

Dissertation Abstract
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Dissertation Title: State and Local Government Expenditures, Macroeconomic Fiscal Policy, and the Business Cycle

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My dissertation research broadly is a contribution to the recently revived macroeconomic fiscal policy literature. The discussion of fiscal policy is almost always situated at the federal level. My first chapter argues state and local governments should be at the center of these discussions since the state-local government sector's consumption and investment spending is a substantial amount of overall government expenditures. Therefore, examining state and local government spending over the business cycle is critical to the management of macroeconomic fiscal policy. The second chapter employs time series econometrics to explore how the major state-local budget components have behaved over the business cycle from 1954-2015. Using data from the U.S. Census of Governments, I decompose state-local expenditure time series into their long-run trends and cyclical deviations. Preliminary findings suggest that capital spending is less cyclical than current spending and education is very pro-cyclical. The third chapter asks why state and local expenditures became a drag in the most recent recovery. To answer this question, I look at the behavior of spending across government types between 2010 and 2015 versus comparable periods of recovery in the past. Preliminary findings suggest that local government capital and elementary education spending accounted for a majority of the decline in state-local spending over the most recent recovery. My fourth chapter investigates the determinants of state-local capital spending over the business cycle. The main methodologies are qualitative open-ended interviews and a structured questionnaire sent to all fifty state governments. The findings suggest that the practical issue of timing is an important factor in state-local capital spending. Specifically, capital spending cannot be quickly adjusted upward or downward even if funding is available. The fifth chapter summarizes the findings and concludes with policy suggestions.