Campaign Finance Laws and Economic Policy in the States

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Abstract

In this paper we examine the effect of campaign contribution limits on state fiscal policy from 1950 to 1999 in all US states. The results are consistent with the hypothesis that expenditure and tax policies are substitutes for campaign advertising. Contribution limits lead to more spending per capita, and to lower tax revenues. The effect of contribution limits on taxes depends on partisan control and term limits. State Houses under Republican control tax less when contributions are limited, but Democratic Houses tax more. When governors can be reelected, contribution limits are associated with lower taxes than when governors are in their last term.

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I. Introduction

The regulation of money in electoral contests is not a new phenomenon in American politics. The scholarly research on campaign finance has addressed numerous theoretical and empirical questions, ranging from assessing the broad role of money in politics to the specific impact of campaign finance regulations. Parallel to this, there is a large literature on the effect of political institutions on economic policy. This paper builds upon both literatures to examine whether campaign finance laws affect economic policy choices.

Campaign finance regulations can be viewed as belonging to a set of institutions, such the legislative organization, division of powers, and constitutional or procedural rules that determine policy choices. A large literature examines the effect of institutions on policy (for example, Persson and Tabellini 2000, Besley and Case 2003), but to our knowledge, in this literature no work has yet examined whether the campaign finance laws affect economic policy choices beyond their immediate impact on electoral outcomes. Moreover, recent theoretical work has studied the linkage between campaign finance laws and political outcomes (examples of recent contributions include Coate 2001 and 2003, Prat 2002a and 2002b), but has not modeled the effects of contribution limits on tax and expenditure policies. Similarly, recent empirical work has studied the impact of campaign finance laws on voter turnout and electoral outcomes (Stratmann and Aparicio-Castillo 2002, Milyo, Primo and Groseclose 2002, and Stratmann 2003), but not on fiscal policy decisions.

If contribution limits reduce campaign advertising, incumbents who seek reelection may use fiscal policies as a substitute for campaign spending. In this case,

contribution limits may lead to more spending. However, if limits reduce quid-pro-quos between contributors and incumbents, then limits may lead to less spending. Thus, theoretically, the effect campaign contribution limits on expenditure and tax policies is ambiguous. This paper is an empirical study, determining which model receives more support from the data.

The experience of the states provides a natural setting for studying the effect of contribution limits on fiscal policies, given that there have been considerable changes in state campaign finance laws in the past fifty years. We present evidence on the effect of campaign contribution limits on state fiscal policy in the US states from 1950 to 1999. To do so, we exploit the cross-sectional and time-series variation of individual, corporate and labor union campaign contribution limits, and analyze how these limits affect state expenditures and taxes per capita.

The results show that stricter contribution limits are associated with larger spending, and lower taxation per capita, relative to states with no contribution limits. These findings lend support to the hypothesis that fiscal policies and campaign advertisements are substitutes in incumbents' reelection production function. The findings are robust when controlling for socio-economic determinants of government spending and tax revenues, as well as when including variables measuring political conditions.

We find that the impact of contribution limits on taxes depends on who holds the majority in the state House and on gubernatorial term limits. In states with contribution limits, Republican Houses are associated with higher spending and lower taxes per capita, relative to unregulated states. Democratic Houses, conversely, are associated with both

higher spending and higher taxes. We interpret that finding to suggest that one way Republicans can provide services for their reelection constituency is by lowering taxes, while Democrats, whose reelection constituency includes many individuals with low income, have less leeway to lower taxes on their constituencies since they already face relatively low taxes. We also find that when governors can be reelected, contribution limits are associated with lower taxes than when term limits are binding and governors cannot run again.

In the next section we review the previous literature on campaign finance and economic policy, as they relate to the questions we study in this paper. We present the hypotheses in section III. Section IV contains the empirical methodology and covers some data issues. The empirical results are presented and discussed in section V. Section VI concludes.

III. Previous Literature

The empirical literature on campaign finance has mostly focused on the role of money in politics, and has investigated how campaign contributions and spending influence voter turnout, election results, and legislative outcomes. The impact of campaign spending has been extensively studied since Jacobson (1978) seminal work, and more recently by Green and Krasno (1988), Grier (1989), Sorauf (1992), Levitt (1994), Milyo (1997), and Gerber (1998). The relationship between campaign contributions, interest groups, and legislative outcomes has been studied by Stratmann (1992, 1995, 1998), Bronars and Lott (1997), Kroszner and Stratmann (1998), and Milyo, Primo, and Groseclose (2000). Most of this work focuses on federal elections, where

contribution and spending data are readily available—but where changes in campaign finance laws between 1976 and 2002 were minor, hence making any evaluation of legal changes not feasible.[1]

At the state level, an increasing number of states have implemented campaign finance regulations of different nature in recent years. Some examples are report and filing requirements, voluntary expenditure limits to access public funds, and restrictions on campaign contributions from different sources. The cross-sectional and time-series variation in state campaign finance law allows for an empirical study of the impact and effectiveness of these regulations. Malbin and Gais (1998) and Thompson and Moncrief (1998) survey the field of campaign finance regulation in the states. Recent papers investigate how campaign finance laws affect electoral competition, voter turnout and partisan advantage. For example, analyzing state House elections from 1980 to 2001, Stratmann and Aparicio-Castillo (2002) find that campaign contribution limits narrow incumbents' margins of victory, increase incumbent defeats and raise the number of candidates, thereby resulting in more competitive elections. Milyo, Primo and Groseclose (2002) find that contribution limits also affect turnout and competitiveness in governor races.

The role of political institutions in determining policy choices has been extensively studied both in the states and across countries. Persson and Tabellini (2000), and Besley and Case (2003) have surveyed this large literature in detail. Among the relevant findings in these studies are that institutional features (for example, the size and organization of legislatures, budgetary and procedural rules, debt restrictions, expenditure

[1] For theoretical studies of campaign finance issues, see Austin-Smith (1987), Lott (1987), Mueller and Stratmann (1994), and Pooters, Sloof and van Winden (1997). The desirability of campaign finance limits has been addressed recently by Coate (2001 and 2003), and Prat (2002a and 2002b).

limits, and line item vetoes), as well as electoral institutions (such as open primaries, or initiative and referenda procedures), directly or indirectly influence government size and other policy choices.[2] But the relationship of electoral institutions such as campaign finance laws and economic policy has not been studied in a comprehensive manner yet.

We will build on both the campaign finance and the political institutions literatures to analyze whether campaign finance laws have an impact on economic policy choices, even after their immediate impacts on electoral outcomes. More specifically, we will assess whether campaign contribution limits matter in the determination of fiscal policies such as spending and taxation per capita in the US states from 1950 to 1999.

III. Hypotheses

Suppose that the inputs in an incumbent's reelection production function are constituency service and campaign expenditures. Constituency service includes having a voting record that is consistent with the preferences of the constituency as well as the provision of goods for the home constituency. These goods may include the building of roads or bridges, tax breaks, or an increase in government funding for education. An increase in the level of constituency services increases the likelihood of reelection. Campaign expenditures are used for advertisements that inform voters about a candidate's position, and this increase in information also increases his or her likelihood of reelection.

Limits on campaign contributions by individuals, corporations, and labor unions lower the campaign expenditures input in the reelection production function and thus

[2] See Brennan and Buchanan (1980), Crain et al. (1988), Crain and Muris (1995), Gilligan and Matsusaka (1995), Matsusaka (1995), Rueben (1997), and Poterba (1997).

lower, ceteris paribus, the likelihood of reelection. However, facing contribution limits, incumbents have an incentive to use constituency services as a substitute for campaign expenditures. An increase in constituency service can come in the form of increased spending or through lowering taxes. This simple model predicts that we will observe lower taxes and more spending in states that limit campaign contributions, as opposed to states without contribution limits.

This model assumes that contributions serve an informative role, and that candidates receive contributions from contributors without contributors receiving policy favors in return. Recent models integrate the informative role of campaign expenditures and the quid-pro-quo aspect arising from the possibility that incumbents may provide policy favors to contributors in exchange for contributions (Coate 2003, Prat 2002). These recent models suggest that limits on contributions reduce policy favors. Policy favors come in the form of regulation and in the form of redistribution from one group to another group, but can also include so-called pork barrel spending and subsidies, as well as creating some tax loopholes for contributors. If the budget does not have to be balanced, quid pro quos result in policy favors that have the effect of increasing government spending and lowering tax revenues. Therefore, if contributions reflect quid pro quos, limiting campaign contributions may reduce such exchanges, hence resulting in lower spending and more tax revenues than in states without contribution limits.

Theoretically, the sign of the relationship between contribution limits and public expenditures is ambiguous. The first model predicts that contribution limits result in more spending and lower taxes. In states with contribution limits, elected officials may substitute higher public spending for campaign funds to attract voters. Similarly, in states

with contribution limits, elected officials may substitute lower taxes for campaign funds to attract voters. The second model suggests that campaign contributions reflect a quid pro quo. In this case having contribution limits may reduce such exchanges, resulting in less spending and higher taxes in states with contribution limits than in states with no limits.[3] Since the impact of campaign contribution limits on policy choices is ambiguous, the empirical analysis will help us to discriminate between both models.[4]

IV. Empirical Methods and Data

To examine the effect of campaign finance laws on fiscal policy, we estimate reduced-form regressions using yearly data from the states. The baseline estimating equation is:

$$POLICY_{it} = \alpha + \beta CLIMITS_{it} + \delta DEMOG_{it} + \gamma POLITICS_{it} + \mu_i + \nu_t + \varepsilon_{it},$$

where POLICY is real spending per capita in state i, and year t. In alternative specifications, POLICY refers to taxes per capita. CLIMITS is a measure of campaign contributions limits, DEMOG is a vector of economic and demographic variables, and POLITICS includes political institutions. State fixed effects μ_i control for time-invariant observable and unobservable factors determining policy in each state. Thus, the effect of contribution limits in state fiscal policies is identified by the within-state variation of laws over the sample period. Year fixed effects ν_t control for factors affecting all states in any given year.

[3] Of course, interest groups may seek goals different from larger spending and tax exemptions, like particular regulations and changes in the composition of spending and tax revenues. Data limitations avoid us from studying such impacts here.

[4] It is possible that both models are correct, namely that campaign advertisement and constituency service are substitutes and that contributions are associated with policy favors. In this case the empirical analysis will reveal which of the two aspects is relatively more important.

Data on state expenditures and tax revenues come from the *Statistical Abstract of the United States*. Spending is measured as total general state spending per capita. Taxes are measured as the sum of total sales, individual income, and corporate income tax revenue. All dollar amounts are expressed in real 1982 dollars.

The vector DEMOG includes real personal per capita income, real personal per capita income squared, population, population squared, the percent of the state population between five and seventeen years of age, and the percent and population above sixty-five years of age. These data also come from the *Statistical Abstract of the United States*.

The CLIMIT variable is an indicator variable taking the value of one if a state in a given year has a contribution limitation or prohibition law, and zero otherwise. In one specification CLIMIT measures whether a state has a contribution limit or prohibitions for individuals, in another specification whether the state has contribution limits or prohibitions for corporations, and in another specification CFLIMIT measures whether a state has contribution limits or prohibitions for labor unions. In an alternative specification, CLIMIT is an index, measuring the number of campaign contribution limits, and thus this index ranges between zero –when a state has no contribution limits on individuals, corporations, and labor unions– and three –when there are limits or prohibitions on all three sources of campaign funds.

The source for campaign finance contribution limits from 1950 to 1980 is the *Book of the States*. From 1981 to 1999, we use the summary tables from the *Campaign Finance Law* biannual series, published by the Federal Election Commission. Since campaign finance laws have been increasingly evolving in complexity in the recent years,

and the early sources only provide limited information, we focus on simple measures of contribution limits.

Since information on contribution limits applicable to Political Action Committees (PACs) and political parties have become available only in the last two decades, we exclude contribution limits applicable to these organizations from our 1950 to 1999 analysis. When we examined the limits for PACs and political parties over the past twenty years, we found that these contribution limits were highly correlated with contribution limits for individuals, corporations and union.

The POLITICS vector includes the percent of the state House seats held by democrats, whether Democrats are the majority party in the state House, whether the governor is a Democrat, and whether the state has a divided government.[5] We define a divided government indicator to equal one when the House and the governor come from opposing parties, and zero otherwise. We obtained data on political institutions and the make up of the state legislatures from the *Book of the States*.

The data includes yearly observations from all US states from 1950 to 1999, with the following exceptions: Alaska and Hawaii data on spending and taxes is not available from 1950 to 1967.[6] Since we could not code some of our political control variables when states had a non-partisan House, some regressions that include the POLITICS variables exclude Minnesota from 1950 to 1972, and Nebraska 1950-1999.

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[5] For the role of political and partisan control variables in economic policy, see: Alt and Lowry (1994, 2000), Besley and Case (1995, 2003), Gilligan and Matsusaka (1995), Persson and Tabellini (1999), Knight (2000), Rogers and Rogers (2000).

[6] We also estimated all our regressions excluding both Alaska and Hawaii, as some cross-state studies have done in the past. Since our basic findings were the same, we kept the most comprehensive sample with all states included. The other customary division of South and non-South states is controlled by state fixed effects.

V. Results

Table 1 indicates the number of states with each type of limitation for every year in the study. In 1950 twenty-nine states had limits on corporate contributions, five states had limits on unions, and no state limited individual donations. During the 1960s a few states started to restrict individual contributions.

This pattern changes in 1976, when states, which previously regulated only corporate contributions, now started to regulate contributions from unions and individuals. By 1985, twenty-three states had limits on individuals, and seventeen states had no contribution limits. In 1999, the last year of the sample, thirty-five states had limits on the three sources of contributions considered, and seven states remained with unrestricted campaign contributions.[7] The longitudinal variation of contribution limits depicted in Table 1 above allows us to identify the impact of campaign finance laws on economic policy variables while controlling for state and year effects, as well as other time-varying covariates.

To illustrate the relationship between campaign finance laws and state fiscal policy, Figure 1 graphs the time pattern of spending per capita in states with and without contribution limits. Panel A in the figure compares spending per capita of the median state with limits on individual contributions relative to the median state without such limits over the 1950 to 1999 period. Panels B and C do a similar comparison for the median states with and without limits on corporate and labor union contributions, respectively. Panel D compares spending in the median state with all three limits relative to states that had no limits at all. The figure shows that spending in states with contribution limits is lower than that of unregulated states in the first half of the sample

[7] The states with no contribution limits as of 1999 are: CA, IL, IN, NM, OR, UT, and VA.

period. In the last couple decades, however, this pattern seems to reverse. States with contribution limits have higher spending per capita than states with no limits.

These graphs do not allow us to make any conclusions regarding the causal effect of contribution limits and have to be interpreted with caution as the number of states that adopt contribution limits changes over the time period. Thus the identity of the median states with and without contribution limits changes over time. Table 1 indicates that in 1976 many states added to already existing contribution limits and Figure 1 shows that this is the time when the pattern reverses, from states with limits having fewer government expenditures, to having more government expenditures.

Figure 2 illustrates the time pattern of taxes per capita in states with and without contribution limits. As in the previous figure, panels A to C depict individual, corporate, and union limits taken separately, while panel D compares states with all three limits relative to the median state with no limits. The pattern of taxes in the first half of the period shows that regulated states have lower taxes. In the second half of the period the differences in taxes between states with and without limits is less clear. States with either individual or all three limits have higher taxes in the last two decades, but states with either corporate or labor union limits do not seem very different from the group of unregulated states. Although the patterns depicted in both figures are unconditional medians, they are suggestive of differences between states with and without limits.

Table 2 provides means and standard deviations of campaign finance laws, government expenditures, and tax revenues for the entire sample period, for selected years, and for states with and without contribution limitations. Almost one third of the state-year observations (32.3 percent) have no contribution limits during the sample

period. More than one fourth of the observations have limits on individual contributions (26.5 percent), whereas more than two-thirds (67 percent) have limits on corporate contributions. More than one fifth (22.6 percent) of the state-year observations have all three campaign contribution limits.

The data reveal that the amount of government spending is higher than tax revenues. This is the case because sources of government spending include federal transfers and grants in addition to state tax revenues. The sources for state tax revenues include personal and corporate income, and sales taxes. Table 2 shows that spending and taxes per capita are higher in states with contribution limits than in states without limits. Similarly, personal income per capita is higher in states with contribution limits. Unregulated states have a larger and relatively younger population than states with contribution limits.

The averages for the political variables show that in 1960 more than eighty percent of the state Houses had a Democratic majority (averaging a 69.1 percent share), and more than two thirds of the states had a Democratic governor (68.8 percent). By 1999, only half of the Houses have a Democratic majority (with an average share of 51.6 percent) and only 32 percent of the states have Democratic governors. The proportion of states with divided governments has risen from 30.4 percent in 1960 to 45.8 percent in 1999.

Table 3 provides a correlation matrix of the variables used in the regression analysis. Spending and taxes per capita are positively associated with campaign contribution limits of any kind. Limits on individuals have the highest correlation with spending and taxes (0.50 and 0.49, respectively), whereas limits on corporations show the

weakest correlation (.10 and .04, respectively). State taxes are positively correlated with Democratic state Houses, but both spending and taxes are negatively correlated with Democrat governors. Divided governments also appear to have higher fiscal activity.

Limits on individual, corporate and labor union contributions are highly and positively correlated, with the highest correlation being between restrictions on individuals and labor unions (0.70). Restrictions on corporate contributions, which have been in place in some states since the beginning of our sample, have a correlation coefficient of 0.39 with limits on individual contributions. These correlations, and the patterns shown in Table 1, indicate that states that had corporate contribution limits in 1950 were likely to adopt contribution limitations from other sources in later years. Given the high positive correlation among the contribution limit variables, a regression that includes all three limits at the same time may fail to properly identify the marginal impact of each type of contribution limit. For this reason we analyze the impact of each limit taken separately. As previously mentioned, in a separate specification we will include a contribution limit index in order to analyze whether the accumulation of contribution restrictions is important for government spending and tax revenues. The index measures the number of contribution limits in place in any given state and year (ranging from zero to three, the total number of limits considered).

We present the regression results in three parts. First, we investigate the effect of campaign contribution limits on state spending and taxes per capita, controlling for state and year effects as well as economic and demographic covariates. Second, we add information on political and partisan control variables. Lastly, we explore whether officials from different political parties respond differently to campaign finance

regulations, and whether the effects of lame-duck governors on tax and expenditure patterns differ depending on whether a state has or has no contribution limits.

Table 4 presents a set of baseline estimates of the effect of campaign contribution limits on state fiscal policy. The dependent variable in columns one to four is real spending per capita, and the dependent variable in columns five to eight is real taxes per capita. All of the results in Table 4 control for economic and demographic variables.[8] Table 4, Column 1 shows a positive and statistically significant effect of the contribution limit index on spending. The coefficient estimate implies that states spend $28.81 more for every contribution limit in place (this is 2.5 percent of the mean spending). The regressions in columns two to four consider one type of limit at a time. Taken separately, each contribution limit results in higher levels of spending per capita and the point estimates are statistically significant. Contributions limits raise government spending per capita from $51 to $63.

The second half of Table 4 presents results for taxes per capita. As column five indicates, the contribution limit index has a negative but insignificant effect on taxes. Examining each limit separately, we find that contribution limits on corporations and union limits have a negative and statistically significant effect on tax revenues (between $13 and $14.38, about 2.5 percent of the mean tax), while the coefficient on individual limits has a positive, but statistically insignificant sign.

Although the results indicate that contribution limits are correlated with higher levels of spending and lower taxes, this does not necessarily imply that states with

[8] All the results in Tables 4 control for personal income per capita, personal income squared, population, population squared, percentage of population aged 5 to 17, and percentage of population aged 65 or more. Following tables also include these controls but estimates are not shown.

contribution limits run deficits. This is so because our measure of spending is broader than total state tax revenues, since it includes federal grants and other non-tax revenues.

The results in this Table 4 are consistent with the hypothesis that the introduction of contribution limits leads incumbents to substitute constituency service for campaign advertising. Next, we will examine whether the findings are robust with respect to the inclusion of other variables that may affect tax and expenditure policies.

One common finding in the political economy literature is that political and partisan variables play a significant role in fiscal policy determination (Besley and Case 2003). Hence, it may be possible that the previous results attribute an effect to campaign finance laws that would be absent if we controlled for other political conditions. To account for this possibility, Table 5 presents a similar set of regressions as before, but with a larger set of controls. The additional variables are: the Democrat share in the state House; an indicator equal to one if there is a Democrat majority in the House, and zero otherwise; an indicator for the governor's party (equal to one if the governor is a Democrat); and a divided government indicator (equal to one whenever the house and the governor come from opposing parties).

After controlling for political and partisan institutions, we find that the effects of contribution limits on spending and taxes are similar to those reported in Table 4. One exception is the coefficient on the contribution limit index in the tax revenue equation (Table 5, column 5), which remains negative, but is now statistically significant at the one percent level. Other results are similar to those found before. Using the contribution limit index indicates that one extra limit results, on average, in $23.49 higher spending and $6.23 lower taxes per capita (Table 5 columns 1 and 5). Analyzing contribution

limits separately, each limit has a positive and statistically significant effect on spending, and all limits have a negative and statistically significant effect on tax revenues, although the individual limit coefficient is statistically insignificant.

Political covariates do not show a significant impact on spending per capita, but have a statistically significant effect on taxes per capita. The Democrat's share in state Houses has a positive effect on taxes per capita. However, having Democratic governors lead to lower taxes, holding all other variables constant. Finally, divided governments have a negative and statistically significant effect on taxes.

These findings on campaign contribution limits continue to support the hypothesis that, since elected officials can substitute fund raising efforts for public spending and taxes to attract voters, contribution limits induce such a substitution effect. Table 5 shows that the results are robust to the inclusion of political controls found to be relevant elsewhere in the literature, which reinforces the view that campaign finance laws have an independent and significant impact on state fiscal policy.

Since political conditions such as the partisan composition of the legislature, the majority party in the House, and the governor's party, are important determinants of policy choices, it may be the case that the effects of campaign finance law also vary with political conditions. Moreover, the policy choices that serve to attract voters may be different for Democrat incumbents than for Republicans. We explore the extent to which the interaction of political conditions and contribution limits affects fiscal policy in Table 6 and Table 7.

Table 6 shows estimates of the effect of campaign contribution limits and House majority party on fiscal policy. Columns one to four refer to spending per capita. In

column one we interact the number of limits index variable with the Democrat House majority indicator. Column two makes a similar interaction, this time with the individual limits indicator and the Democrat majority indicator. Columns three and four interact corporate and union limits in similar fashion. All regressions have the same soci-economic and political covariates as Table 5.

Consistent with our previous results, contribution limits lead to higher spending per capita. In states with limits, the increase in spending in states with Democrat Houses is statistically no different from that in states with Republican Houses (columns 1 to 4). This result holds for each contribution limit type. In sum, campaign contribution limits are positively related with spending, regardless of the majority party in the state House.

Columns five to eight in Table 6 estimate the impact of campaign contribution limits and House majority party on taxes. The interaction terms show an interesting difference in how Republicans, as opposed to Democrats, respond when they face contribution limits. If the House is in Republican control, contribution limits lead to lower taxes per capita, but if the House is in Democratic control, contribution limits lead to higher taxes per capita. For each type of contribution limit we find that Republican Houses tax significantly less when faced with contribution limits while Democratic houses tax more.

The difference in spending patterns may be due to the fact that Republican legislators face a different reelection constituency than Democratic legislators. Since Republicans tend to represent the interests of individuals in higher tax brackets, Republicans service their core constituency is by lowering taxes for high income individuals, while Democrats, whose reelection constituency includes many individuals

with low income, have less leeway to lower taxes on their constituencies since they already face relatively low taxes.

One important feature affecting electoral competition and policy choices in the states is the presence of gubernatorial term limits. For example, Besley and Case 1995, 2003 show lame duck governors spend more than governors who can run for reelection. Thus governors who are in states with term limits and are in their last term do not have the same incentive to use spending or tax policies to substitute for campaign funds, as governors who can run for office again. Lame-duck governors, who by definition cannot run for reelection, do not face incentives to increase spending or decrease taxes when term limits are instituted. Thus the hypothesis that campaign advertising and constituency service are substitutes, predicts that lame-duck governors will have lower spending and higher taxes then their counterparts who seek reelection.

Table 7 turns to the interaction of campaign contribution limits and gubernatorial term limits. Again, the first four columns refer to spending per capita. In column one we interact the number of limits variable with whether the incumbent governor cannot run again. Columns two to four make similar interactions, this time with the individual, corporate and union limits indicators and the governors who cannot run. We control separately for states having gubernatorial term limits, and for these limits being binding. Consistent with Besley and Case (1995) we find that lame-duck are associated with more spending, but if a state has term limits on governors, spending is significantly lower than spending is states without term limits. As before, campaign contribution limits are significantly and positively related with spending. For us, of central interest is the point estimates on the interactions of contribution limits with whether the governor cannot run

for reelection. Here we find that all coefficients on those interaction terms are negative, but not at statistically significant levels (columns one to four).

Columns five to eight in Table 7 estimate the impact of campaign contribution limits and term limits on taxes. As in Tables 4 and 5, we find that contribution limits are significantly correlated with lower taxes. However, in states with contribution limits, taxes are significantly higher when the governor cannot run for reelection. This effect of contribution limits holds the same for individual, corporate and union limits taken separately (Table 7, columns 6 to 8). These results strengthen our hypothesis that elected officials substitute lower taxes for campaign funds to attract voters when governors can run for office again, but that this incentive disappears when they cannot run.[9]

To summarize, the results of Tables 6 and 7 indicate that regardless of which party is in control of the House or whether gubernatorial term limits are binding, contribution limits are associated with larger spending per capita. But the impact of contribution limitations on taxes is sensitive to partisan control and term limits. In states with contribution limits, Republican Houses are associated with lower taxes per capita, relative to unregulated states. Democrat Houses, on the other hand, are associated with both higher spending and higher taxes. In states with contribution limits, only governors who can be reelected lead to lower taxes. The heterogeneous impact of contribution limits on taxes helps to explain the mixed results for taxes found previously in tables 4 and 5.

[9]One caveat applies. Since lame duck governors seek no campaign contributions they have no incentive to provide policy favors, either in the form of more spending or lower taxes, to potential contributors. Thus the point estimates on the "limits X governor cannot run for reelection" in Table 7 are also consistent with the quid-pro-quo hypothesis. These coefficients in combination with the coefficients contribution limits tend so lend stronger support to the model positing that campaign advertising and constituency service are substitutes.

While the specific relation between political conditions and campaign contribution limits is not the aim of this paper, these results are suggestive of some of the mechanisms driving the impact of campaign finance law on policy choices. The long run impact of contribution limits on fiscal policy, partially responds to partisan control factors and to the reelection prospects of officials.

So far, the analysis has assumed that campaign finance laws are exogenous, and that any changes in contribution limits within the sample period have not been driven by changes in fiscal policy, or by any other source of unobserved heterogeneity that determines fiscal policy. The extent to which these assumptions are accurate, and how these concerns can be addressed, has been analyzed in a number of similar studies of the impact of institutions on policy choices (Besley and Case, 2000 and 2003).

If campaign finance laws are related to some time-invariant and unobservable feature of the states, the use of fixed state effects appropriately controls for such heterogeneity. The cost of using state fixed effects is that one cannot identify the effect of particular institutional features that are fixed over time.[10] Since contribution limits have changed over time, we can therefore identify their effects by using state fixed effects. However, if changes in the campaign finance laws are driven by time-varying variables that also influence changes in fiscal policy, the concern that contribution limits are endogenous remains.

States that had contribution limits in 1950 tended to further strengthen their campaign finance laws later in the sample period. As Table 1 indicates, in the mid to late 1970s a number of states (about fifteen) extended their contribution limitations from

[10] We examined whether states with contribution limits are likely to allow initiatives and referenda, and found a negative correlation. Similarly, balanced budget rules are negatively correlated with contribution limitations.

limits on corporations to limits on unions and individuals, while the number of unregulated states remained relatively unchanged (at about sixteen). This particular wave of campaign finance changes in the states can be traced, not to any endogenously driven demand for reform, but to a federal legal requirement to revise already existing campaign finance laws. This legal requirement was due to the Supreme Court decision in *Buckley v. Valeo* (1976, 424 U.S. 1), which addressed the constitutionality of the Federal Election Campaign Act of 1971 (FECA), and its 1974 amendments. The *Buckley* decision rendered expenditure limits unconstitutional but upheld the campaign contribution limits from the 1974 FECA amendments. The *Buckley* finding that expenditure limits were unconstitutional forced states with similar regulations to adjust to the new campaign finance framework.

Before 1976, most states that regulated campaign finance included expenditure limitations. After *Buckley*, these states were forced to modify their laws –usually by turning mandatory expenditure limits into voluntary limits, and by specifying individual contribution limits. As it turns out, previously unregulated states did not need to revise their laws in response to the *Buckley* Supreme Court decision. This makes the selective impact of *Buckley v. Valeo* an exogenous source of variation on campaign finance laws among the states that had limits to begin with. If this is correct, endogeneity concerns about the campaign finance law changes, at least in the mid to late 1970s, in the states studied here are partially alleviated.

VI. Concluding Remarks

Elected officials can substitute fund raising efforts for public spending and tax decisions to attract voters. Hence, limits on contributions may induce a substitution effect towards higher spending or lower taxes. But contributions may also reflect quid pro quos of special interests seeking higher spending or tax exemptions. By restricting the extent of quid pro quos, contribution limits may induce lower spending and higher taxes than in states with unrestricted giving. Thus, theoretically, the impact of contribution limits on fiscal policy is ambiguous.

This paper presents empirical tests that present evidence as to how government expenditures and tax revenues react in response to changes in campaign finance laws. The experience of the states provides a natural setting for studying this relationship, given the considerable changes in state campaign finance law in the last fifty years. Taking stock of the cross-state time-series variation of campaign contributions limits on individuals, corporations and labor unions, we study the effect of contribution limits on spending and taxation per capita in the US states during the 1950-1999 period.

Results indicate that stricter contribution limits lead to larger spending and lower taxation per capita. These findings are robust when controlling for other determinants of economic policy, such as personal income, population, and demographic changes. We also control for political covariates such as the composition of the legislature, the party of the governor, and divided governments. The results lend support to the hypothesis that when campaign contributions are limited, elected officials substitute toward public spending and taxes to attract voters.

Further, we find that the impact of contribution limits is sensitive to partisan politics and gubernatorial term limits. In states with contribution limits, Republican Houses lead to higher spending and lower taxes per capita. Conversely, Democrat Houses are associated with both significantly higher spending and higher taxes. When governors can be reelected, contribution limits are associated with lower taxes than when governors cannot run again. Thus the size and direction of the impact of campaign contribution limits depends on partisan features and term limits.

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Table 1

Number of States with Campaign Contribution Limits, 1950-1999

Year	From Corporations	From Unions	From Individuals	Any Two limits	All three	No limits
1950	29	5	-	5	-	21
1951	29	5	-	5	-	21
1952	29	5	-	5	-	21
1953	29	5	-	5	-	21
1954	29	5	-	5	-	21
1955	29	5	-	5	-	21
1956	29	6	-	6	-	21
1957	29	6	-	6	-	21
1958	31	7	-	7	-	19
1959	31	7	-	7	-	19
1960	33	6	-	6	-	17
1961	33	6	-	6	-	17
1962	32	5	-	5	-	18
1963	32	5	-	5	-	18
1964	33	6	2	6	1	17
1965	33	6	2	6	1	17
1966	33	6	2	6	1	17
1967	33	6	2	6	1	17
1968	33	6	3	4	2	16
1969	33	6	3	4	2	16
1970	33	6	3	4	2	16
1971	33	6	3	4	2	16
1972	32	6	6	5	3	17
1973	32	6	6	5	3	17
1974	30	7	6	5	3	18
1975	30	7	6	5	3	18
1976	31	15	15	12	8	17
1977	31	15	15	12	8	17
1978	34	19	21	10	15	16
1979	34	19	21	10	15	16
1980	34	20	22	8	17	16
1981	34	20	22	8	17	16
1982	35	23	23	8	19	15
1983	35	23	23	8	19	15
1984	33	24	23	7	20	17
1985	33	24	23	7	20	17
1986	33	24	23	7	20	17
1987	33	24	23	7	20	17
1988	33	24	24	6	21	17
1989	33	24	24	6	21	17
1990	36	27	27	6	24	14
1991	36	27	27	6	24	14
1992	39	31	29	6	27	11
1993	39	31	29	6	27	11
1994	40	35	31	4	31	10
1995	40	35	31	4	31	10
1996	41	38	35	4	34	8
1997	41	38	35	4	34	8
1998	42	39	36	4	35	7
1999	42	39	36	4	35	7

All US states are included. Source: *The Book of the States* and *Campaign Finance Law*, several years.

Table 2

State Campaign Finance Law, Policy, and Economic Variables, 1950 - 1999

Means and standard deviations (in parenthesis)

Variable	All States 1950-99	Selected Years			Selected States	
		1960	1980	1999	With three limits	With no limits
Number of limits	1.250	0.780	1.520	2.340		
	(1.135)	(0.648)	(1.266)	(1.118)		
Limits on individuals	0.265	0.000	0.440	0.720		
	(0.441)	(0.000)	(0.501)	(0.454)		
Limits on corporations	0.670	0.660	0.680	0.840		
	(0.470)	(0.479)	(0.471)	(0.370)		
Limits on unions	0.316	0.120	0.400	0.780		
	(0.465)	(0.328)	(0.495)	(0.418)		
Spending per capita	1,142.70	534.33	1,351.00	2,081.83	1,807.60	1,034.19
	(732.08)	(133.59)	(692.66)	(586.73)	(970.05)	(521.09)
Taxes per capita	529.40	250.40	633.63	916.06	764.48	511.92
	(288.02)	(61.90)	(269.30)	(241.22)	(294.86)	(246.33)
Democrat % of House	0.595	0.691	0.590	0.516	0.581	0.617
	(0.220)	(0.222)	(0.203)	(0.153)	(0.184)	(0.231)
Democrat majority	0.630	0.804	0.653	0.510	0.618	0.657
	(0.483)	(0.401)	(0.481)	(0.505)	(0.486)	(0.475)
Democrat governor	0.565	0.688	0.620	0.320	0.537	0.585
	(0.496)	(0.468)	(0.490)	(0.471)	(0.499)	(0.493)
Divided government	0.362	0.304	0.429	0.469	0.360	0.380
	(0.481)	(0.465)	(0.500)	(0.504)	(0.481)	(0.486)
Personal income per capita	10,272.65	6,724.96	11,137.94	15,930.76	13,437.38	9,677.06
	(3,487.50)	(1,392.88)	(1,563.16)	(2,359.42)	(2,729.19)	(3,343.36)
Population	4.265	3.585	4.517	5.566	3.487	4.010
	(4.637)	(3.782)	(4.715)	(6.110)	(3.401)	(5.604)
Pop. % aged 5 to 17	0.225	0.254	0.203	0.190	0.194	0.232
	(0.035)	(0.021)	(0.011)	(0.013)	(0.020)	(0.036)
Pop. % aged 65 or more	0.104	0.090	0.110	0.127	0.121	0.093
	(0.026)	(0.020)	(0.022)	(0.019)	(0.026)	(0.025)
Observations	2450	49	50	50	564	764

All states are included for all years, except Alaska and Hawaii (1950-67), where fiscal data is not available.
Political variables exclude non-partisan Houses: Minnesota, 1950-72; and Nebraska, all years.
Per capita values are in 1982 dollars.

Table 3

Correlation Matrix (p-values in parenthesis)

	Number of limits	Limits on individuals	Limits on corporations	Limits on unions	Spending	Taxes	Democrat share	Democrat majority	Democrat governor	Obs.
Limits on individuals	0.8345									2450
	(<0.001)									
Limits on corporations	0.7608	0.3869								2450
	(<0.001)	(<0.001)								
Limits on unions	0.8784	0.6958	0.4774							2450
	(<0.001)	(<0.001)	(<0.001)							
Spending per capita	0.3958	0.5000	0.1018	0.3830						2450
	(<0.001)	(<0.001)	(<0.001)	(<0.001)						
Taxes per capita	0.3395	0.4887	0.0397	0.3199	0.7205					2464
	(<0.001)	(<0.001)	(0.049)	(<0.001)	(<0.001)					
Democrat % of state House	-0.0554	0.0004	-0.0711	-0.0648	-0.0807	0.0229				2377
	(0.007)	(0.983)	(0.001)	(0.002)	(<0.001)	(0.263)				
Democrat majority indicator	-0.0229	0.0438	-0.0458	-0.0521	0.0117	0.1406	0.7860			2377
	(0.264)	(0.032)	(0.025)	(0.011)	(0.569)	(<0.001)	(<0.001)			
Democrat governor indicator	-0.0192	0.0092	-0.0355	-0.0199	-0.0451	-0.0423	0.3741	0.2535		2448
	(0.340)	(0.648)	(0.078)	(0.324)	(0.026)	(0.036)	(<0.001)	(<0.001)		
Divided government indicator	-0.0183	-0.0200	-0.0240	-0.0016	0.1347	0.1169	-0.1917	-0.0637	-0.2348	2377
	(0.371)	(0.328)	(0.240)	(0.937)	(<0.001)	(<0.001)	(<0.001)	(0.002)	(<0.001)	

All states are included for all years, except Alaska and Hawaii (1950-67), where fiscal data is not available.

Political variables exclude non-partisan Houses: Minnesota, 1950-72; and Nebraska, all years.

Table 4

Effect of Campaign Contribution Limits on State Spending and Taxes per capita, 1950-1999

	Spending per capita				Taxes per capita			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of limits	**28.813**				**-4.287**			
	[4.47]				[1.59]			
Limits on individuals		**62.819**				**3.162**		
		[4.74]				[0.49]		
Limits on corporations			**50.957**				**-14.38**	
			[3.08]				[2.50]	
Limits on unions				**58.616**				**-12.915**
				[4.87]				[2.08]
Personal income per capita	**-0.067**	**-0.063**	**-0.069**	**-0.065**	**-0.009**	**-0.009**	**-0.008**	**-0.009**
	[3.37]	[3.22]	[3.39]	[3.32]	[0.98]	[0.98]	[0.90]	[1.00]
Personal income squared	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
	[9.41]	[9.29]	[9.24]	[9.35]	[11.55]	[11.40]	[11.33]	[11.58]
Population	**-99.428**	**-100.086**	**-98.217**	**-101.45**	**-33.836**	**-33.644**	**-34.33**	**-33.476**
	[14.88]	[14.80]	[14.50]	[15.09]	[10.64]	[10.47]	[10.65]	[10.44]
Population squared	**2.166**	**2.194**	**2.088**	**2.204**	**0.786**	**0.792**	**0.804**	**0.775**
	[12.08]	[12.05]	[11.51]	[12.19]	[10.17]	[10.10]	[10.41]	[9.91]
Pop. % aged 5 to 17	**-1564.9**	**-1658.234**	**-1542.375**	**-1622.391**	**78.151**	**99.673**	**56.13**	**82.716**
	[3.92]	[4.05]	[3.90]	[3.99]	[0.35]	[0.44]	[0.25]	[0.37]
Pop. % aged 65 or more	**-550.61**	**-435.36**	**-434.15**	**-595.67**	**1,333.81**	**1,303.58**	**1,322.85**	**1,358.15**
	[0.93]	[0.75]	[0.74]	[1.01]	[4.58]	[4.52]	[4.61]	[4.63]
Observations	2450	2450	2450	2450	2464	2464	2464	2464
R-squared	0.95	0.95	0.95	0.95	0.90	0.90	0.90	0.90

Robust t-statistics [in brackets] based on Huber standard errors.

Per capita values are in 1982 dollars. All regressions include year and state effects, and control for state personal income per capita and income squared, state population and population squared, percentage of population aged 5 to 17, and aged 65 or more.

All states are included for all years, except Alaska and Hawaii (1950-67), fiscal data N/A..

Table 5

Campaign Contribution Limits, Political Control, and State Fiscal Policy, 1950-1999

	Spending per capita				Taxes per capita			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of limits	**23.486**				**-6.232**			
	[3.56]				[2.25]			
Limits on individuals		**55.813**				**-1.316**		
		[4.03]				[0.20]		
Limits on corporations			**38.613**				**-16.161**	
			[2.34]				[2.82]	
Limits on unions				**47.521**				**-18.47**
				[3.76]				[2.81]
Democrat % of state House	**10.048**	**11.523**	**20.266**	**12.333**	**85.591**	**81.875**	**83.413**	**86.68**
	[0.16]	[0.19]	[0.33]	[0.20]	[3.91]	[3.75]	[3.85]	[3.98]
Democrat majority indicator	**17.255**	**16.585**	**15.247**	**19.1**	**15.941**	**16.217**	**16.65**	**15.068**
	[1.07]	[1.02]	[0.94]	[1.18]	[1.88]	[1.92]	[1.98]	[1.75]
Democrat governor indicator	**7.334**	**7.186**	**8.212**	**6.639**	**-19.674**	**-19.742**	**-20.002**	**-19.377**
	[0.89]	[0.87]	[0.98]	[0.81]	[3.88]	[3.89]	[3.98]	[3.79]
Divided government indicator	**-7.609**	**-6.552**	**-9.713**	**-9.039**	**-10.807**	**-10.078**	**-10.389**	**-10.61**
	[0.81]	[0.69]	[1.03]	[0.96]	[2.42]	[2.25]	[2.33]	[2.38]
Observations	2375	2375	2375	2375	2389	2389	2389	2389
R-squared	0.95	0.95	0.95	0.95	0.90	0.90	0.90	0.90

Robust t-statistics [in brackets] based on Huber standard errors.

Per capita values are in 1982 dollars. All regressions include year and state effects, and control for state personal income per capita and income squared, state population and population squared, percentage of population aged 5 to 17, and aged 65 or more.

All states are included for all years, except: AK and HI (1950-67), fiscal data N/A. MN (1950-72) and NE (all years) have non-partisan Houses.

Table 6

Effect of Campaign Contribution Limits and House Majority on Fiscal Policy, 1950-1999

	Spending per capita				Taxes per capita			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of limits	**19.005**				**-25.867**			
	[2.25]				[6.67]			
Number of limits x Dem. House majority	**7.161**				**31.275**			
	[0.67]				[5.32]			
Limits on individuals		**37.218**				**-68.84**		
		[1.63]				[6.39]		
Limits on individuals x Dem. House majority		**27.934**				**101.142**		
		[1.04]				[6.75]		
Limits on corporations			**23.025**				**-32.31**	
			[1.41]				[4.16]	
Limits on corporations x Dem. House majority			**23.81**				**24.59**	
			[1.27]				[2.48]	
Limits on unions				**53.537**				**-54.867**
				[3.02]				[6.49]
Limits on unions x Dem. House majority				**-9.954**				**60.01**
				[0.43]				[4.77]
Democrat % of state House	**15.169**	**18.862**	**24.401**	**9.48**	**106.847**	**107.076**	**87.559**	**102.855**
	[0.25]	[0.31]	[0.40]	[0.16]	[4.98]	[5.06]	[4.03]	[4.85]
Democrat majority indicator	**6.982**	**7.827**	**-1.941**	**23.057**	**-28.598**	**-15.195**	**-1.014**	**-8.547**
	[0.54]	[0.64]	[0.12]	[1.85]	[4.04]	[2.31]	[0.13]	[1.28]
Democrat governor indicator	**7.175**	**6.855**	**8.096**	**6.7**	**-20.486**	**-21.026**	**-20.17**	**-19.798**
	[0.87]	[0.83]	[0.97]	[0.81]	[4.08]	[4.23]	[4.01]	[3.89]
Divided government indicator	**-7.533**	**-6.531**	**-9.881**	**-9.179**	**-10.534**	**-10.049**	**-10.585**	**-9.799**
	[0.80]	[0.69]	[1.04]	[0.98]	[2.36]	[2.27]	[2.38]	[2.17]
Observations	2375	2375	2375	2375	2389	2389	2389	2389
R-squared	0.95	0.95	0.95	0.95	0.91	0.91	0.90	0.90

Robust t-statistics [in brackets] based on Huber standard errors.

Per capita values are in 1982 dollars. All regressions include year and state effects, and control for state personal income per capita and income squared, state population and population squared, percentage of population aged 5 to 17, and aged 65 or more.

All states are included for all years, except: AK and HI (1950-67), fiscal data N/A. MN (1950-72) and NE (all years) have non-partisan Houses.

Table 7

Effect of Campaign Contribution Limits and Gubernatorial Term Limits on Fiscal Policy, 1950-1999

	Spending per capita				Taxes per capita			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of contribution limits	**30.386**				**-10.55**			
	[3.93]				[4.05]			
Number of limits x governor cannot run for reelection	**-12.372**				**17.97**			
	[1.08]				[2.23]			
Limits on individuals		**72.297**				**-10.597**		
		[4.63]				[1.67]		
Limits on individuals x governor cannot run for reelection		**-39.632**				**43.824**		
		[1.51]				[2.12]		
Limits on corporations			**54.329**				**-25.618**	
			[2.47]				[3.81]	
Limits on corporations x governor cannot run for reelection			**-23.267**				**26.812**	
			[1.03]				[2.66]	
Limits on unions				**60.134**				**-28.191**
				[3.98]				[4.46]
Limits on unions x governor cannot run for reelection				**-21.25**				**38.161**
				[0.83]				[2.04]
Governor cannot run for reelection	**38.503**	**35.448**	**36.53**	**29.146**	**-11.856**	**-0.423**	**-4.628**	**0.000**
	[2.88]	[3.62]	[1.91]	[3.02]	[1.81]	[0.07]	[0.45]	[0.00]
Gubernatorial term limits indicator	**-105.58**	**-102.681**	**-99.475**	**-100.441**	**-8.603**	**-10.92**	**-10.691**	**-9.608**
	[6.32]	[6.25]	[5.84]	[6.22]	[0.89]	[1.14]	[1.11]	[1.01]
Democrat % of state House	**45.653**	**47.703**	**55.599**	**48.144**	**93.987**	**87.987**	**90.3**	**93.741**
	[0.73]	[0.77]	[0.89]	[0.78]	[4.25]	[3.95]	[4.06]	[4.25]
Democrat majority indicator	**10.621**	**9.381**	**8.648**	**13.26**	**15.467**	**16.485**	**16.206**	**14.183**
	[0.65]	[0.58]	[0.53]	[0.81]	[1.80]	[1.89]	[1.88]	[1.65]
Democrat governor indicator	**5.989**	**5.755**	**7.057**	**5.452**	**-19.73**	**-19.801**	**-20.091**	**-19.802**
	[0.73]	[0.70]	[0.85]	[0.66]	[3.90]	[3.92]	[3.95]	[3.81]
Divided government indicator	**-7.882**	**-6.866**	**-10.233**	**-9.356**	**-10.36**	**-9.375**	**-9.977**	**-10.355**
	[0.84]	[0.73]	[1.09]	[1.00]	[2.31]	[2.07]	[2.23]	[2.31]
Observations	2375	2375	2375	2375	2389	2389	2389	2389
R-squared	0.95	0.95	0.95	0.95	0.90	0.90	0.90	0.90

Robust t-statistics [in brackets] based on Huber standard errors.

Per capita values are in 1982 dollars. All regressions include year and state effects, and control for state personal income per capita and income squared, state population and population squared, percentage of population aged 5 to 17, and aged 65 or more.

All states are included for all years, except: AK and HI (1950-67), fiscal data N/A. MN (1950-72) and NE (all years) have non-partisan Houses.

Table 7

Effect of Campaign Contribution Limits and Gubernatorial Term Limits on Fiscal Policy, 1950-1999

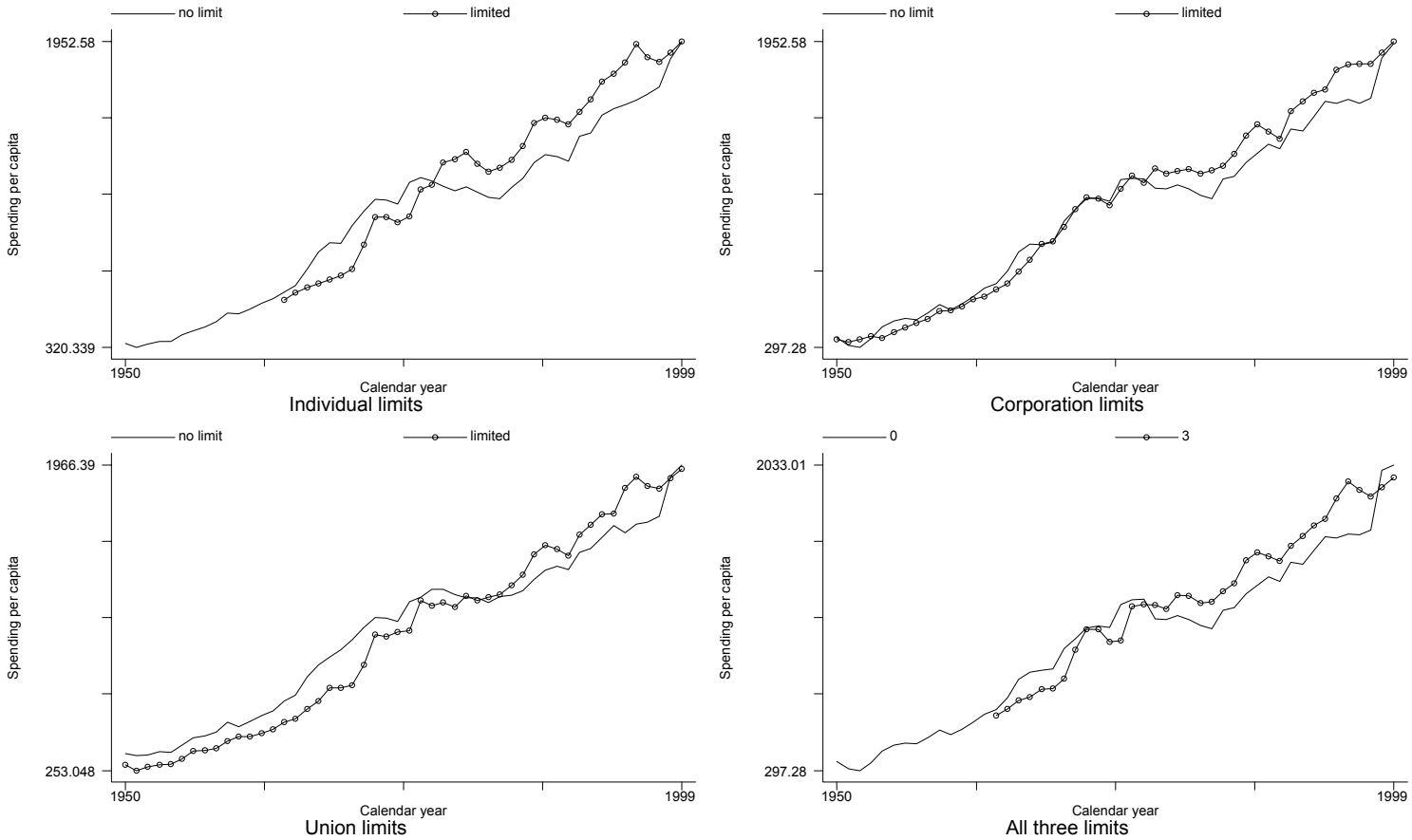
	Spending per capita				Taxes per capita			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of contribution limits	**30.386**				**-10.55**			
	[3.93]				[4.05]			
Number of limits x governor cannot run for reelection	**-12.372**				**17.97**			
	[1.08]				[2.23]			
Limits on individuals		**72.297**				**-10.597**		
		[4.63]				[1.67]		
Limits on individuals x governor cannot run for reelection		**-39.632**				**43.824**		
		[1.51]				[2.12]		
Limits on corporations			**54.329**				**-25.618**	
			[2.47]				[3.81]	
Limits on corporations x governor cannot run for reelection			**-23.267**				**26.812**	
			[1.03]				[2.66]	
Limits on unions				**60.134**				**-28.191**
				[3.98]				[4.46]
Limits on unions x governor cannot run for reelection				**-21.25**				**38.161**
				[0.83]				[2.04]
Governor cannot run for reelection	**38.503**	**35.448**	**36.53**	**29.146**	**-11.856**	**-0.423**	**-4.628**	**0.000**
	[2.88]	[3.62]	[1.91]	[3.02]	[1.81]	[0.07]	[0.45]	[0.00]
Gubernatorial term limits indicator	**-105.58**	**-102.681**	**-99.475**	**-100.441**	**-8.603**	**-10.92**	**-10.691**	**-9.608**
	[6.32]	[6.25]	[5.84]	[6.22]	[0.89]	[1.14]	[1.11]	[1.01]
Observations	2375	2375	2375	2375	2389	2389	2389	2389
R-squared	0.95	0.95	0.95	0.95	0.90	0.90	0.90	0.90

Robust t-statistics [in brackets] based on Huber standard errors.

Per capita values are in 1982 dollars. All regressions include year and state effects, and control for state personal income per capita and income squared, state population and population squared, percentage of population aged 5 to 17, and aged 65 or more. All regressions include the political controls of Table 5: Democrat share of the House, Democrat majority in the House, Democrat governor, and divided government indicators.

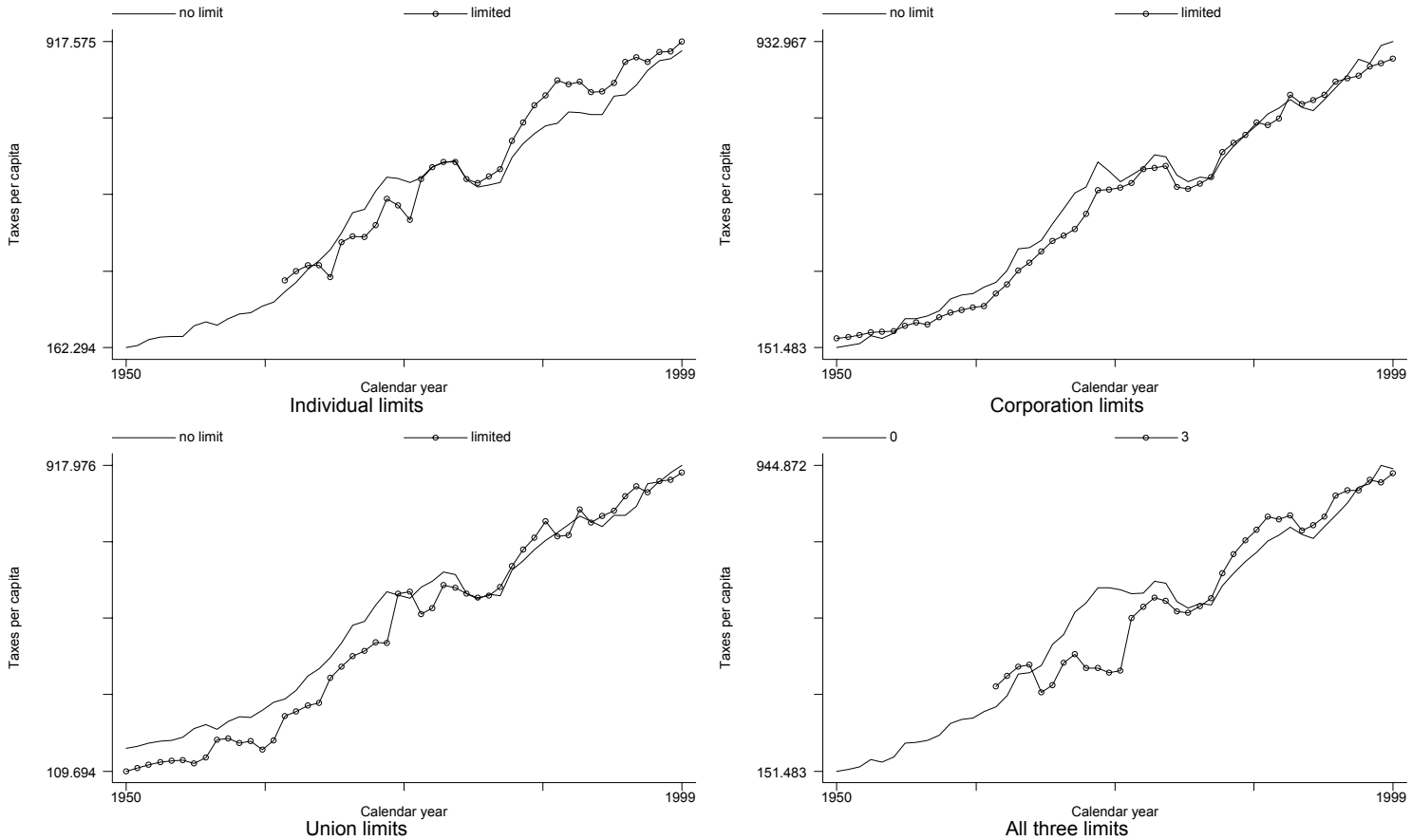
All states are included for all years, except: AK and HI (1950-67), fiscal data N/A. MN (1950-72) and NE (all years) have non-partisan Houses.

Figure 1



Contribution limits and spending per capita, 1950-99

Figure 2



Contribution limits and taxes per capita, 1950-99