Supermajority voting requirements for tax increases: evidence from the states

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Abstract

This paper measures the effect of state-level supermajority requirements for tax increases on tax rates. Unobserved attitudes towards taxation tend to influence both the adoption of supermajority requirements and tax policy. Consequently, one cannot distinguish between the effect of these requirements and their correlation with these unobserved attitudes. A model is presented in which legislatures controlled by a pro-tax party adopt a supermajority requirement to reduce the majority party agenda control. The propensity of pro-tax states to adopt supermajority requirements results in an underestimate of the true effect of these requirements on taxes. To correct this identification problem, the paper first uses fixed effects to control for unobserved attitudes and then employs instruments that measure the difficulty of amending state constitutions. The paper concludes that supermajority requirements have significantly reduced taxes. © 2000 Elsevier Science S.A. All rights reserved.

1. Introduction

In each of the years between 1996 and 1999, the US Congress voted on a proposed constitutional amendment to require a two-thirds supermajority legisla-

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tive vote in order to increase taxes through a new tax, rate increase, or expansion of the base. Each time, the proposed requirement fell short of the two-thirds vote necessary to initiate a constitutional amendment. Thirteen states already have similar supermajority requirements in place, and 16 states have recently introduced legislation to enact such requirements (Americans for Tax Reform, 1996).[1] This paper empirically measures the effect of supermajority requirements on taxes, using cross-state variation in supermajority requirements between the years 1963–1995.

At first glance, supermajority requirements appear to have had no effect on taxes. Among the continental 48 states, supermajority states and non-supermajority states had identical average effective tax rates of 7.13% in 1995. If these requirements were randomly assigned to states, one could conclude that supermajority requirements do not reduce taxes. However, states choose to adopt these requirements and may do so for strategic reasons related to tax policy.[2] This paper argues that underlying state characteristics influence both supermajority requirements and tax policy. Some of these state characteristics, such as income, can be controlled for directly by comparing average tax rates conditional on observable characteristics in a multiple regression framework. Other characteristics, such as citizens' attitudes towards taxation and public services, are unobservable. Consequently, using sample means alone, even conditional on observable characteristics, one cannot distinguish between the effects of supermajority requirements on taxes and the propensity of states with certain attitudes towards taxation to adopt these requirements.

To provide a framework for correcting this identification problem, a theoretical model explores both the adoption of supermajority requirements and the effect of these requirements on tax policy. The model predicts that, in legislatures controlled by the pro-tax party, the median legislator and members of the minority anti-tax party will form a coalition to enact a supermajority constitutional amendment. The median legislator, a member of the majority pro-tax party, is willing to give up his role as the pivotal voter in order to reduce the agenda-setting power of extremists within the pro-tax party. The model illustrates the identification problem described above: states with pro-tax legislatures tend to adopt supermajority requirements. This theoretical prediction is supported anecdotally as Democrat-controlled state legislatures are more likely to adopt supermajority requirements. Consequently, a comparison of sample means, even conditional on observable state characteristics, may tend to understate the effects of supermajority requirements on tax rates.

Empirically, this paper makes two attempts to correct for this identification

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[1]Georgia, Hawaii, Illinois, Idaho, Maryland, Massachusetts, Minnesota, Michigan, New Mexico, New York, North Carolina, Ohio, Rhode Island, South Carolina, West Virginia, and Wisconsin.

[2]See Besley and Case (1994) for a general discussion of endogeneity problems when using cross-state policy variation.