The Supreme Court's Municipal Bond Decision and the Market-Participant Exception to the Dormant Commerce Clause

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The Supreme Court’s Municipal Bond Decision and the Market-Participant Exception to the Dormant Commerce Clause

DAN T. COENEN* 

Does it violate the dormant Commerce Clause for a state to exempt interest earned on its own bonds, but no others, from income taxation? In a recent decision, the Supreme Court answered this question in the negative. Six members of the Court found the case controlled by the state-self-promotion exception to the dormancy doctrine’s antidiscrimination rule. Three of those Justices, however, went further by also invoking the longstanding market-participant exception to sustain the discriminatory state tax break. This Essay challenges that alternative line of analysis. According to the author, the plurality’s effort to apply the market-participant principle: (1) invites a problematic reframing of basic market-participant rhetoric, (2) threatens ill-advised changes in longstanding Commerce Clause doctrine, and (3) injects far-reaching uncertainty into an already complex field of constitutional law. For all these reasons, a majority of the Court should reject the plurality’s approach, and lower courts should refuse to follow it in the meantime.

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A major case of the Supreme Court’s most recent term presented a vexing constitutional question: Can a state provide an income tax exemption for interest paid on bonds issued by it, but not for interest paid on other bonds, including bonds issued by sister states?¹ In Department of Revenue v. Davis, the Court ruled that this form of state tax relief—despite its obvious favoritism of intrastate transactions—did not offend the ban on discrimination against interstate commerce embedded in the so-called “dormant Commerce Clause.”²

Justice Souter wrote the Court’s controlling opinion. That opinion was controlling only in part, however, because one of the two rationales he offered did not command a majority vote.³ The dispositive analysis was set forth in Part III-A, which was joined in full by Chief Justice Roberts and Justices Stevens, Scalia, Ginsburg, and Breyer.⁴ There, Justice Souter reasoned that the constitutionality of Kentucky’s exemption for in-state public bond interest followed easily from the Court’s recent decision in United Haulers Ass’n v. Oneida-Herkimer Solid Waste Management Authority.⁵ In Part III-B of his opinion, Justice Souter advanced the alternative rationale that the Kentucky program was sustainable in any event under the longstanding “market participant doctrine” to the dormant Commerce Clause.⁶ This portion of the opinion was joined only by Justices

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¹ Dep’t of Revenue v. Davis, 128 S. Ct. 1801 (2008).
³ Davis, 128 S. Ct. at 1811–14.
⁴ Id. at 1810–11.
⁵ Id. at 1810 (citing United Haulers Ass’n v. Oneida-Herkimer Solid Waste Mgmt. Auth., 550 U.S. 330 (2007)).
⁶ Id. at 1811–14. For some of the many discussions of the market-participant exception in the legal literature, see generally Thomas K. Anson & P.M. Schenckkan, Federalism, the Dormant Commerce Clause, and State-Owned Resources, 59 TEX. L. REV. 71 (1980); Theodore Y. Blumoff, The State Proprietary Exception to the Dormant
Stevens and Breyer. The other three Justices who had joined Part III-A saw no need to go beyond reliance on *United Haulers*, accordingly declined to sign onto Part III-B, and thereby deprived that portion of the opinion of binding precedential force. As a result, the impact of Justice Souter's market-participant analysis in *Davis*, for now, remains undetermined.

This Essay advances the argument that the three Justices who came together in Part III-B of the *Davis* opinion took a series of wrong turns. The argument proceeds in three steps. Part I of this Essay frames the discussion by identifying just what the Court held, and did not hold, when it embraced a new state-self-promotion exception to the dormant Commerce Clause antidiscrimination rule in *United Haulers* and Part III-A of *Davis*. Part II turns to the market-participant doctrine and undertakes a wide-ranging critique of the portion of Justice Souter's opinion in which he and his two colleagues applied that doctrine to Kentucky's taxing scheme. Part III builds on Part II by demonstrating why an embrace of Justice Souter's market-participant analysis would, at the very least, have the harmful effect of injecting needless new uncertainties into an already complex field of law.
As this review demonstrates, adoption of the market-participant analysis advanced by Justice Souter would bring much mischief to future judicial decision-making. Indeed, endorsement of that analysis could dramatically narrow existing safeguards of our economic union, including spurring on abandonment of central and salutary features of current dormant Commerce Clause case law.\(^9\) Faced with these risks, the Court should repudiate Part III-B of Justice Souter's opinion at its first opportunity. In the meantime, lower courts should pay no heed to the plurality's novel—and dangerous—market-participant analysis.

I. DAVIS AND UNITED HAULERS

At the heart of the Court's treatment of the 2008 Davis case lay its 2007 decision in United Haulers. There, the Court upheld municipal ordinances that required the delivery of all locally generated solid waste to a government-run waste transfer station, thus excluding private firms that operated in neighboring states from competing in that segment of the local waste market.\(^10\) Distinguishing its earlier decision in C & A Carbone, Inc. v. Town of Clarkstown,\(^11\) the Court in United Haulers reasoned that rules that require local citizens to use locally provided government services—as opposed to services provided by local private firms—do not involve the sort of "protectionism" that triggers strict dormant Commerce Clause review.\(^12\) At the least, the Court explained, states enjoy this form of state-self-promotion immunity when they favor themselves in carrying out such

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\(^9\) See infra notes 79–95 & accompanying text (discussing effect on tax cases); notes 98–102 & accompanying text (discussing effect on the Court's seminal ruling in the Baldwin case); notes 107–09 & accompanying text (discussing effect on downstream-restraint cases such as South-Central Timber); notes 96–99 & accompanying text (discussing effect on potential monopoly limitation on the market-participant doctrine); notes 127–30 & accompanying text (discussing distinction between traditional and nontraditional state activity in applying the market-participant exception); notes 132–38 & accompanying text (discussing effect on use of Pike balancing test in state-self-promotion cases).


\(^12\) United Haulers, 550 U.S. at 343. For discussion on United Haulers and its relation to the Court's earlier Carbone decision, see generally Brannon P. Denning, Reconstructing the Dormant Commerce Clause, 50 WM. & MARY L. REV. 417, 469–76 (2008); Kenneth L. Karst, From Carbone to United Haulers: The Advocates' Tales, 2007 SUP. CT. REV. 237; Kylie M. Dummett, Note, Carbone v. United Haulers: Local Environmental Regulation Gains Headway While the United States Supreme Court "Trashes" Judicial Precedence, 12 GREAT PLAINS NAT. RESOURCES J. 185 (2008).
“traditional government activities” as waste disposal.\(^1\) Simply put, the Court in United Haulers concluded that discrimination for dormant Commerce Clause purposes is not present when a state acts only to “benefit a clearly public facility, while treating all private companies exactly the same.”\(^1\)

In Part III-A of his opinion in Davis, Justice Souter relied on this principle to validate Kentucky’s tax break for income produced by in-state, but only in-state, public bonds.\(^1\) United Haulers controlled, in the view of a majority of the Court, because Kentucky had advantaged only itself when it established special tax rules for municipal bonds, while treating in identical fashion all other participants in the bond market.\(^1\) Indeed, the result in Davis “follow[ed] a fortiori” from United Haulers because—even more so than the operation of waste transfer stations—“the issuance of debt securities to pay for public projects is a quintessentially public function, with [a] venerable history . . . .”\(^1\) Justice Souter emphasized that “any notion of discrimination assumes a comparison of substantially similar entities.”\(^1\) He went on to declare that a state involved in raising revenue to support its own operations “does not have to treat itself as being ‘substantially similar’ to the other bond issuers in the market.”\(^1\)

\(^1\) United Haulers, 550 U.S. at 334.

\(^1\) Id. at 342.

\(^1\) Dep’t of Revenue v. Davis, 128 S. Ct. 1801, 1810–11 (2008).

\(^1\) Id. at 1811. The term “municipal bonds” is commonly—and loosely—used to describe all bonds issued by a state and any subunit of a state, including but not limited to municipalities. In this Essay, the terms “municipal bonds” and “public bonds” are used interchangeably.

\(^1\) Id. at 1810–11 (noting that, for this reason, the “apprehension in United Haulers about ‘unprecedented . . . interference’ with a traditional government function is just as warranted here”).

\(^1\) Id. at 1811 (quoting United Haulers, 550 U.S. at 342).

The Court's reasoning in Part III-A is not immune from criticism, but identifying shortcomings in that analysis goes beyond the purposes of this Essay. Instead, this Essay focuses on Part III-B, in which Justice Souter shifted attention away from a direct application of United Haulers to the construction of an alternative defense of the Kentucky tax exemption based on the market-participant doctrine. That alternative defense, as the ensuing analysis shows, is rife with difficulties.

II. DAVIS AND THE MARKET-PARTICIPANT DOCTRINE

In the first sentence of Part III-B, Justice Souter posited that "[t]his case, like United Haulers, may also be seen under the broader rubric of the market participation doctrine..." In support of this pronouncement, Justice Souter first asserted that the State had engaged in both market participation (by issuing bonds) and market regulation (by imposing a discriminatory tax). He then expressed concern that the challengers of the Kentucky exemption had erred in focusing solely on the regulatory features of Kentucky's behavior. According to Justice Souter, the Davises had ignored...
the critical fact that "regulation by taxation here goes hand in hand with market participation by selling bonds." More particularly, Justice Souter claimed that upholding the discriminatory tax because of its linkage to the State's marketing of bonds reflected a logical application of the Court's market-participant precedents, particularly Hughes v. Alexandria Scrap Corp. and White v. Massachusetts Council of Construction Employers, Inc. Indeed, in Justice Souter's view, "Alexandria Scrap[] and White can be followed only by rejecting the Davises' argument that Kentucky's regulatory activity should be viewed in isolation as Commerce Clause discrimination."

Justice Souter made three questionable moves in constructing the market-participant analysis outlined in the preceding paragraph. First, he put forward the surprising suggestion that United Haulers is properly viewed as a market-participant case. Second, he greatly overstated the relevance of the Court's market-participant precedents to the issue presented in Davis. Third, he set forth an analysis that opens the door to both confusion and error in future applications of the dormant Commerce Clause. These risks arise in part because Justice Souter propounded a new and perplexing analytical rhetoric for this field of law. Worse yet, adoption of his approach would threaten long-recognized principles that lie at the heart of the Court's dormant Commerce Clause jurisprudence.

A. Part III-B and the Miscasting of United Haulers

Justice Souter's first error lay in his surprising suggestion that United Haulers was—or at least should be viewed as—a market-participant case. Indeed, Justice Souter opened his analysis in Part III-B by proclaiming that "United Haulers[] may . . . be seen under the . . . rubric of the market participation doctrine."

This statement was curious in part because Justice Souter elsewhere acknowledged that the Court in United Haulers had resolved the case "independently of the market participation precedents" and had not placed that ruling "under the market participant umbrella." These latter descriptions of the Court's action in United Haulers were on

25 Id. at 1812.
28 Davis, 128 S. Ct. at 1814.
29 Id. at 1812.
30 Id. at 1813.
31 Id. at 1811.
32 Id. at 1809.
33 Id. at 1813.
target because the controlling opinion in that case made no mention of the market-participant rule, did not rely on the Court's market-participant precedents, employed a balancing analysis that does not operate in market-participant cases,\(^{34}\) and never questioned the government defendants’ concession that the market-participant doctrine had no application to the matter at hand.\(^{35}\)

Most importantly, the *United Haulers* majority acted in this manner because the case did involve state market regulation of the purest sort. Under the program challenged in *United Haulers*, the relevant localities had (1) entered the market for the provision of waste disposal services by opening a waste transfer facility and (2) also directly compelled every person within those localities to buy waste services solely from that facility under the threat of criminal fines and imprisonment.\(^{36}\) While the first activity involved market participation, the second activity involved a classic form of market regulation because it coerced behavior by purely private economic actors; indeed, the law at issue in *United Haulers* involved precisely the same form of market regulation that the Court had invalidated as impermissibly discriminatory in its earlier ruling in *Carbone*.\(^{37}\)

Confronted with this complication, Justice Souter advanced the idea in *Davis* that even the starkest form of market regulation will escape the grip of the dormant Commerce Clause when it “goes hand in hand” with a permissible form of state market participation.\(^{38}\) Contrary to Justice Souter’s suggestion, however, the Court’s prior cases lent no support to this view. In the seminal South Dakota cement plant case, *Reeves, Inc. v. Stake*,\(^{39}\) for example, the Court spoke of the market-participant doctrine as vindicating

\(^{34}\) See infra notes 132–39 & accompanying text (discussing *United Haulers* and the *Pike* balancing test).

\(^{35}\) See United Haulers Ass’n v. Oneida-Herkimer Solid Waste Mgmt. Auth., 550 U.S. 330, 360 (2007) (Alito, J., dissenting) (noting the Governments’ concession that the market-participant doctrine was inapplicable to that case).

\(^{36}\) Id. at 353–57.


\(^{38}\) *Davis*, 128 S. Ct. at 1812.

\(^{39}\) 447 U.S. 429 (1980).
"the ability of the States themselves to operate freely in the free market." South Dakota did just that when it chose to favor in-state purchasers, to the exclusion of would-be out-of-state purchasers, in selling cement produced by a state-owned facility. The Government in United Haulers, in contrast, was not merely "operat[ing] freely in the free market" because it went beyond simply identifying the subset of persons with whom it was willing to deal. Instead, it stripped otherwise autonomous private traders of their ability to operate "freely in the free market" by coercing them to deal only with it. Indeed, in making this move, the Government not only regulated local waste generators and handlers; it also regulated potential out-of-state competitors by effectively stripping them of their preexisting liberty to sell their services to private waste generators located within the jurisdiction.

Notwithstanding the inapplicability of the market-participant exception in United Haulers, the majority in that case concluded that the State's coercive behavior should escape the sort of elevated scrutiny typically applied to laws that discriminate against out-of-state commercial concerns. The Court, however, made it clear that this ruling stemmed solely from a proper understanding of which state regulations involve, and which do not involve, problematic "discrimination." In other words, the Court in United Haulers based the result in that case on a distinction drawn between discrimination and nondiscrimination, rather than a distinction drawn between market regulation and market participation. For this reason, Justice Souter's recasting of United Haulers as a market-participant case entailed a radically revisionist treatment of that decision. It also invited a sweeping reappraisal of which forms of state conduct can qualify for protection under the market-participant doctrine.

B. Part III-B and a Misreading of the Market-Participant Precedents

A second flaw in Justice Souter's market-participant analysis involved his treatment of the Court's market-participant precedents. In particular,
Justice Souter indicated that a failure to view Kentucky’s tax exemption and bond sales as a unitary whole—and thus protected by the market-participant exception—"would require overruling" the Court’s prior decisions in *White* and *Alexandria Scrap.* As to *White*, Justice Souter explained:

*White*... scrutinized a government acting in dual roles. The mayor of Boston promulgated an executive order that bore the hallmarks of regulation: it applied to every construction project funded wholly or partially by city funds (or funds administered by the city), and it imposed general restrictions on the hiring practices of private contractors, mandating that 50% of their work forces be bona fide Boston residents and setting thresholds for minorities (25%) and women (10%) as well.... After speaking of "[the basic distinction...between States as market participants and States as market regulators,...*White* did not dissect Boston’s conduct and ignore the former. Instead, the Court treated the regulatory activity in favor of local and minority labor as terms or conditions of the government’s efforts in its market role, which was treated as dispositive.

There are many difficulties with this effort to portray *White* as relevant to—if not dispositive of—the issue presented in *Davis.* The essential difficulty, however, is plain to see. In *White*, the city imposed neither a

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47 Dep’t of Revenue v. Davis, 128 S. Ct. 1801, 1813 (2008). Even more exotic was Justice Souter’s observation that “if the Davises had their way,... the market participation doctrine would describe a null set (or maybe a set of one, see Reeves ...).” *Id.* As we soon shall see, this statement is erroneous because non-application of the market-participant doctrine in *Davis* is easily squared with its earlier application of that doctrine in *White* and *Alexandria Scrap.* But, even if a refusal to apply the doctrine in *Davis* would require overruling both *White* and *Alexandria Scrap*, the market-participant doctrine would still operate in many cases, including cases far different from Reeves. See, e.g., Am. Yearbook Co. v. Askew, 339 F. Supp. 719 (M.D. Fla. 1972), aff’d, 409 U.S. 904 (1972) (validating the State’s discriminatory actions as a purchaser by way of a “buy local” law).


49 One curiosity involved Justice Souter’s highlighting of Boston’s treatment of minorities and women because that aspect of the city’s action was in no way at issue in the *White* case. See *id.* Another curiosity involved Justice Souter’s suggestion that embodiment of the city’s contracting requirements in an executive order with continuing effect warranted characterizing those requirements as “regulatory” in nature. *Id.* It is not unusual, after all, for private firms to establish ongoing policies (which may well be formally promulgated by the firm’s chief executive officer) that define those persons with whom the firm will contract. Banks, for example, often establish ongoing eligibility requirements with respect to what prospective borrowers do and do not qualify for loans. The establishment of such ongoing eligibility requirements by private firms, however, would never be thought of as a form of “regulation.”
forced-use rule (as in United Haulers) nor a discriminatory tax burden (as in Davis). Rather, Boston (just like South Dakota in Reeves) simply declared that it would engage in market transactions only with trading partners that met certain government-specified conditions—most significantly, the condition that hired contractors would ensure that 50% of all project workers were city residents.\textsuperscript{50} To be sure, the Court in White inquired whether the city's imposition of this condition qualified as market regulation because of its effects on contracts entered into among privately-owned general contractors, privately-owned subcontractors, and individual private employees.\textsuperscript{51} In the end, however, the Court concluded that the program in White did not involve market regulation because all project workers were, “in a substantial if informal sense, ‘working for the city,’” even if they were technically on the payrolls of private firms.\textsuperscript{52} And because the employment of city workers by the city itself involved market participation—and not market regulation—the Boston hiring preference presented no problem under the dormant Commerce Clause.\textsuperscript{53}

Put another way, the Court perceived the key question in White to be whether “the city is regulating the market rather than participating in it,” or (to put the same point another way) “participating in the market, rather than acting as a market regulator.”\textsuperscript{54} It thus made no sense for Justice Souter to suggest in Part III-B of Davis that the Court in White had “treated the regulatory activity in favor of local . . . labor” as permissible because it was “joined . . . intimately” with Boston’s participation in the market.\textsuperscript{55} The whole point of the Court’s analysis in White was that market participation and market regulation are mutually exclusive categories, so that the market-participant exception by definition becomes inapplicable once it is determined that market regulation is present. Any doubt in this regard was removed by the Court’s follow-up decision in United Building & Construction Trades Council v. Mayor of Camden,\textsuperscript{56} in which the Court declared that the controlling consideration in White was that Boston had acted “solely as a market participant.”\textsuperscript{57}

\textsuperscript{50} White, 460 U.S. at 205 n.1.
\textsuperscript{51} See id. at 211 n.7 (addressing Justice Blackmun’s argument in dissent that the case involved state action that “regulates employment contracts”).
\textsuperscript{52} Id.
\textsuperscript{53} Id.
\textsuperscript{54} Id. at 210 (emphasis added); id. at 207 (emphasis added).
\textsuperscript{55} Dep't of Revenue v. Davis, 128 S. Ct. 1801, 1813–14 (2008).
\textsuperscript{57} Id. at 220 (emphasis added). Indeed, the Court went on to justify the market-participant rule by reasoning that “[t]he Commerce Clause acts as an implied restraint upon state regulatory powers,” so that “[w]hen the State acts solely as a market
Another reason for concluding that \textit{White} provided no meaningful guidance as to the proper analysis in \textit{Davis} is that \textit{White} and \textit{Davis} involved fundamentally different dormant Commerce Clause issues. \textit{White} presented the question of whether Boston had reached through its immediate contractual relationship with general contractors to impose an impermissible "downstream regulation" regarding its general contractors’ and subcontractors’ relationships with other private parties.\textsuperscript{58} \textit{Davis}, however, did not involve anything resembling a downstream regulation because Kentucky simply afforded a tax break to people who held Kentucky bonds, irrespective of the market relationships those bondholders had with any private party.\textsuperscript{59} In short, \textit{White} was a case about the downstream-regulation limit on the market-participant exception to the dormant Commerce Clause rule. \textit{Davis}, in contrast, was a case about whether a particular form of discriminatory taxation should be treated like other forms of discriminatory taxation for purposes of Commerce Clause restraints. As Part II-A of the Souter opinion made clear, the discriminatory-tax issue lay in the shadow of \textit{United Haulers}.\textsuperscript{60} It did not, however, bear any close kinship to the issue presented in \textit{White}.

Justice Souter also missed the mark when he invoked \textit{Alexandria Scrap} as a proper progenitor of his newfangled market-regulation/market-participation linkage-based approach. In \textit{Alexandria Scrap}, the Court upheld a Maryland program that had two key features. First, the State paid cash bounties for the processing of junk cars so as to remove eyesores from the Maryland landscape.\textsuperscript{61} Second, the State created an advantage for local firms in accessing these state-made payments by imposing stricter documentation requirements on out-of-state junk car handlers than on their in-state

\begin{quote}
participant, no conflict between state \textit{regulation} and federal regulatory authority can arise.” \textit{Id.} But of course, if a state is acting as both a market participant and a market regulator, then a conflict between state regulation and federal regulatory authority can arise. \textit{See also id.} at 219 (recapitulating the “distinction between the city acting as a market participant and the city acting as a market regulator”).
\end{quote}

\textsuperscript{58} S.-Cent. Timber Dev., Inc. v. Wunnucke, 467 U.S. 82, 99 (1984). Downstream restraints, according to one account, are restraints placed by one entity in the production to distribution chain with regard to other entities that "perform functions closer to end use." Anson & Schenkan, \textit{supra} note 6, at 77 n.25; \textit{see also} Coenen, \textit{Untangling the Market-Participant Exemption}, \textit{supra} note 6, at 465–73 (exploring downstream restraints in \textit{White} and other cases).

\textsuperscript{59} \textit{Davis}, 128 S. Ct. at 1805. The downstream restraint doctrine might apply if, for example, Kentucky afforded tax breaks only to persons who purchased state bonds through an in-state broker.

\textsuperscript{60} \textit{See supra} notes 15–20 & accompanying text.

counterparts. In Davis, Justice Souter claimed that Alexandria Scrap, like White, supported a view of the market-participant doctrine that authorizes discriminatory regulation if that regulation is part and parcel of the state’s market participation. As he put the point:

[In Alexandria Scrap, Maryland employed the tools of regulation to invigorate its participation in the market for automobile hulks. The specific controversy there was over documentation requirements included in a "comprehensive statute designed to speed up the scrap cycle." Superficially, the scheme was regulatory in nature; but the Court’s decision was premised on its view that, in practical terms, Maryland had not only regulated but had also "entered into the market itself to bid up [the] price" of automobile hulks.]

As with his description of White, Justice Souter’s description of Alexandria Scrap gives insufficient attention to the actual words and real reasoning of the case. To begin with, the “comprehensive” nature of Maryland’s statutory scheme was beside the point in Alexandria Scrap. In fact, the Court focused its attention on whether the discriminatory documentation requirement, standing alone, violated the dormant Commerce Clause, so that the “comprehensive” treatment of junk cars did not bear on the Court’s analysis at all. Of even greater significance, the Court in Alexandria Scrap in no way suggested that “Maryland had not only regulated but had also ‘entered into the market itself . . .’” Rather, the Court was emphatic in declaring that “Maryland has not sought . . . to regulate the conditions under which [the flow of junk cars] may occur. Instead, it has entered into the market itself to bid up their price.” Thus, in Alexandria Scrap—just as in White—the linchpin of the Court’s analysis was that the State had acted only as a market-participant, and not as a market regulator, by

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62 Id. at 800–01.
63 Davis, 128 S. Ct. at 1814.
64 Id. at 1813 (citations omitted).
65 Id.
66 See Alexandria Scrap, 426 U.S. at 803–05 (discussing whether the statutory amendment that added the documentation requirement was “the kind of action with which the Commerce Clause [was] concerned”).
67 Davis, 128 S. Ct. at 1813 (emphasis added) (quoting Alexandria Scrap, 426 U.S. at 806).
68 See Alexandria Scrap, 426 U.S. at 806 (emphasis added). In the same vein, the Court added that Maryland had not “interfered with the natural functioning of the interstate market . . . through burdensome regulation.” Id.
spending its own money in a way that favored in-state traders. There was no suggestion that the Court viewed Maryland's choice of favored trading partners as a form of regulation that escaped constitutional extermination because of its nexus to separately identified market participation by way of the payment of cash bounties. Rather, the Court—with a solid grounding in conventional understandings—viewed the overall behavior of Maryland in both making payments and stipulating the conditions on which those payments would be made as companion elements of market participation.

In fairness to Justice Souter, it is not unreasonable to describe White and Alexandria Scrap as cases that involve state regulation. Many economists, for example, view government subsidy programs, including the one at issue in Alexandria Scrap, as "regulatory" in nature because in purpose and effect they shape private marketplace behavior. In like fashion, the State's efforts to induce the hiring of state residents by private firms in White could be seen as the very "essence of regulation." In fact, Justice Blackmun—in a passage written in the White case and quoted with enthusiasm in Part III-B of the Davis opinion—described the Boston program in exactly those terms. The important point, however, is that Justice Blackmun wrote those words in a dissenting opinion. The majority in White, like the majority in Alexandria Scrap, took a foundationally different approach to the case. In the view of both of those majorities, the State had not engaged in regulatory action, but "solely" in marketplace behavior. Thus, it is inaccurate in the extreme to say that the market-participant doctrine applied in either instance because the

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69 See also Reeves, Inc. v. Stake, 447 U.S. 429, 436 (1980) (explaining that the Court in Alexandria Scrap "characterized Maryland as a market participant, rather than as a market regulator").

70 See supra note 49 & accompanying text (discussing common business practice of private firms to establish eligibility requirements as they operate in the market).

71 See, e.g., Dan T. Coenen, Business Subsidies and the Dormant Commerce Clause, 107 Yale L.J. 965, 1014 (1998) [hereinafter Coenen, Business Subsidies] (noting that "the very purpose of subsidization is to regulate the flow of business by promoting in-state production"); Michael J. Pollele, A Critique of the Market Participation Exception, 15 Whittier L. Rev. 647, 658 (1994) ("It is no more logical to say that a state has entered the market as a real buyer or seller when it uses subsidies than when it uses its normal regulatory powers to manipulate an existing market."); see also Gergen, supra note 6, at 1144 ("If downstream restraints are different from subsidies in any real respect, it is because their costs are hidden.").


73 Id. The Justice stated: "The power to dictate to another those with whom he may deal is viewed with suspicion and closely limited in the context of purely private economic relations. When exercised by government, such a power is the essence of regulation." Id.

74 See supra note 57 & accompanying text (quoting United Building).
Court had concluded that the Government’s “commercial activities . . . and . . . regulatory efforts complemented each other.”

C. Part III-B and Dormant Commerce Clause Dangers

The foregoing discussion reveals how Justice Souter steered off course in dealing with key Commerce Clause precedents in Part II-B of his Davis opinion. It may be, however, that his analytical miscues concerned only technical matters, so that the preceding discussion embodies only doctrinal hair-splitting of no practical importance. Do the flaws of Part III-B pose genuine risks of harm to dormant Commerce Clause law? The answer to that question is an emphatic “yes” because Justice Souter’s market-participant reasoning poses three significant dangers. First, that analysis involves a deeply problematic recrafting of the basic rhetoric of market-participant analysis. Second, there exists a serious risk that this new rhetoric will reshape dormant Commerce Clause decision-making in undesirable ways. Third, an embrace of Justice Souter’s methodology would at least inject new and far-reaching doctrinal uncertainties into this field of law.

1. Market-Participant Rhetoric

Prior analysis reveals two basic points about Part III-B. First, Justice Souter stood ready to uphold Kentucky’s discriminatory taxing scheme under the market-participant rubric, even after characterizing the challenged State action as involving market regulation. Second, Justice Souter saw no problem in making this move even though the Court had previously applied the exception only after concluding that the relevant state activity did not involve market regulation, but only market participation.

The conclusion properly distilled from these two points is that Part III-B in effect advances a dramatically new style of rhetoric for evaluating the application of the market-participant doctrine. Under this new rhetoric, discriminatory behavior can qualify for market-participant immunity, even when viewed as a form of market regulation. To be sure, in the view of Justice Souter, a discriminatory regulation can claim that immunity only if it is linked in a meaningful way to market participation. Also, to be sure, Justice Souter would be quick to insist that this meaningful-linkage requirement will counteract overuse of the market-participant exception—

75 Dep’t of Revenue v. Davis, 128 S. Ct. 1801, 1813 (2008).
76 Id. at 1812–13.
77 See supra notes 49–57 & accompanying text (describing Court’s perception of absence of market regulation in White); notes 67–70 & accompanying text (describing Court’s perception of the absence of market regulation in Alexandria Scrap).
and resulting dilution of the dormant Commerce Clause principle—under the rhetoric he proposes.

Even so, words matter. And the shift in rhetoric that lies at the heart of Justice Souter's Part III-B analysis would exert a gravitational pull in the direction of expanding the market-participant exception if it were embraced by the Court. Simply stated, a newly formulated rule that sometimes permits market regulation to qualify for a market-participant-based immunity must reach further than the existing rule, which categorically forecloses the application of that immunity to any form of market regulation. The rhetoric of rules always shapes their operation. And Justice Souter's new rhetoric, in its very nature, invites an expansion of the market-participant exception and a reciprocal contraction of the otherwise operative scope of the dormant Commerce Clause rule.

2. Market-Participant Mischief

Just how would an endorsement of Justice Souter's new market-participant rhetoric affect dormant Commerce Clause decision-making? The opaqueness of Justice Souter's Part III-B analysis precludes any certain answer to this question.78 There can be no doubt, however, that that analysis threatens to alter the dormant Commerce Clause landscape in important ways. In particular, that analysis could well (a) lead to troubling shifts in the Court's traditional tax-discrimination jurisprudence, (b) alter results in market regulation cases as well, and (c) greatly expand the practical operation of the state-self-promotion principle first recognized in United Haulers and again applied in Part III-A of Davis.

a. Dormant Commerce Clause Tax Law

In Part III-B of his Davis opinion, Justice Souter became the first member of the Court ever to suggest that some forms of discriminatory tax relief could find shelter under the "rubric of the market participation doctrine."79 This analytical move may provide a new opening for those who

78 See infra notes 142–43 & accompanying text (touching on the range of questions raised by Part III-B).

have advocated dramatic revisions of dormant Commerce Clause tax law. Why? In part, because one leading critic, Professor Edward A. Zelinsky, has vigorously argued that local-industry-supporting tax exemptions, credits, and deductions (which historically have been invalidated) should be treated no differently than local-industry-supporting affirmative monetary subsidies (which historically have been upheld, including in *Alexandria Scrap*).\(^8\) The centerpiece of Professor Zelinsky’s analysis is that the economic effects of state monetary payments and so-called tax expenditures are functionally identical, so that there is no good reason to attach to them different legal effects.\(^8\) In particular, building on Justice Souter’s analysis in Part III-B, Professor Zelinsky might say something like this:

> Taxation may have a regulatory dimension, but tax relief is a subsidy, and thus a form of market participation. Justice Souter has said that the market-participant exception can apply when state market participation is linked to state market regulation. And under that principle, subsidy-like tax relief—which in practical effect involves just as much market participation as the

\(^8\) See Edward A. Zelinsky, *Are Tax “Benefits” Constitutionally Equivalent to Direct Expenditures?*, 112 HARV. L. REV. 379, 391 (1998); Edward A. Zelinsky, *Restoring Politics to the Commerce Clause: The Case for Abandoning the Dormant Commerce Clause Prohibition on Discriminatory Taxation*, 29 OHIO N.U. L. REV. 29, 30, 34 (2002) (asserting that because “tax credits may be identical to direct outlay subsidies” and because this fact adds great confusion and inconsistency to the dormant Commerce Clause, the Court needs to abandon the anti-discrimination principle in the context of state taxes); Edward A. Zelinsky, *Ohio Incentives Decision Revisited*, 108 TAX NOTES 1569, 1571 (Sept. 26, 2005) (seeking to rebut argument that subsidies are more tolerable because of the increased “legislative scrutiny” of them). *But see* Brannon P. Denning, *Is the Dormant Commerce Clause Expendable? A Response to Edward Zelinsky*, 77 MISS. L.J. 623, 636 (2007) (urging that “the differential treatment by the Court of taxes and subsidies [is not] inconsistent or incoherent”).

\(^8\) See Zelinsky, *Restoring Politics*, supra note 80, at 51; *see also* Chem. Waste Mgmt., Inc. v. Hunt, 504 U.S. 334, 351 (1992) (Rehnquist, C.J., dissenting) (viewing subsidies as equivalent to tax breaks); Fireside Nissan, Inc. v. Fanning, 30 F.3d 206, 216 (1st Cir. 1994) (detecting no practical difference between a tax break afforded to certain industries and “a ‘direct’ cash subsidy to those same industries”); Carlson v. State, 798 P.2d 1269, 1278 (Alaska 1990) (positing that paying out cash subsidies to in-staters seems “economically indistinguishable from imposing a facially equal tax on residents and nonresidents while making it effectively unequal by a system of credits and exemptions”); COENEN, CONSTITUTIONAL LAW, supra note 2, at 297 (noting that “as an economic matter” direct subsidies and tax exemptions and expenditures are “functionally indistinguishable”); Stanley S. Surrey, *Tax Incentives as a Device for Implementing Government Policy: A Comparison with Direct Government Expenditures*, 83 HARV. L. REV. 705, 717 (1970) (“A dollar is a dollar—both for the person who receives it and the government that pays it, whether the dollar comes with a tax credit label or a direct expenditure label.”).
subsidy program involved in Alexandria Scrap—should fall outside the dormant Commerce Clause rule.

The difficulty with this subsidy-is-like-tax-break approach is that it threatens to create a dormant Commerce Clause “exception” large enough to drive a truck through. In Bacchus Imports, Ltd. v. Dias, for example, the Court invalidated an exemption from Hawaii’s wholesale liquor tax that was claimable only by vendors of locally manufactured fruit wine. Under the reasoning laid out above, however, the Court should have detected no constitutional problem because the tax break generated exactly the same financial consequences for the favored sellers that a legally unobjectionable affirmative monetary subsidy for those same sellers would have produced. Indeed, even protective tariffs may be seen as embodying a subsidy-like form of tax expenditure. After all, when a state taxes the in-state transfer or movement of only out-of-state goods, it might be viewed as taxing all goods, both in-state and out-of-state, while providing a subsidy-like tax exemption for in-state products. If the Court were to uphold tariffs on this ground, however, it would stand the dormant Commerce Clause on its head because tariffs represent the “paradigmatic example” of laws that abridge the constitutional principle of economic union.

Without explicitly saying so, the Court in the past has dealt with this tension by drawing an unbreachable line between tax breaks (which have been automatically characterized as regulatory for dormant Commerce Clause purposes) and affirmative payments (which have been automatically characterized as non-regulatory and thus properly assimilated to market participation). Justice Souter’s approach threatens to erase this line—or at least to blur it greatly—even though, as I have explained at length elsewhere,

82 See Denning, supra note 80, at 626 (suggesting that, if taken to its logical end, Zelinsky’s “critique and his solution . . . means the end” of the dormant Commerce Clause doctrine itself).


84 Id. at 275–76. The exemption also extended to sellers of okolehao, a brandy distilled from the root of an indigenous Hawaiian shrub. Id. at 265.


86 See W. Lynn Creamery, 512 U.S. at 194, 201 (invalidating State subsidy that operated as a de facto tax rebate or refund, even while seeming to recognize that freestanding subsidies are unobjectionable); New Energy Co. v. Limbach, 486 U.S. 269, 277 (1988) (invalidating sales tax credit provided to in-state producers of ethanol while distinguishing as permissible a direct subsidy for in-state producers); see also Williams, supra note 6, at 479 (“To date, the Court has yet to uphold a discriminatory tax exemption or credit.”).
that line comports with powerful historical and political-process considerations. To be sure, Justice Souter's opinion purported to leave undisturbed the Court's past tax-discrimination cases, which he distinguished from *Davis* on the ground that the tax breaks previously struck down by the Court favored private firms instead of the Government itself. But one can only wonder whether that distinction can endure, and how it will operate in practice, in light of Justice Souter's ambitious recrafting of the market-participant doctrine.

The cause for wonder is heightened by Justice Souter's treatment of *Camps Newfound/Owatonna, Inc. v. Town of Harrison* in footnote 17 of his opinion. In that case, the Court struck down a property tax break afforded by Maine to non-profit entities that directed most or all of their services to State residents. According to Justice Souter, this form of discriminatory tax relief differed from the tax break at issue in *Davis* for the following reason:

In *Camps Newfound*, the tax exemption was unaccompanied by any market activity by the State; it favored only private charitable institutions. We correctly rejected the argument that a tax exemption without more constitutes market participation. But we had no occasion to consider the scheme here, where a State employs a tax exemption to facilitate its own participation in the market.

This passage raises a host of questions about when a discriminatory state tax break operates "without more" to favor "only" private entities and about whether the proper touchstone for review in hybrid market-participation/market-regulation cases is a strict "without more" test. Would the Maine tax break be permissible if, for example, the State itself had sold supplies or leased real estate to the resident-favoring entities involved in the *Camps Newfound/Owatonna* case? What if the State had contracted to pay fees on behalf of some users of the non-profit entities' services, and the tax relief helped to ensure that those services would remain available? What if the State both granted tax breaks to and affirmatively subsidized resident-

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87 See, e.g., Coenen, *Business Subsidies, supra* note 71, at 969 ("[F]our considerations—rooted in form, fairness, federalism, and political processes—render subsidies less threatening to Commerce Clause values than economically comparable tax deductions, credits, and exemptions."); see also GEOFFERY R. STONE ET AL., CONSTITUTIONAL LAW 300 (2d ed. 1991) (noting that outright subsidies have greater "political visibility" than tax expenditures or exemptions).


90 *Davis*, 128 S. Ct. at 1814 n.17.

91 *Camps Newfound/Owatonna*, 520 U.S. at 564.

92 *Davis*, 128 S. Ct. at 1814 n.17.
preferring nonprofits? In any such case, it could not be said that “a tax exemption without more” was at work or that “the tax exemption was unaccompanied by any market activity by the State.” It follows that these forms of linkage between state taxation and state market participation might trigger application of the market-participant exception under the view of Justice Souter. At the very least, Part III-B of his opinion does not foreclose such an outcome. Any such result, however, would plow new doctrinal ground by departing from the “cardinal rule” that “[n]o state, consistent with the Commerce Clause, may impose a tax which discriminates against interstate commerce... by providing a direct commercial advantage to local business.”

b. Dormant Commerce Clause Regulatory Law

The dormant Commerce Clause operates in two separate hemispheres—one occupied by state and local tax laws and one occupied by non-tax regulatory measures. As we have just seen, Part III-B could open the door to a significant reformulation of how the dormant Commerce Clause operates in tax cases. No less important, Justice Souter’s market-participant analysis could disrupt settled jurisprudence in the state-regulation arena.

In Baldwin v. G.A.F. Seelig, Inc., for example, the Court invalidated a New York law that established minimum wholesale prices for all locally sold milk, as applied to the products of out-of-state dairy farmers. The Court’s concern was that this regulatory intervention had effects that paralleled those of protective tariffs. The difficulty was that the measure, by equalizing prices, deprived out-of-state producers of efficiency-generated opportunities to undersell in-state competitors. In reflecting on Baldwin in Part III-B, Justice Souter noted that “[s]tates that regulated the price of milk did not keep herds of cows or compete against dairy producers for the dollars of milk...
Did the plurality mean to suggest that Baldwin would have come out differently if local governments had owned herds? Any number of herds? A substantial number of herds? Even if the tariff-like effects of the challenged pricing scheme would have been the same as in Baldwin with respect to shielding local private herd owners from out-of-state competition? It is noteworthy in this regard that Justice Souter stressed that “[t]he Commonwealth enacted its tax code with an eye toward making some or all of its bonds more marketable.” If a state in similar fashion passes a minimum price rule for the specific purpose of making its own milk “more marketable,” will its program withstand a dormant Commerce Clause challenge even though it simultaneously protects local private milk producers from competitive challenges posed by out-of-state farmers?

An apologist for Justice Souter might criticize the foregoing analysis as unduly alarmist. The some-herds-are-owned-by-the-state hypothetical, so the argument goes, is easily distinguished from Davis on the ground that a minimum-price rule would give a leg up not only to the state’s own commerce, but to private in-state commercial actors as well. This observation, however, simply ignores the all-important question. That question concerns how far Part III-B of the Souter opinion goes beyond Part III-A in safeguarding hybridized state commercial and regulatory activity from dormant Commerce Clause attack. In the end, an endorsement of the protean linkage principle put forward in Part III-B creates an issue in every case as to how much linkage justifies how much discrimination whenever state regulation and state commercial activities are conjoined.

Another illustration of this difficulty comes from South-Central Timber Development, Inc. v. Wunnicke. There the Court confronted the question whether Alaska could condition sales of its timber on the buyer’s agreement to process that timber within the State. In invalidating Alaska’s action, a four-Justice plurality deemed the market-participant exception inapplicable on the ground that the State was working through a transaction made in one market (that is, the market for timber sales) to effectively “regulate” activity in another market (that is, the market for timber processing) by way of a

\[^{101} \text{Dep’t of Revenue v. Davis, 128 S. Ct. 1801, 1812 (2008) (internal citations omitted).} \]

\[^{102} \text{Id. at 1814.} \]

\[^{103} \text{Indeed, Justice Souter might well level such a criticism himself. See id. at 1819 (describing as “alarmism” dissenters’ expression of concern that validating Kentucky’s differential tax scheme would undermine the purposes of the Commerce Clause).} \]

\[^{104} \text{Id. at 1812.} \]

\[^{105} \text{467 U.S. 82 (1984).} \]

\[^{106} \text{Id. at 84.} \]
contractual condition. In Justice Souter’s view, however, affixation of the “regulation” label to this set of facts would not foreclose application of the market-participant doctrine. Indeed, he might well say that an overruling of South-Central Timber should follow a fortiori from United Haulers. Part III-B indicates, after all, that Justice Souter stood ready to validate under the market-participant doctrine even the fully coercive state regulation at issue in United Haulers due to its linkage to state sales of waste services. Thus, it is hard to see why he would not even more readily validate the non-coercive form of state regulation imposed by way of a mere contractual condition in a case like South-Central Timber. It bears emphasis that this line of reasoning would have effects that reach well beyond the overruling of South-Central Timber itself. It would require abandonment of any sort of “downstream restraint” limitation on the market-participant exception because every application of that limitation involves invalidation of a de facto regulation imposed by way of mere contractual condition.

Justice Souter’s approach would raise other questions as well. In a case of no small interest to California football fans, for example, a state court held that the market-participant exception did not shelter an exercise of the eminent domain power to keep the Oakland Raiders in Oakland. Would Justice Souter reject this result? Perhaps he would because there can be no doubt that the Government’s regulatory move in compelling a sale went “hand in hand” with its attempted marketplace act of buying the Raiders franchise.

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107 See id. at 97 (concluding that the “market regulator” label applied because “[t]he limit of the market-participant doctrine must be that it allows a State to impose burdens on commerce within the market in which it is a participant, but allows it to go no further”). See generally Polelle, supra note 71, at 675–76 (expressing concerns regarding downstream restraints because of restrictions placed on otherwise free trade in the free market); Williams, supra note 6, at 510–17 (broadly exploring “downstream restraint” concept while noting that “the constitutionality of downstream restraints is a complex question” not susceptible to “categorical answers”).

108 See supra note 38 & accompanying text.

109 See supra note 31 & accompanying text.

110 See City of Oakland v. Oakland Raiders, 220 Cal. Rptr. 153 (Cal. Ct. App. 1985). The trial court had found that the City of Oakland’s attempt to force a sale of the Oakland Raiders franchise had violated the dormant Commerce Clause. See id. at 154. As a defense, the City of Oakland argued on appeal that their purchase of the Oakland Raiders franchise fell within the market-participant exception. The California Court of Appeal found that the market-participant exception did not apply because the city’s action did not involve a voluntary transaction, but instead a sale coerced by way of the power of eminent domain. Id. at 156.

111 Dep’t of Revenue v. Davis, 128 S. Ct. 1801, 1812 (2008). An intriguing question is whether, apart from the market-participant exception, the state-self-promotion principle of United Haulers would shelter Oakland’s action, despite the blockade it put on the
In another line of cases, lower courts have suggested that there exists a monopoly exception to the market-participant doctrine. On this view, for example, Reeves might well come out differently if the would-be Wyoming cement buyer could show that there existed no market substitutes for South Dakota's state-made product or opportunity to create market substitutes due franchise's interstate sale. United Haulers may control because it shares a key feature with the Oakland Raiders case: in both settings, the municipality forced local traders to deal with it, thus thwarting the possibility of engaging in commerce across state lines. See supra notes 36–37 & accompanying text. One possible distinction is that condemnation of a football team does not, like a garbage regulation, involve a "traditional government activity." See supra note 13 & accompanying text (quoting United Haulers Ass'n v. Oneida-Herkimer Solid Waste Mgmt. Auth., 550 U.S. 330, 334 (2007)). There is, however, no "traditional functions" limit on the operation of the market-participant doctrine. See infra notes 125–28 & accompanying text. In short, under Justice Souter's approach, the regulation at issue in Oakland Raiders might well escape constitutional invalidation under that doctrine even if it would not be carried to safety by United Haulers.

See, e.g., Shell Oil Co. v. City of Santa Monica, 830 F.2d 1052, 1057 (9th Cir. 1987) (reiterating monopoly exception to market-participant exemption while declining to apply that exception to an incomplete monopoly); W. Oil & Gas Ass'n v. Cory, 726 F.2d 1340, 1343 (9th Cir. 1984), aff'd per curiam by an equally divided Court, 471 U.S. 81 (1985) (deeming market-participant exception inapplicable to the State as lessor, where "practical considerations" rendered lessees unable to “shop around” so that the State “has complete monopoly over the sites used by the oil companies” and “companies have no choice”). But see Four T’s v. Little Rock Mun. Airport Comm’n, 108 F.3d 909, 912–13 (8th Cir. 1997) (applying market-participant exception to state concession fees charged to rental car companies despite Commission’s monopoly on those spaces); Chance Mgmt. v. South Dakota, 97 F.3d 1107, 1114 (8th Cir. 1996) (upholding South Dakota law permitting licenses for video lottery to be granted only to corporations that have a majority of shares held by South Dakota residents by applying market-participant exception and rejecting argument that exception does not apply where the state has a monopoly); Lefrancois v. Rhode Island, 669 F. Supp. 1204, 1212 (D.R.I. 1987) (“While Rhode Island admittedly holds a monopoly in landfill services, I can see no distinction between this monopoly and the monopoly the State and its municipalities hold in education services, or in police and fire protection.”); cf. Barbara J. Redman, “The Market Regulator-Market Participant Distinction and Supreme Court Vigilance over Discriminatory State Programs: Does Economic Theory Justify the Judicial Effort?”, 25 AM. BUS. L.J. 585, 590 (1988) (“In an economic sense, a monopolist may be regarded as a participant in the market it monopolizes . . . .”). See generally Polelle, supra note 71, at 675–76 (“Several lower courts have concluded that, to the extent a governmental unit engages in monopolistic activities that would run afoul of the antitrust laws if committed by private businesses, the market participation doctrine should not apply.”); Williams, supra note 6, at 506–11 (advocating monopoly limitation to the market-participant exception).
to South Dakota's monopoly position.\textsuperscript{113} Would Justice Souter agree? On one view, his analysis should foreclose recognition of any monopoly exception to the market-participant doctrine. After all, Justice Souter stood ready to affix the market-participant label to the rule at issue in \textit{United Haulers}\textsuperscript{114} even though that rule vested a monopoly position in a state entity by mandating that all local citizens deal with it and no one else.\textsuperscript{115} It should follow, according to this reasoning, that there can be no monopoly exception to the market-participant rule because the essential holding of \textit{United Haulers} is to uphold a government monopoly in the marketplace.

On another view, Justice Souter's approach would not alter the operation of any monopoly exception in the sort of case typified by the no-other-cement-seller hypothetical variation on \textit{Reeves}. In that hypothetical, the difficulty is that the would-be out-of-state buyer is entirely shut out from securing a needed product because of the state seller's monopoly position.\textsuperscript{116} In \textit{United Haulers}, however, the Government's exertion of monopoly power did not affect out-of-state buyers at all.\textsuperscript{117} Instead, it imposed a burden on in-state buyers of waste services.\textsuperscript{118} Thus (so the argument goes) the two cases differ in terms of both economic structure and political-process realities.

In the end, it is not clear whether endorsement of Justice Souter's broadened conception of the market-participant doctrine would bring with it the demise of any now-existing, monopoly-based limit on that doctrine's operation. The key point, however, is crystal clear. Justice Souter's rhetoric would create a new and inviting opening for courts to abandon any such monopoly exception.\textsuperscript{119}

\textsuperscript{113} See Reeves, Inc. v. Stake, 447 U.S. 429, 444 (1980) (noting that South Dakota had not "restricted the ability of private firms or sister States to set up [cement] plants within its borders").

\textsuperscript{114} See supra note 31 & accompanying text.

\textsuperscript{115} A monopoly is typically defined as "[c]ontrol or advantage obtained by one supplier or producer over the commercial market within a given region." BLACK'S LAW DICTIONARY 1098 (9th ed. 2009). In \textit{United Haulers}, the flow-control ordinance forced citizens to have their trash sent off for handling to one government-owned facility. \textit{See United Haulers}, 550 U.S. at 330. The municipality, through the forced-use law, became the single supplier of waste processing in that region and therefore had a monopoly on waste processing.

\textsuperscript{116} Davis, 128 S. Ct. at 1813.

\textsuperscript{117} \textit{United Haulers}, 550 U.S. at 345.

\textsuperscript{118} Id.

\textsuperscript{119} Id. at 354 (Thomas, J., concurring).
c. Part III-B and the State-Self-Promotion Principle

The Court in *United Haulers* and in Part III-A of *Davis* established a new state-self-promotion limit on the Commerce Clause antidiscrimination principle.\(^{120}\) A major question presented by *Davis* concerns how a judicial embrace of the reasoning of Part III-B would interact with the state-self-promotion limit and affect its reach.\(^{121}\) The most probable answer to this question is that the market-participant exception as reformulated in Part III-B would essentially cover all the ground now occupied by the state-self-promotion principle and cover much additional ground as well. In particular, an endorsement of Justice Souter's Part III-B analysis would, as a practical matter, untether the *United Haulers* doctrine from any limit based on either (1) the nontraditional character of the government's action or (2) the continuing applicability of *Pike* balancing analysis. These refinements would have the real-world effect of significantly expanding the new dormant Commerce Clause immunity espoused in *United Haulers*.

i. Nontraditional State Activities

One complexity raised by Justice Souter's market-participant analysis concerns judicial treatment of forced-use rules—or any sort of regulatory or taxing measures—that are connected to state market participation of a nontraditional sort. Consider *Reeves*.\(^{122}\) What if, instead of simply preferring South Dakotans in selling cement from its state-owned plant, South Dakota had required all in-state purchasers to buy cement from it? Under the reasoning of *United Haulers* and Part III-A of *Davis* standing alone, it is far from clear that this forced-use rule would pass constitutional muster. When the Court upheld the waste transfer station forced-use rule in *United Haulers*, and again applied *United Haulers* in Part III-A of *Davis*, it went out of its way to emphasize that it was dealing with something that was "both typically and traditionally a function of local government."\(^{123}\) Because cement selling (to say the least) does not qualify as a traditional state undertaking, a legal challenge to any forced-use rule applied to the South Dakota plant would present a difficult question under the principle set forth in *United Haulers*.\(^{124}\)

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\(^{120}\) See *supra* notes 8, 12–13, 20 & accompanying text.

\(^{121}\) *Davis*, 128 S. Ct. at 1812.

\(^{122}\) See *supra* notes 39–41 & accompanying text.

\(^{123}\) *Davis*, 128 S. Ct. at 1810; see *United Haulers*, 550 U.S. at 344.

\(^{124}\) See Coenen, Where *United Haulers* Might Take Us, *supra* note 8, at 50–57 (considering this question and whether, in particular, the Court will ultimately embrace a traditional-activity/nontraditional-activity distinction in applying the state-self-promotion doctrine).
Adoption of Part III-B of Justice Souter's opinion, however, would transform this nettlesome question into a no-brainer. This is the case because (1) Justice Souter indicated in Part III-B that the market-participant doctrine, if properly applied, would shelter the forced-use rule at issue in United Haulers;\(^\text{125}\) and (2) under settled doctrine, the market-participant doctrine operates whether the state is engaged in a traditional public activity (such as selling waste disposal services) or a traditionally nonpublic activity (such as selling cement).\(^\text{126}\) To put the same point differently, the only way to distinguish the forced-use rule in United Haulers from the forced-use rule in our hypothetical state-cement-sale case would be to say that the cement case involves nontraditional, rather than traditional, government activity. If we follow Part III-B in recasting United Haulers as a market-participant case, however, that distinction could not hold because the market-participant exception applies equally to traditional and nontraditional undertakings. To be sure, one could argue that it should matter for market-participant purposes whether the state's marketplace activity is traditional in nature. But that is precisely the argument—made in powerful terms by Justice Powell\(^\text{127}\)—that a majority of the Court rejected in Reeves itself.\(^\text{128}\)

The bottom line is this: At least as of today, the rule of United Haulers goes no further than to shelter challenged regulatory measures when they are tied to traditional forms of state action in transferring valuable property or

\(^{125}\) See Davis, 128 S. Ct. at 1811 (indicating that the forced-use rule fell under the "broader rubric of the market-participant doctrine").

\(^{126}\) See infra notes 128–29 & accompanying text.

\(^{127}\) Reeves, Inc. v. Stake, 447 U.S. 429, 449 (1980) (Powell, J., dissenting) (arguing that the market-participant rule should hinge on "the nature of the governmental activity involved" and that the exception should only apply when "a public enterprise undertakes an 'integral operation[n] in areas of traditional government functions'" (alteration in original) (citation omitted)).

\(^{128}\) See id. at 438 n.10 ("Even where 'integral operations' are not implicated, States may fairly claim some measure of a sovereign interest in retaining freedom to decide how, with whom, and for whose benefit to deal."); accord David S. Bogen, The Market Participant Doctrine and the Clear Statement Rule, 29 Seattle U. L. Rev. 543, 556 (2006) (stating that the Reeves Court expressly "rejected the traditional function theory as the basis for the market participant doctrine by applying the market participant doctrine to cement production, which is not a traditional function of government"); Dan T. Coenen, The Impact of the Garcia Decision on the Market-Participant Exception to the Dormant Commerce Clause, 1995 U. Ill. L. Rev. 727, 740–42 (asserting that Alexandria Scrap did not distinguish between "'governmental' and 'proprietary' activities" but rather distinguished between states that acted as "'market-participants'" and states that acted as "'market regulators'"); David Pomper, Comment, Recycling Philadelphia v. New Jersey: the Dormant Commerce Clause, Postindustrial 'Natural' Resources, and the Solid Waste Crisis, 137 U. Pa. L. Rev. 1309, 1321–22 (1989) (arguing that the market-participant exception should apply whether the state is functioning in its traditional capacity or not).
services. The market-participant doctrine, in contrast, applies without regard to the traditional or nontraditional nature of the state’s activities. Part III-B of the Davis opinion thus invites a significant de facto expansion of the United Haulers principle. By dressing that principle in new market-participant attire, Justice Souter would strip away any nontraditional-activity limitation on its operation.

ii. Pike Balancing Analysis

An embrace of Part III-B of Justice Souter’s opinion in Davis would have a second major impact on the state-self-promotion limitation formulated in United Haulers. Why? Because it would remove any need in United-Haulers-type cases for courts to engage in the sort of dormant Commerce Clause interest-balancing analysis undertaken in United Haulers itself.

To understand this point, it is necessary to recognize that the Court’s work in United Haulers proceeded in two steps. First, the Court found that the state-self-promoting forced-use rule did not embody the sort of “discrimination” that triggers exacting scrutiny under the dormant Commerce Clause principle. Second, the Court considered whether that forced-use rule nonetheless ran afoul of the more tolerant style of constitutional analysis encapsulated in the balancing formula of Pike v. Bruce Church, Inc. Under the Pike test, the Court will invalidate even a nondiscriminatory statute if “the burden imposed on [interstate] commerce is clearly excessive in relation to the putative local benefits.” In the end, the Court in United Haulers found no problem with the challenged flow control law under the Pike standard. The pivotal point for present purposes, however, is that the Court signaled by way of this two-step dance that regulations exempted from antidiscrimination analysis under the state-self-promotion principle would

129 See supra note 128 & accompanying text.
130 See generally Edward A. Zelinsky, The False Modesty of Department of Revenue v. Davis: Disrupting the Dormant Commerce Clause Through the Traditional Public Function Doctrine (manuscript on file with author) (broadly exploring implications of Court’s advancing of the traditional-activity/nontraditional-activity distinction in Davis).
131 United Haulers Ass’n v. Oneida-Herkimer Solid Waste Mgmt. Auth., 550 U.S. 330, 345 (2007) ("[T]he Counties’ flow control ordinances, which treat in-state private business interests exactly the same as out-of-state ones, do not ‘discriminate against interstate commerce’ for purposes of the dormant Commerce Clause.").
133 Pike, 397 U.S. at 142.
134 United Haulers, 550 U.S. at 347.
nonetheless remain subject to *Pike*-balancing review and subject to invalidation under it in a proper case.\(^\text{135}\)

This elaboration of *United Haulers* highlights a critical difference between Part III-A and Part III-B of the *Davis* opinion. Given the fact that a majority of the Court joined only Part III-A, Justice Souter concluded in *Davis* that there was good reason to consider whether Kentucky’s tax break was unconstitutional under *Pike* analysis—and that is just what he did in a separate section of the opinion labeled Part IV.\(^\text{136}\) There can be little doubt, however, that a majority’s endorsement of Part III-B would have swept away any need to engage in a *Pike*-balancing inquiry. Justice Souter himself made the key point when he wrote: “*United Haulers* included a *Pike* analysis . . . but our cases applying the market participant exception have not.”\(^\text{137}\) This statement is on the mark because the Court has never even considered applying *Pike* analysis in market-participant cases. It has proceeded in this way based on simple logic: When a state acts as a market participant, “no conflict between state regulation and federal regulatory authority can arise”\(^\text{138}\) because the conduct of the state does not involve regulatory action at all.\(^\text{139}\) In *United Haulers*, however, the Court took an entirely different view of the State’s forced-use rule. Precisely because it saw that rule as regulatory in nature, it refused to exempt the rule altogether from dormant Commerce Clause scrutiny.\(^\text{140}\) Instead, the Court did subject the challenged rule to review, but only to the ratcheted-down style of review reflected in the *Pike* methodology.\(^\text{141}\)

\(^{135}\) *Id.* at 346–47.

\(^{136}\) Dep’t of Revenue v. *Davis*, 128 S. Ct. 1801, 1817 (2008). In fact, there was a strong reason not to apply *Pike* balancing in *Davis* because that case involved a challenged tax law, rather than a challenged regulation, and the Court has historically not subjected state tax laws to *Pike*-balancing analysis. See, e.g., Coenen, *Where United Haulers Might Take Us*, supra note 8, at 59–60. Justice Souter noted, however, that all parties in *Davis* had seen fit to evaluate the Kentucky tax rule under *Pike*, and for this reason he proceeded to do so as well. The Court’s application of *Pike* analysis even to the tax law at issue in *Davis* reinforces the key point suggested here because it highlights the importance of *Pike* analysis in applying the state-self-promotion rule in striking contrast to its irrelevance in the market participation context.

\(^{137}\) *Davis*, 127 S. Ct. at 1817.


\(^{139}\) United Bldg. & Constr. Trades Council, 465 U.S. at 220.

\(^{140}\) *United Haulers*, 550 U.S. at 342–45.

\(^{141}\) *Id.*
What all of this means is that a judicial embrace of Part III-B would sharply alter preexisting law because it would move cases such as *United Haulers* and *Davis* into the market-participant camp. And because market-participant cases do not trigger *Pike* review, the potential for *Pike*-based invalidation that now exists under the more focused state-self-promotion rule would vanish from the scene. As a practical matter, the ability of courts to apply *Pike* balancing review in state-self-promotion cases rendered the inroad made by *United Haulers* on the dormant Commerce Clause restraint—although significant—far more limited than it might have been. Endorsement of Part III-B of Justice Souter's opinion would remove that limitation and thus bring about a far greater contraction of dormant Commerce Clause protections than was worked in *United Haulers* itself.

### III. *Davis* and Doctrinal Uncertainty

As we have seen, Justice Souter's new rhetoric of market participation raises the prospect of a large-scale dilution of the dormant Commerce Clause principle.\(^\text{142}\) Or does it? Justice Souter might observe that such a claim is wildly exaggerated. Part III-B, after all, does not purport to overrule a single dormant Commerce Clause precedent. And even Part III-B's treatment of *United Haulers* might be viewed as not putting that case in the market-participant camp; perhaps, for example, the plurality mentioned *United Haulers* in Part III-B only to show that the Court had previously (albeit outside the market-participant context) examined a regulation's linkage to state market participation in applying the dormant Commerce Clause, so that examining that same linkage in applying the market-participant doctrine in *Davis* should come as no surprise.

Whatever one might say about these matters, one thing is plain: If Part III-B is embraced as governing law, it will raise a host of new questions about the market-participant rule. For example: Are all forms of state regulation (including outright embargoes, tariffs, and flat bans on importation) potentially sheltered from invalidation by the market-participant doctrine if they are linked to some identifiable state market activity?\(^\text{143}\)

\(^{142}\) See *supra* notes 79–82 & accompanying text (discussing effect of Justice Souter's analysis on tax cases); notes 96–102 & accompanying text (discussing effect on the Court's opinion in *Baldwin*); notes 107–09 & accompanying text (discussing effect on downstream restraint cases such as *South-Central Timber*); notes 112–15 & accompanying text (discussing effect on monopoly exception); notes 127–29 & accompanying text (discussing effect on distinction between traditional and nontraditional state activity); notes 131–35 & accompanying text (discussing effect on use of *Pike* balancing in state-self-promotion cases).

\(^{143}\) Justice Souter's treatment of *United Haulers* itself indicates that some local-processing requirements would be sustainable on market-participant grounds. See Dep't
Whatever the form of state activity, what degree of interconnection between a challenged regulation (including by way of taxation) and permitted state market participation will suffice to trigger Justice Souter's linkage principle? Must the linkage be such that non-state transactions are entirely (or essentially or largely or substantially) unaffected? Is the nature of the linkage more important than its spillover effects on private transactions? And, however linkage is gauged, will higher or lower levels of linkage be tolerated depending on the type, scope, and practical effect of the particular regulation (and market participation) at issue? These questions serve to highlight the lingering amorphousness of Part III-B.

Two other features of Justice Souter's market-participant analysis contribute to the swirl of uncertainty. Those features concern (1) the analytical pathway that Justice Souter chose not to take in Part III-B and (2) Justice Stevens' decision to join Part III-B while also writing separately about his own perspective on the market-participant doctrine.

A. The Road Not Taken

One troublesome aspect of Part III-B comes into view when one asks a simple question: Could Justice Souter have put forward a different and more stable analysis to uphold the Kentucky program under the market-participant doctrine? As it turns out, he could have crafted a much narrower market-participant rationale, and the fact that he eschewed this route heightens the confusion left in the wake of Davis.

A less ambitious Part III-B would have begun with language along the following lines:

We held in Part III-A that Kentucky's tax-based favoritism of bonds issued by Kentucky and its instrumentalities is shielded from antidiscrimination-based attack by the state-self-promotion exception first recognized in the United Haulers case. We now further hold that, even if United Haulers had gone the other way, Kentucky's program would find shelter in the market-participant exception to the dormant Commerce Clause.

This opening (unlike the actual opening of Part III-B) would have made clear why an alternative analysis under the market-participant doctrine was worth pursuing, would have avoided the adventurous effort to shoehorn of Revenue v. Davis, 128 S. Ct. 1801, 1811 (2008). So why would the immunity not extend to other forms of state action historically viewed as protectionist, such as heavy burdens or outright bans on importation from outside the state or embargoes imposed to keep valuable resources from moving outside the state? See Coenen, Where United Haulers Might Take Us, supra note 8, at 39–40 (explaining why United Haulers in effect involved an import ban).
United Haulers into the market-participant category, and would have pointed the way to a more satisfactory analytical route than the one that Justice Souter (having started off on the wrong foot) actually traversed.

In the next step of a more satisfying analysis, Justice Souter would have acknowledged that United Haulers presented a case of market regulation, rather than market participation, because it involved an unmistakably coercive government directive. He then would have observed that the program in Davis, in telling contrast, did not coerce anyone to do anything, because no one needed to buy bonds. Having set the stage this way, he could have gone on to explain that: (1) under ordinary circumstances, tariffs and other forms of discriminatory tax laws are rightly viewed as regulatory in nature; (2) the discriminatory tax at issue in Davis nonetheless differed from the discriminatory taxes invalidated in past cases because it favored in-state commerce only with the State itself rather than with private entities; and (3) that, for this reason, Davis in fact posed a novel (and very narrow) market-participant question. That narrow question was whether tax relief afforded by a state to make the state's own bonds more attractive to some buyers is more properly characterized as regulation of the bond market or as a component part of the bond product sold by the state itself.

Having framed the question this way, Justice Souter could have answered it by characterizing the tax break as a component part of the bond product, rather than as a form of state regulation. (The tax break, after all, was tied directly and only to the acquisition of bonds created by the State itself; it immediately shaped the value of those bonds; it generated revenues for use only by the State itself; it operated only for the duration of the bonds' existence; and it created costs to the very same public fisc out of which bond proceeds were solely funded.) To be sure, this characterization would have invited criticism on the ground that it afforded market-participant protection,

144 See supra note 31 & accompanying text.
145 See supra note 44 & accompanying text.
146 This is the case in part because they are quasi-coercive in that those who do engage in the taxed activity must pay the tax, in part because they involve an activity that only governments can undertake, and in part because practical and historical understandings recognize these programs' inevitable regulatory effects. See Coenen, Untangling the Market-Participant Exemption, supra note 6, at 430–35; Galle & Yale, supra note 20, at 113–46 (observing that "[t]axation is a 'regulatory' function").
147 In fact, Justice Souter made this point in so many words. See Davis, 128 S. Ct. at 1809 (aligning Davis with United Haulers, in that state action that benefits the state itself is different from "laws favoring particular private businesses over their competitors").
148 See Brief for Petitioners at 3–8, Dep't of Revenue v. Davis, 128 S. Ct. 1801 (2008) (No. 06-666).
for the first time ever, to a state taxing program. Justice Souter, however, might have parried that thrust with an observation that went like this:

In the distinctive context of state-supplied products, it makes little sense to flatly reject the idea that a tax break can never be a protected element of market participation. By way of example, the Court in Reeves upheld South Dakota's exclusion of all out-of-state residents from the purchase of state-made cement. To us it logically follows, on the ground that the greater power must include the lesser, that South Dakota could have permitted out-of-state residents to buy cement while imposing a tax on such sales from which in-state buyers were exempt. For this reason, we reject the idea that the market-participant exception can never shelter discriminatory tax laws from constitutional challenge, even while accepting the idea that the market-participant doctrine will apply in the tax context only under unusual conditions. The key in our Reeves hypothetical, just like here, is that the underlying product with which the State tax break is associated is one that is created by the State, marketed by the State, and used by the State both to benefit its citizens and to fund its own operations.

Perhaps Justice Souter meant for Part III-B to say nothing of consequence that went beyond the contents of the three preceding paragraphs. In fact, however, he did say more. He recast United Haulers as a market-participant case. He broadly reframed the underlying rationales of White and Alexandria Scrap. He endorsed the innovative notion that activity properly characterized as market regulation may be sheltered under the market-participant rubric. He set forth a new "part and parcel" test without identifying any limiting principles to guide its application. And he left open the possibility that his version of the market-participant exception would lead to judicial toleration of forms of state regulation that go well beyond simply defining the terms of a business arrangement made with the state itself. This is not to say that the more narrow and structured market-participant analysis advanced in the preceding paragraphs is so compelling as to withstand any and all criticism. It is to say, however, that the analysis

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149 See supra note 86 & accompanying text.
150 See supra note 31 & accompanying text.
151 See supra notes 48–55, 62–70 & accompanying text.
152 See supra note 25 & accompanying text.
153 See supra note 63 & accompanying text.
154 See, e.g., supra notes 98–102 & accompanying text (discussing the Baldwin case).
155 For example, the challengers of the state program of Davis argued that taxation, by definition, cannot qualify as market participation because private traders cannot impose taxes and one element of the Court's market-participant logic is that states should share the rights of "the trader or manufacturer, engaged in an entirely private business."
actually embodied in Part III-B carries with it many more uncertainties than this posited alternative analysis would have engendered.

B. The Stevens Wild Card

A final complexity presented by Part III-B is raised by the curious fact that Justice Stevens joined it in full while also writing his own concurring opinion. Justice Stevens wrote separately to explain why he “would join the Court's opinion even if [Reeves and United Haulers] had been decided differently” because he had in fact dissented in each of those cases. So what does Justice Stevens's opinion tell us about Part III-B?

To begin with, Justice Stevens did not abandon his earlier positions by signing onto either the result reached in United Haulers or the Reeves-based version of the market-participant doctrine. Rather, he expressed continued adherence to his minority position in both Reeves and United Haulers, reiterating his view that “when a ‘State enters the private market and operates a commercial enterprise for the advantage of its private citizens, it may not evade the constitutional policy against economic Balkanization.’” That principle, he explained, did not apply in Davis because Kentucky had not undertaken to “operat[e] a commercial enterprise”; rather it was “merely borrow[ing] money ‘to pay for spending on transportation, public safety, education, utilities, and environmental protection.’” In these circumstances, Justice Stevens detected no dormant Commerce Clause problem because a “[s]tate’s reliance on ‘general taxes or municipal bonds’ to finance public projects does not merit the same Commerce Clause scrutiny as ‘operating a fee-for-service business enterprise in an area where there is an established interstate market.’” According to Justice Stevens, “state action that motivates the State’s taxpayers to lend money to the State”—whether in the form of state tax breaks or the offering of “[f]ree tickets to the Kentucky

Reeves, Inc. v. Stake, 447 U.S. 429, 438–39 (1980) (quoting United States v. Colgate & Co., 250 U.S. 300, 307 (1919)); see Julander, supra note 6, at 552 (noting that market-participant exception developed in light of “the long recognized right of private traders to choose their own trading partners”); id. at 554 (noting that a “tax credit” is not an “activity of a private purchaser”).

156 See Dep’t of Revenue v. Davis, 128 S. Ct. 1801, 1804 (2008).
157 Id. at 1819 (Stevens, J., concurring).
158 Id. at 1820.
159 Id. (quoting Reeves, Inc. v. Stake, 447 U.S. 429, 449–50 (1980) (Powell, J., dissenting)).
160 Id.
161 Id. (quoting United Haulers Ass’n v. Oneida-Herkimer Solid Waste Mgmt. Auth., 550 U.S. 330, 334 (2007) (Alito, J., dissenting)).
Derby"—"is simply not the sort of ‘burden’ on interstate commerce that is implicated by our dormant Commerce Clause jurisprudence."162

One is left in a head-scratching state by Justice Stevens’s analysis. How could he join Part III-A of the Souter opinion—which is founded squarely on a straightforward application of United Haulers—at the very time he reiterated his view that United Haulers was an erroneous decision? How could he join Part III-B, which seemed to endorse just the sort of expansive vision of the market-participant doctrine from which Justice Stevens took pains to distance himself in his separate concurrence? And how could Justice Stevens characterize Davis as a case that did not involve a state’s “operating a fee-for-service business enterprise in an area in which there is an established interstate market”?163 In fact, there exists an “established interstate market” in debt instruments, and selling such instruments for cash is not hard to view as “operating a fee-for-service business enterprise”164—at least once one makes the easy move of viewing as a valuable “service” the transformation of X amount of cash into an X+Y stream of payments made over time.165

One possibility is that Justice Stevens viewed Justice Souter’s opinion as focusing primarily on the states’ historic use of bonded indebtedness,166 their issuance of bonds “to finance public projects,”167 and the inevitability that states had to raise money in some way to engage in their core activities.168 Put another way, Justice Stevens may have signed onto Part III-B of Justice Souter’s opinion only on the understanding that it endorsed (or at least invited) a reframing of the market-participant exception along the lines advanced thirty years earlier in the Reeves dissent—that is, as a doctrine that can operate only when the state undertakes “traditional” government activities.169

This possibility lends another—and a distinctively sticky—layer of uncertainty to the plurality’s application of the market-participant exception in Davis. Up until now, our parsing of Part III-B has suggested that it

162 Davis, 128 S. Ct. at 1820–21.
163 Id. at 1820.
164 Id.
165 Id. Few would disagree with the proposition, for example, that banks provide a “service” for a “fee” when they sell certificates of deposit redeemable in one year at an amount that reflects both principal and interest. Justice Stevens never explained why state sales of functionally identical debt instruments do not likewise involve a “fee-for-service business enterprise.”
166 Id. at 1806–08.
167 Id. at 1820 (Stevens, J., concurring).
168 Davis, 128 S. Ct. at 1811 (majority opinion).
169 See supra notes 127–28 & accompanying text.
envisions a controversial expansion of the market-participant exception and a concomitant narrowing of dormant Commerce Clause restraints.\textsuperscript{170} In striking contrast, the reading extrapolated here from Justice Stevens’s curious joining of Part III-B would move the law in exactly the opposite direction. By tying the market-participant exception to traditional state conduct, this alternate reading would narrow that exception, including by overturning the Court’s seminal market-participant decision in the \textit{Reeves} case itself.

Is such a translation of Part III-B possible? It involves a stretch, in part because Justice Souter laid out the holding of \textit{Reeves}, without ever questioning its authority, both in Part II of the opinion\textsuperscript{171} and in a textual footnote in Part III-B.\textsuperscript{172} On the other hand, Justice Souter’s actual market-participant analysis in Part III-B puts primary emphasis on \textit{United Haulers}, \textit{Alexandria Scrap}, and \textit{White}—all of which might well be seen as “traditional function” cases.\textsuperscript{173} No less important: (1) Justice Souter’s opinion emphasized and reemphasized that states historically have issued bonds for public purposes and favored their own taxpayers in doing so;\textsuperscript{174} (2) although this theme is not a focal point of Part III-B, it dominates not only Part III-A but also the opening and closing segments of Justice Souter’s opinion;\textsuperscript{175} and (3) in particular, the ringing conclusion of that opinion excoriates the dissenters’ approach precisely because (a) they embrace “the adventurism of overturning a traditional local taxing practice;”\textsuperscript{176} (b) they “would upset . . . settled expectations . . . based on the experience of nearly a century;”\textsuperscript{177} and (c) they ignore “the long settled habits of the community,” which (according to no less an icon than Justice Holmes) should “play a part” in resolving constitutional disputes.\textsuperscript{178} Perhaps, in the view of Justice Stevens, these passages gave rise to an analytical theme that both overlaid and logically limited the market-participant analysis put forward by Justice Souter in Part III-B.

\textsuperscript{170} See supra note 142 & accompanying text.
\textsuperscript{171} \textit{Davis}, 128 S. Ct. at 1809.
\textsuperscript{172} \textit{Id.} at 1814 n.16.
\textsuperscript{173} See \textit{United Haulers Ass’n v. Oneida-Herkimer Solid Waste Mgmt. Auth.}, 550 U.S. 330, 334 (2007) (stating that the waste disposal involved in that case was “both typically and traditionally” a state function); \textit{Reeves, Inc. v. Stake}, 447 U.S. 429, 451 (1980) (Powell, J., dissenting) (highlighting that, unlike the State’s actions in \textit{Reeves}, the State’s actions in \textit{Alexandria Scrap} embodied a traditional government function).
\textsuperscript{174} See \textit{Davis}, 128 S. Ct. at 1806; \textit{id.} at 1810–11; \textit{id.} at 1819.
\textsuperscript{175} See \textit{id.} at 1806 (discussing, in opening the opinion, the history of differential tax breaks on municipal bonds); \textit{id.} at 1810 (discussing the same throughout Part III-A); \textit{id.} at 1819 (discussing the same in the opinion’s closing section).
\textsuperscript{176} \textit{Davis}, 128 S. Ct. at 1819.
\textsuperscript{177} \textit{Id.}
\textsuperscript{178} \textit{Id.}
Might a future Court, if it were to embrace Justice Souter’s opinion in toto, actually find in it the seeds of the destruction of Reeves? The possibility that it could do so underscores the key point offered here. If Justice Souter’s opinion in Davis brings sweeping new uncertainties to the Court’s market-participant jurisprudence—as it surely does—Justice Stevens’s joining of that opinion brings even more, when viewed in the light of his separate concurrence.

**CONCLUSION**

“There’s something happening here, but what it is ain’t exactly clear.”179 These lyrics were not written by Stephen Stills to deal with dormant Commerce Clause law, but they might aptly be sung—indeed, sung with intensity—about Justice Souter’s market-participant analysis in the Davis case. The cryptic character and indeterminate implications of Part III-B surely contributed to its most salient feature—namely, its failure to garner the support of a majority of the Court. The six Justices who declined to join Part III-B acted wisely in refusing to embrace Justice Souter’s newfangled treatment of the market-participant doctrine. In the future, they should go even further by rejecting that treatment in no uncertain terms.

As this Essay demonstrates, that course of action is advisable because endorsement of Justice Souter’s analysis would (1) radically reformulate the basic rhetoric of the market-participant exception; (2) invite major changes in doctrine, including by way of an ill-advised narrowing of salutary dormant Commerce Clause restraints, and (3) inject profound uncertainties into this already complex field of law. The Supreme Court has rightly declared that the market-participant doctrine, in its present form, reflects both “good sense and sound law.”180 In the end, the Court should eschew Justice Souter’s Part III-B analysis because its revisionist approach to that doctrine is undeserving of the same benign description.

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179 *Stephen Stills, For What It’s Worth, on Buffalo Springfield* (Atco 1967); *see also Bob Dylan, Ballad of a Thin Man, on Highway 61 Revisited* (Columbia 1965) (“something is happening here/[b]ut you don’t know what it is, do you Mr. Jones?”); *Marvin Gaye, What’s Going On, on What’s Going On* (Tamla 1971) (“What’s going on? What’s going on? . . . Oh, what’s going on?”).

180 *Reeves*, 447 U.S. at 436.