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Determinants of Pay-as-You-Go Financing of Capital Projects: Evidence from the States

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Abstract

Although states have long practiced pay-as-you-go in financing their capital projects as a supplement to debt, academia has paid scarce attention to pay-go financing. This study fills in the niche by providing empirical evidence on what determines the use of pay-go in financing capital projects. It develops a model that considers the preferences of both voters and politicians when they make capital financing decisions in a given institutional setting. The empirical results suggest that the use of pay-go is affected by a state's income level, its economic conditions, the presence of a divided government, as well as its budgetary institutions.