The Liberal Arts and Scholarship on the Fiscal Effects of Statehood

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Abstract

This comment highlights several important questions in two major areas that were inspired by reading The Fiscal Case Against Statehood. The first major area concerns the sociology of business disciplines, accounting in particular, with respect to interdisciplinary scholarship. Questions in the second major area focus on methodological questions surrounding the fiscal effects of statehood.

Keywords: statehood, graduate study, Leviathan

JEL: H10, N9

1 I would like to thank Art Carden for organizing the panel on The Fiscal Case Against Statehood at the 2013 APEE meetings.
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1 Introduction

Accounting is generally not thought to be part of the liberal arts. The liberal arts, however, can inform good scholarship and improve our understanding of important issues. Only someone who is liberally educated could have brought to together in one book public choice theory, history, and accounting to provide a better understanding of this important period in U.S. history (Moussalli 2012). A close reading of Moussalli (2012) highlights an important issue regarding the sociology of graduate education in addition to a number of new research questions regarding the fiscal effects of statehood.

2 The Liberal Arts, Graduate Study, and Liberal Arts Careers

With academic degrees in anthropology, French education, history, public administration, and accounting, Moussalli’s interests and training as a scholar are unique and not easily replicated. She is probably the only person alive who would have thought of writing, let alone had the background and training to write, such a unique and insightful book as The Fiscal Case against Statehood. Her background was crucial to her being in position to see the research question and answer it in a thorough and compelling manner.

Her experience suggests that scholarship in business and economics would be more varied, more interesting, and more insightful if greater numbers of liberally educated individuals were drawn into graduate study in these fields. One reason they are not drawn to these fields is lack of exposure. Many liberal arts colleges do not offer any business courses as part of the economics major (see, for example, Haverford College 2013) and those that do typically offer an accounting course or two as part of a business economics major (see, for example, Beloit College 2013).

Another piece of the puzzle of why more young people from liberal arts colleges do not pursue doctoral work in economics or business is because they find the core courses and dissertations being undertaken by current graduate students to be narrow and boring. One piece of evidence in favor of this hypothesis is that many current economics graduate students feel that their core courses hold little interest or relevance (Colander 2005). Attracting people who are not just motivated by higher business school salaries requires signaling to students who are interested in better understanding the world around them that they can pursue a wide variety of research questions raised during the course of their studies. Committing to several years of graduate study and then six years of the tenure track is a big commitment for anyone, let alone someone who is uncertain as to whether or not she’ll be able to

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conduct the research that interests her. One of the best things about *The Fiscal Case against Statehood* is it provides a model for young scholars who dare to be different.

Moussalli is upfront about her scholarship being outside what is normal in accounting. The first sentence of her acknowledgments states (p. xi): “There are not many doctoral programs that would allow research as interdisciplinary as this.” While this would not be surprising for the very top programs in any discipline as increasing specialization is often seen as necessary for disciplinary advancement, it seems somewhat odd once you move away from the frontier. Graduates from the University of Mississippi PhD program in accountancy mainly place in smaller, non-graduate programs in the South. A few, like Professor Moussalli, end up at liberal arts colleges.

So why, in general, is scholarship like this so outside the norm? Is it the sociology of the profession, especially in what is considered good scholarship by those teaching in graduate programs? Is it selection bias of who wants to be an accounting professor? Are AACSB publication standards making schools wary of hiring interdisciplinary scholars? These are important questions to find answers to if you believe that Professor Moussalli’s work in *The Fiscal Case against Statehood* is an important and valuable contribution to our understanding of the fiscal effects of statehood.

Beyond scholarship, however, there is also the question of training people to be effective teachers at liberal arts colleges. Rhodes College, where Moussalli teaches, is somewhat unique in that it has such a large and thriving accounting program. As noted earlier, many other liberal arts courses have a course or two in financial or managerial accounting and would likely offer more if they could find someone with the background and interests of Moussalli. A background in the liberal arts is important because it informs how a PhD in business, or accounting, or economics interacts with their colleagues, students, and the interdisciplinary nature of the curriculum at liberal arts colleges. (For more on the uniqueness of liberal arts colleges, see Horwitz (2011)).

Entrepreneurship can be thought of as picking up previously unnoticed dollar bills, either through pure arbitrage or by combining resources together in a way that creates value (Kirzner 1973). Moussalli (2011) and her career are evidence that there are dollar bills lying around unnoticed, waiting to be picked up by entrepreneurial graduate students and programs.

3 The Fiscal Effects of Statehood

One measure of the value of a scholarly volume is the number of questions it raises. Research that does not stimulate dozens of questions begging to be answered is not advancing our scholarly understanding of a topic. By that standard, Moussalli
Moussalli finds that statehood raised the value of property within a territory after statehood. This suggests that the fiscal constraints on territorial revenue generation led to pent-up demands for publicly provided goods that were satisfied following statehood. If this is the case, however, it is unclear exactly how territorial governments were constrained in raising revenue prior to statehood. For example, the lack of own source-revenue could be because of fiscal constraints in raising revenue placed on them as territorial governments. Our knowledge of such constraints is limited, however, and better information on such constraints would help scholars better understand the mechanism by which statehood caused own-source revenue to increase.

For example, an analogy can be made to local school districts, which are often constrained in their ability to raise money to one tax base – the property tax. In Ohio, however, school districts were given the ability to levy a residency-based income tax in 1989 (Hall and Ross 2010). After being given the ability to tax another base, their total revenue increased (Ross and Nyguen 2013). Whether or not that is a good thing is a normative question, but it is pretty clear that relaxing the fiscal constraint is what caused revenues to rise.

A related question is whether these fiscal constraints are necessary to restrain Leviathan. Turnbull and Geon (2006) look at the effect of home rule on U.S. counties. They find that rural counties, because they are not constrained by Tiebout competition, often expand their spending beyond what is preferred by the median voter. In addition, they find that fiscal constraints states place on counties do affect county fiscal behavior and therefore might be justified to constrain the Leviathan-like behavior of rural counties.

Moussalli finds that statehood was crucial to getting improved financial reports and processes in New Mexico and Arizona. It is unclear, however, exactly how statehood allowed for the adoption and improvement of these improved financial reports and processes. In particular, what exactly where the constraints that prevented territorial governments from improving their financial reports? Was it because the requirements of territorial governments were low or different? While Moussalli seems to be correct that these improved reports provided legitimacy and increased the ability to raise revenue, further evidence on the impact of statehood on accounting standards not during a time of generally increasing accounting standards would be an important piece of evidence that statehood leads to improved financial reporting.

This point highlights the biggest methodological issue related to Moussalli’s (2011) findings—controlling for other important changes going on at the time. Moussalli’s use of Nevada is instructive in this regard, but what if Nevada is an outlier among states at the time? After all, Nevada had an economic bust in 1910 and a serious
population decline from during the decade of the 1910s. Arizona, on the other hand, gained over 100,000 residents from 1910 to 1920. New Mexico also increased in population during this period. Using Nevada as the only counterfactual seems to me to be problematic given its very different experience during this period.

It would be instructive to look at changes in the own-source revenue of all states (not just Nevada) at the time. This would be particularly important given the tremendous changes in state and local taxation going on at the time that led to increases in own-source revenues in many states. According to Wallis (2001), between 1902 and 1932 state revenues rose from 0.8 percent of GNP to 2.1 percent. What if New Mexico and Arizona are just part of this great increase in state revenues? Given the large number of new taxes that were implemented at the state level between 1900 and 1940 – taxes on gas, sales, and income – the role of statehood relative to improvements in the technology of taxation are difficult to disentangle without looking at all states as well as Nevada.

4 Conclusion

There are many reasons to read The Fiscal Case against Statehood. For example, one could be interested in the history of New Mexico or Arizona. Or one could be a public choice scholar interested in better understanding the growth of government in the early part of the twentieth century. A scholar of accounting history would find much of interest the role that accounting played in territorial governments.

Regardless of the reader's background, however, two things are certain. First, they will come away from the book knowing more about the topic, regardless of their background. Second, they will have a list of new questions that they want to pursue inspired by the book. That is the value of interdisciplinary scholarship.
References


