does it seem plausible to conceptualize the studied domain in terms of crisis events which periodically cause other policy debates to percolate to the top of the policy agenda. For example, a variety of forces periodically push welfare and education policy, environmental regulations, and taxes to the forefront of the American political consciousness (Hansen, 1990; Hwang & Gray, 1991; Lowery, 1987; Ringquist, 1993; Sigelman, Lowery, & Smith, 1983). By comparison, accounting for and processing funds between collection and expenditure appears to slide within the ground clutter of the public's political radar scope.

2. Measuring cash management policies

Cash management policies refer to procedures adopted by state governments to monitor cash-on-hand *between* collection of tax revenues and their corresponding expenditure for public purposes. Dichotomous data in the *Book of the States, 1996–1997* (Council of State Governments, 1997) allowed for isolation of five policy dimensions. The Guttman scales created to measure the dimensions are defined in Table 1, along with the individual items collected in each scale.[1] High scores on each scale represent high levels of policy.

Table 2 lists state Guttman scale scores according to allowable state investments. High scores reflect high levels of public policy. Standardized scores, used as the dependent measure, provide a comparison across dimensions. Descriptive statistics indicate that all scales are unidimensional, conform to relatively normal univariate distributions, reflect sufficient variation to allow for analysis, are generally uncorrelated, and adequately discriminate among cases, although—as expected given the ratio of cases to items—ties are present.

3. The model: concepts, measurement and hypotheses

The political economy model maintains that policy levels are a function of the economic environment, which constrains all civic activity in American states, the behavior of political institutions, which is constrained by attitudinal pre-dispositions of the polity, and the activities of bureaucratic entities and interest groups.

3.1. Economics

Economics' role with regard to predicting policy is well known (Barrilleaux & Miller, 1988; Brierly & Feiock, 1993; Hansen, 1990; Hwang & Gray, 1991; Williams & Matheny, 1984).