

No. 10-24
May 2010

WORKING PAPER

CIVIC PARTICIPATION AND GOVERNMENT SPENDING

By Thomas Stratmann and Gabriel Okolski

MERCATUS CENTER
George Mason University

The ideas presented in this research are the authors' and do not represent official positions
of the Mercatus Center at George Mason University.

Civic Participation and Government Spending

Thomas Stratmann

Gabriel Okolski

Abstract

One rationale for government spending is the provision of public goods and services, mitigating externalities, and correcting other market failures. But government spending is often driven by other factors, such as interest group pressure, voters' desires for income redistribution, and bureaucratic budget padding. This paper starts by outlining theories and research explaining government spending and government growth. We then examine two factors that may influence government spending: voter turnout and political contributions. While these factors may indicate the level of citizen information and participation in the political process, they may also represent citizens' rent-seeking efforts to have government expenditures funneled to them. Analyzing data from the U.S. states between 1980 and 2008, we find that voter turnout and political contributions are positively correlated with government spending. This suggests that government size is driven by more than the desire to provide public goods and services and to correct for market failures.

I. Introduction

Economic theory suggests that the role of government is to spend resources to provide public goods and services that would be unprovided or underprovided by the private sector and to fix other market failures. Furthermore, Hayek (1944) suggested that one function of government is to provide a safety net. While, in theory, these rationales should be behind government spending, in practice, a number of alternative factors drive spending and the growth in government spending. These include citizen demand for government spending, fiscal illusion, institutional arrangements, and interest-group pressure (see, for example, Rodrik 1998, Besley & Case 2003, Rice 1986). These explanations provide alternative rationales for government spending; in many cases, these drivers may lead to outcomes that concentrate benefits on certain groups while reducing total economic welfare.

This paper will review the economics and, more specifically, public choice literature to evaluate some of these theories that explain government spending. Using state panel data from 1980–2008, this paper builds on the literature to empirically test the effect of citizen participation in the political process, measured by voter turnout and the effect of campaign contributions by individuals on state government spending. While individual political contributions and voter turnout are a measure of participation in the political process, they are also indicators of potential rent-seeking efforts or changes in the voting pool that could lead to redistributive policies. The paper will also discuss the implications that these results, controlling for other factors, have on government spending.

Our analysis of the effects of political engagement on government expenditures adds to an extensive and well-established literature on the drivers of government spending. While past work has discussed the effects of economic, geographic, and institutional factors, to the best of

our knowledge, previous research has not studied the effects of both political contributions and voting activity on government size. This paper thus contributes to the literature by analyzing how civic participation, evidenced by voting, contributions, and the interaction of the two, influences government spending.

II. Review of Traditional Theories and Alternate Rationales for Government Spending

From a traditional theoretical perspective, government spending is justified as a method to bolster economic growth when the state uses taxpayer funds to provide welfare-enhancing public goods and services, such as military defense, enforcement of contracts, and police (Wagner 2007, 28). Hayek (1944) also made the case that there is a rationale for government to provide its citizens with a sort of safety net. Because of non-excludability and non-rivalry in consumption, private entities have insufficient incentives to provide these goods and services. As such, an omniscient government can enhance total economic welfare by redirecting resources to uses that are beneficial to citizens once implemented, but would not otherwise be provided to individuals. Though these functions often require regulation or legislation instead of spending, government should theoretically act to eliminate certain other market failures and externalities.

Wagner (1877) incorporates this idealistic view of the state in his explanation for the growth in government spending. In what has become known as Wagner's Law, he theorized that growth in industrial progress and economic growth in a nation will necessarily be accompanied by an increased share of public expenditure relative to economic output. This theory, which predicts that the income elasticity of demand for public goods is greater than unity, underlies the notion that government spending is aimed at providing public goods and eliminating externalities; the citizens of a more industrialized society are likely to have more income and

thus ought to have higher demand for public goods and services. Wagner's law does not appear to have broad support in the literature, however. Larkey et al. (1981) summarize results from testing this theory. They point out that 20th-century studies of Wagner's law yield generally weak confirmation of some version of Wagner's law, although some scholars find no support for Wagner's proposition.

In addition to Wagner's law, scholars have tested other "benevolent" theories that explain government growth, such as the government as provider of insurance. For example, in looking at data from 97 countries, Rodrik (1998) found evidence that higher levels of government spending provide insurance to citizens in open economies who are vulnerable to trade shocks.

Research in public choice and government spending has tested theories related to a government not interested in spending on welfare-enhancing goods and services, but related to a government seeking to accomplish other ends. These competing explanations provide some alternative rationale for why governments spend money and why government spending may be increasing. Rather than serving to provide public goods and mitigate externalities, spending may instead be driven by voters' ability and desire to redistribute wealth, the pressure of interest groups, the budget-maximizing incentives of bureaucratic agencies, or government's incentive to deceive citizens about its true size.

Meltzer and Richard (1983) test the theory that government serves largely to redistribute income from the upper to the lower part of the income distribution. They hypothesize that the greater demand for redistribution, the lower the median voter's income is relative to the mean income of all voters. Using U.S. data from 1938–1976, the researchers find evidence that a lower income of the median voter (relative to the mean) leads to higher government spending and

thereby redistribution.¹ Thus, instead of arising out of increased demand for government goods and services, larger government may come about to facilitate this redistribution. Voter ideology, instead of economic realities, may also serve as a driver of spending. Cusak (1997) studies 16 OECD countries and finds that left-of-center governments tended to favor more redistribution and government spending between 1955 and 1989.

In addition to voters driving the size of government, there is some evidence that other actors such as interest groups contribute to government size. In theory, these groups can organize voters to influence policymakers and pressure them into instituting policies that are not socially optimal (Mueller, 520–521). For example, Rice (1986) presents evidence that labor union and interest-group efforts to introduce policies that reduce economic hardship contributed to the growth in government in Europe between 1950 and 1980. Mueller and Murrell (1985, 1986) also show empirical evidence that political parties supply interest groups with favors in exchange for support, suggesting a rent-seeking arrangement. They find that the number of interest groups in a sample of OECD countries is positively correlated with government size.

In addition to groups outside of government affecting its size, groups within government may also have an effect. Niskanen (1971) proposed a model by which bureaucratic agencies have an incentive to maximize their budgets above what would be demanded by a bureau's sponsor. These higher budgets are used to pad salaries, give more leisure time, and fund more amenities for the agency. Thus an agency may purposely keep unproductive projects going in order to continue to ask for larger appropriations from Congress. Miller (1981) finds evidence that city and county bureaucrats in Los Angeles County seem to be expanding the size and scope of their

¹ The median income is one which is midway between the highest and lowest incomes. This can be contrasted with the mean which is the average of all incomes. If the median is below the mean, it suggests that there is not a large concentration of wealth at the top which would tend to drive the mean upward. Such a concentration of wealthier voters might spend more to reduce the influence of lower income voters seeking redistribution of wealth.

jurisdictions. Ferris and West (1996) find evidence that higher government spending can be attributed largely to slower productivity growth in government relative to other industries. This slower productivity is likely a function of bureaucracies employing more resources than necessary in order to ensure an expansion, rather than a contraction, of budgets. The finding is also consistent with Baumol's cost disease argument, by which productivity tends to stagnate in the service sector since providing services is labor intensive.

Bureaucratic agencies are not the only government entities with an incentive to increase government size. Voters ultimately have an incentive to remain rationally ignorant about government when information costs are high and outweigh the marginal benefit that a citizen obtains from being well informed about a potential policy outcome. Thus, the legislature may create a more complicated tax and funding system than necessary to obscure the true cost of government, thereby creating a fiscal illusion. While some researches have found experimental proof of the effectiveness of fiscal illusion (Tyran and Sausgruber 2000), the theory has not found widespread empirical support in the literature.

Some scholars also examine how institutional factors affect spending. Barro (1973) created one of the earliest theoretical models showing how politician interests may diverge from the electorate's interests. Scholars have found that various factors that can move an official away from providing an ideal amount of a public good include infrequent elections, increased political salary, and a governor who is unable or unwilling to seek reelection after her current term. A number of researchers have evaluated the effect of various institutional arrangements on spending. For example, List and Sturm (2006) find that in "green" states, environmental spending is lower when the governor is facing a binding term limit. Besley and Case (2003)

provide a comprehensive discussion of empirical evidence for the relationship between electoral institutions and political outcomes.

The recent literature also examines the importance of voter information and elections on government size. Rogers & Rogers (2000), for example, theorize that tighter elections lead to an increased likelihood of candidates pursuing a strategy of tax cuts. Using state data, they find that lower margins of victory in gubernatorial elections are correlated with lower levels of government expenditure.

Besley and Burgess (2002) evaluate whether variables for economic performance, political institutions, and voter information have an effect on government responsiveness. Using data from India they find that public food distribution and relief expenditure are greater where governments face greater electoral accountability and where newspaper circulation is highest. Stromberg (2004) evaluates the effects of a New Deal program that increased radio use in households. He finds evidence that the expansion of radio to certain rural areas led to increased government transfer spending in these areas. This finding indicates that increased electoral information and participation may lead to larger budgets because of citizens' ability to attract additional spending.

III. Conceptual Framework

From a theoretical standpoint, voter participation, either in terms of turnout or in terms of contributing to political campaigns, can have ambiguous effects on government size. The amount of individual political contributions is a measure of civic activity and political awareness in a given state, traits that may be associated with greater citizen understanding of the budgetary process, tax structure, and other fiscal indicators. In such a way, voters may be able to better hold

elected officials accountable for budgets that contain spending above or below the median voter's preferred point and may be able to better prevent politicians from increasing spending through a political budget cycle, as modeled by Rogoff (1990).

On the other hand, high levels of contributions can indicate that more individuals are involved in a rent-seeking contest (in a manner similar to that described by Tullock, 1980) to gain transfers from office holders. Liebman and Reynolds (2006) find that political contributions from firms are effective in affecting congressional decision-making and that higher contribution levels attract higher level of rewards. Higher individual contributions may indicate increased efforts by voters in a given state to rent seek and attract additional government services and transfer spending. In a similar manner to that described in Stromberg's (2004) evidence of the connection between radio penetration and federal grants, more informed voters may be able to attract additional spending.

A number of studies in the literature have found that positive correlation between wealth and political contributions (*see, for e.g.*, Joulfaian & Marlow 1991). Since high-income individuals are more likely to contribute to political campaigns than low-income individuals, observing an increased number of political contributions likely means that, *ceteris paribus*, there are a larger number of high-income earners participating in the political process. Given high levels of contributions, then, one may be likely to see lower levels of government redistributive spending because high-income voters are less likely to favor income redistribution to lower-income earners. But because increased levels of money in politics may also be indicative of high-income earners' attempts to garner rents, leading to more government spending, the net effect of campaign contributions on government size is ambiguous.

In this paper we hypothesize that turnout leads to an increase in government size because we assume that larger turnout implies that more lower-income voters are included in the voting pool (Lijphart 1997). There is empirical support for the assumption that the upper income classes have higher participation rates than the lower income classes. Countless studies using survey data within countries have found a positive correlation between participation and various measures of economic status like education and income (Powell (1980), Verba and Nie (1972), Verba, Nie and Kim (1978)). Although both variables are usually positively related to participation rates, the impact of income sometimes disappears once education is controlled for and Chapman and Palda (1983) even obtained a negative and significant coefficient on income in an equation to explain voting, once education was included. One explanation for the strong association between education and voting is that better-educated people gather more information about government policies and candidates in the course of their work and leisure-time activities. Thus, the costs of becoming informed and voting are lower for better-educated citizens (Filer, Kenny, and Morton, 1993).

Thus, applying the model of Meltzer and Richard (1983), having more low-income voters in the voting pool increases government spending due to increased demand for redistribution. This is because low-income earners support spending policies that channel resources from wealthier groups to them in the form of direct transfers or government-provided goods and services. Mueller and Stratmann (2003) find empirical support for this hypothesis. They find cross-national evidence that higher voter turnout leads to larger government expenditures.

IV. Empirical Model and Data

We use state level data to test the effect of civic participation on government size. The dependent variable is a state's spending as a percentage of its GDP. Independent variables include individual political contributions and voter turnout. Individual political contributions are the statewide sum of individual contributions to a candidate or other political committee in the year of an election and the year prior; these committees include political action committees, party committees, campaign committees for presidential, U.S. House, and U.S. Senate candidates. We collected these data from the Federal Election Commission website, which provides detailed contribution data to the public. We measure voter turnout as the percent of eligible voters casting a ballot in a federal general elections. We also include an interaction term² for turnout and contributions to evaluate the combined effects of these two factors on government spending.

The empirical model we use incorporates controls similar to those in Besley and Case (1995): state income per capita, population, the proportion of state residents younger than 18 years of age, and the proportion of state residents 65 years of age and older. We also include in the regression a variable measuring enrollment in universities within the state divided by state population as an indicator of statewide education levels. Also, we include state and year fixed effects. The empirical model is:

$$Gov_{it} = \beta_0 + \beta_1 Contributions_{it} + \beta_2 Turnout_{it} + \beta_3 Turnout_{it} * Contributions_{it} + \beta_3 X_{it} + \gamma_i + \mu_t + \varepsilon_{it}$$

² An interaction term is the product of two variables. Here, it is the product of turnout and contributions.

where the X vector includes the aforementioned control variables. The unit of observations is state i in year t . We employ two measures of government size: “*Gov*” government spending as a percent of state product and per capita government spending.

The data cover all 50 states for all even-numbered years from 1980 to 2008. We consider even-numbered years because they are coincident with federal elections. The dataset includes 749 observations; one observation (Louisiana in 1982) has been omitted due to missing turnout data. Our contribution variable is the sum of individual contributions to a candidate or political committee for a given state for the two-year election cycle. The two-year contributions are then divided by the state population and logged. The variable “*Contributions*” therefore measures the log of the two-year contributions per capita.

While contributions may measure rent seeking or also capture the degree to which citizens are politically active, the estimates on the contribution variable and turnout have to be interpreted with caution. If government grows, more resources are there for redistribution, potentially leading to more rent-seeking activity. Further, turnout may respond to government size. Thus it may be that government size determines campaign contributions and turnout, not vice versa. In an attempt to address this issue, we do not use contributions from state races to measure political participation in the state, but rather individual contributions for federal elections, which measure the extent to which individuals in the state are politically active, but are less likely to respond to state government size as would contributions to state races. Further, while turnout may respond to government size, it is not clear whether turnout increases or decreases as government size grows. Mueller and Stratmann (2003) find little evidence that turnout is endogenous in their government-size regressions. In this paper we treat turnout as exogenous.

Electoral turnout data come from the United States Election Project at George Mason University and the “*Turnout*” variable is the percent of a state’s voting eligible population that participated in a given year’s election. State GDP data come from the Bureau of Economic Analysis. All remaining data were taken from current and past copies of the *Statistical Abstract of the United States*. All data denominated in dollar values have been converted into 2008 dollars.

Table 1 lists the summary statistics for key variables in the regression models. The mean turnout in the data set is 50 percent, with a minimum of 20 percent and a maximum of 78 percent. These are turnouts measured for federal elections. The mean percent of population less than 18 years of age is 26 percent and the mean for those over 64 years of age is 12 percent. Figure 1 shows how campaign contributions have evolved since 1980. The vertical axis measures log individual political contributions. The graph reveals a steady increase over time and that midterm elections, relative to presidential election years, tend to lead to a dip in contributions.

V. Results

Table 2 reports the results from the OLS regressions on both empirical models (excluding state and year dummy variables), along with robust standard errors, statistical significance, and the R-squared for the regressions. The dependent variable in the first two columns is state spending as a percent of GDP per capita. The regressions in columns 1 and 2 explain a significant amount of the variation in state spending with R-squared values of 0.833 and 0.879, respectively. Those in columns 3 and 4 explain nearly all of the variation, with R-squared values of 0.928 and 0.943, respectively.

Columns 1 and 2 in table 2 show results when the dependent variable is state government spending as a percentage of state GDP. The coefficients for both political contributions and turnout are positive, indicating that political contributions and voter turnout have a positive correlation with government size and spending. Both of these variables are statistically significant in the second regression, for which various controls are added. Additionally, the interaction term between the two variables is negative for both regressions and statistically significant for the second specification, indicating that when turnout is high, more political contributions lead to less government spending.

In Table 2, columns 3 and 4, the dependent variable is state government spending per capita. The results are similar to the regressions that have spending as a percent of state product as the dependent variable. As in the case of state government size, campaign contributions have a positive effect on spending; this effect is statistically significant in the baseline specification with no additional control variables. Turnout is also positive but only significant when additional controls are added to the model. The interaction term between campaign contributions and turnout is negative, as was the case with the first two regressions, indicating that at higher levels of contributions, turnout has a negative effect on spending. Nonetheless, these results are not statistically significant at the 5 percent level.

Among the control variables, in all specifications, population is statistically significant and negatively correlated with relative government size: this result indicates that there may be scale effects when it comes to government spending whereby relatively large fixed costs are required to set up basic government services in a state. In a model of country size, growth, and trade openness, Alesina *et al.* (2000) indicate that larger countries have economies of scale effects, and empirically find that government spending as a share of GDP is negatively correlated

with a country's population. Besley and Case (1995), using a similar specification to our model, similarly find a negative correlation between population and state per-capita spending indicating support for this effect.

GDP per capita is negatively correlated with state government size and positively correlated with spending per capita. This shows that wealthier states spend more on a per capita bases but less as a percent of the state product. Our result for spending per capita is in line with the results in Besley and Case (1995).

The results of the variables measuring the faction of the population under 18 and over 64 are mixed. Both demographic variables are not statistically significant in the government spending per capita regression. In the government size regression, the coefficient on those under ages 18 is negative and statistically significant. The negative sign on this age group is consistent with the hypothesis that more voter participation by younger individuals leads to less spending since younger residents do not carry the burdens of potential unemployment payments and other government services. Conversely, a higher proportion of elderly residents would be expected to have a positive correlation with state spending for the opposite reasons. Meltzer and Richard (1981, 1983) propose and find empirical support for a general equilibrium model in which increases in the proportion of the aged population receiving government assistance increases redistribution to those groups.

While the coefficient on those over 64 years of age is positive when the dependent variable is spending per capita, when the dependent variable is state government size, the coefficient is negative. One potential explanation for this unexpected result is that during certain years covered by the dataset, all states have seen increased numbers of early baby-boomers

become elderly. This generation may bring additional financially secure individuals into the elderly population and this reduces the demand for government expenditures.

Table 3 shows the results for two alternate specifications to test the sensitivity of the results when using the log of government spending per capita instead of the level of government spending per capita as the dependent variable. In the literature on government size, both the level and the log of spending per capita are commonly used. The specifications in table 3 mirror those of table 2.

The results from this regression analysis in table 3 show that campaign contributions and turnout have a positive and statistically significant effect for both specifications. This result is in line with the coefficients estimated in the specifications from table 2. When government spending per capita is logged, the signs stay the same but the point estimates have higher levels of statistical significance. The same holds true for the turnout times log contribution interaction term in the specifications using the log of government spending per capita: in both specifications the coefficients on the interaction term is also negative, and in both specifications the point estimate is statistically significant. These results provide additional evidence that turnout and political contributions have a positive and significant effect on government size and spending, but that higher levels of turnout result in contributions having a negative effect on state spending.

With the exception of the point estimate on the variable measuring the elderly population, the point estimates on the control variables in table 3 have the same signs as the same signs as the corresponding estimates in table 2. Both of our demographic variables have a negative sign and the point estimates on the elderly is statistically significant at the 10 percent level.

The results of these models have several implications on the understanding of the effects of citizen information and participation on the levels of government spending. First, the results

show that voter turnout in elections has a positive effect on government spending, and the size of this effect increases and becomes more statistically significant when additional controls are added to the models. This result is in line with our hypothesis and with previous findings about the effects of turnout.

Increases in state voter turnout are correlated with increases in voting enfranchisement (historically, giving women and minorities the right to vote) and additional participation from voters who are on the lower end of the income scale. This effect has a number of potential consequences. Most notably, in a manner analogous to that discussed by Meltzer & Richard (1983), an increase in the number of voters below the median income can result in an increase in redistribution measured as the size of government. This occurs because lower-income individuals have incentive to seek an increase in the amount of government transfers they receive from wealthier citizens. In addition to redistributive transfers, lower-income voters may support expanded provision of public goods and services.

Additionally, higher levels of voting may point to rent-seeking effects that come along with a better-informed citizenry. Indeed, higher levels of turnout, in addition to bringing in lower-income earners, can point to a state whose population has a higher level of political engagement or participation. These individuals may be more likely to have better familiarity with government structure and may better understand effective lobbying methods in order to gain their preferred types of government grants and projects. In a similar effect as that discussed by Stromberg (2004), better-informed citizens, as indicated by higher voter turnout, may be able to have a positive impact on government spending.

We find that political contributions have a positive correlation with state spending. This relationship is only statistically significant in one specification with state government spending

as a percentage of state GDP as the dependent variable, indicating the potential for future research to determine whether this positive link between political contributions and government spending is conclusive. Nonetheless, the positive correlation supports the hypothesis that rent seeking, measured as campaign contributions, is one driver of government spending. By spending more on a candidate or political committee, a state's voters may be engaged in a sort of contest with other voters to obtain rents from a candidate whom they hope will be elected. Assuming that these contributors take the same approach to state-level politics as they do to those on a federal level, a higher level of contributions could lead to increased spending as elected politicians distribute rents to "pay back" the contributors who got them elected.

Additionally, individuals who contribute to political causes are likely to be better informed about the political process and current events (at least some aspects of them); someone with poor information is likely to have lower incentives to give money to a candidate or committee. Thus an increased level of contributions in a state may point to a better-informed citizenry and one that is better able to obtain government grants and transfers. This argument ties into the citizen information argument that applies to states with higher levels of turnout.

Despite the individual effects of turnout and contributions, the interaction between them sheds some light as to how contributions can mitigate the spending effects of voter turnout. As mentioned above, the negative coefficient on this interaction indicates that at higher levels of turnout, contributions lead to a decline in government spending and size. For the regressions in columns one through four in table 2, this critical level of turnout occurs at 26 percent, 46 percent, 69 percent, and 36 percent, respectively. It should be noted that three of these values are actually below the sample mean of 51, indicating that turnout is significant enough to have this result on contributions in a sizable number of the states and years being analyzed.

Likewise, at increasing levels of contributions, turnout begins to have a negative effect on spending and government size. For the regressions in columns one through four, the critical level of contributions are 8.0, 8.0, 6.9, and 7.9, respectively. Two of these values are at or below the sample mean of 7.9, indicating that this effect holds for a sizable portion of observations.

As a sensitivity test we also examined the effect of political contributions as a percent of state product on government size, instead of contributions per capita. When we do so, we find similar results as those reported in our tables.

The most likely explanation for this phenomenon deals with the demographic connection between political contribution and wealth. Higher levels of political contributions in a state point to increasing numbers of wealthy participants in the political process. The inclusion of additional higher-income voters directly counters the “income effects” of increasing turnout: a larger number of voters no longer include only lower-income individuals who have an incentive to seek an increase in government size. If anything, the inclusion of additional high-income voters may lead to reduced spending because these participants would lose out from redistributive policies.

These factors point toward an explanation for some of the reasons for government spending. Rather than government spending being used to correct market failures, mitigate externalities, and provide public goods that are welfare-enhancing, government spending may be the result of rent seeking and serves to redistribute income. This is increasingly the case when lower-income voters have influence in the political process. In the case of a government that seeks to spend based only on correcting externalities, providing public goods and secure property rights, increased voter turnout and political contributions ought to have no influence on the spending decisions in a state. Nonetheless, a statistically significant relationship indicates that

varying levels of citizen participation in rent seeking activities and increased participation of lower-income voters can be effective in increasing spending levels.

While an increased number of contributions draws more higher-income voters into the voting pool and causes turnout to have a lower effect on spending, it is unclear whether this effect serves to constrain government spending in the direction to an optimal size of government, or whether it represents a tug-of-war between two different demographic groups competing to achieve certain policy outcomes. Ultimately, determining the ideal level of government spending is a difficult exercise in any real-world setting. This question aside, the results in this paper show that at a certain level of contributions, the interaction of contributions and turnout shrinks the size of government and spending.

This is not to say that having additional political contributions always reduce government size. They reduce government size only when turnout is sufficiently high. Not considering this interaction effects, higher individual contributions and thus perhaps rent-seeking efforts seem to increase government size and spending. Future research may determine the exact mechanism through which this potential rent-seeking channel operates.

VI. Conclusions

This paper presents an analysis of data from all states in federal election years from 1980 to 2008 to evaluate the effects that political contributions and voter turnout have on the size of state government spending. The results show that voter turnout is positively correlated with both government spending per capita and government size relative to state product: this finding is consistent with the hypothesis that increased turnout draws voters from the lower part of the income distribution who are more likely to support redistributive and government spending

policies. Additionally, political contributions are associated with an increase in the size of government and government spending per capita. This could speak, in part, to the success of campaign contributions as a sort of rent seeking effort by which individuals expect to be rewarded (in the form of government services and transfers) by candidates following their election.

The positive relationship between government spending and turnout is not present in all states. When political contributions rise above a certain level, political participation begins to have a negative effect on government expenditures. This likely occurs because political contributions tend to be positively correlated with wealth; thus, increased levels of contributions imply a larger number of wealthier voters. The effect of these higher-income participants can end up mitigating the lower-income voters' desire for transfers and wealth redistribution, thus leading to lower spending.

Overall, this paper shows that some of the growth in government spending may be partially explained by the increased participation in politics. Furthermore, these results point to the fact that government size and government spending is not necessarily determined only by fixing market failures and providing public goods and services. Instead, an important explanation for government size is the demand of those who are politically active: voters and those who contribute to election campaigns.

References

- Alesina, Alberto, Spolaore, Enrico, & Wacziarg, Romain. 2000. "Economic Integration and Political Disintegration." *American Economic Review*. Vol. 90, No. 5, pp. 1276–1296.
- Barro, Robert J. 1973. "The Control of Politicians: An Economic Model." *Public Choice*. Vol. 14, No. 1, pp. 19–42.
- Besley, Timothy & Burgess, Robin. "The Political Economy of Government Responsiveness: Theory and Evidence from India." *Quarterly Journal of Economics*. Vol. 117, No. 4, pp. 1415–1451.
- Besley, Timothy & Case, Anne. 1995. "Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits." *The Quarterly Journal of Economics*. Vol. 110, No. 3 (1995), pp. 769–798.
- Besley, Timothy & Case, Anne. 2003. "Political Institutions and Policy Choices: Empirical Evidence from the United States." *Journal of Economic Literature*. Vol. 42, pp. 7–73.
- Cameron, D.R. , "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review*, December 1978, 72, pp. 1243-61.
- Chapman, R.G. and K.S. Palda, "Electoral Turnout in Rational Voting and Consumption Perspectives," *Journal of Consumer Research*, March 1983, 9, pp. 337-46.
- Cusak, Thomas R. 1997. "Partisan Politics and Public Finance: Changes in Public Spending in the Industrialized Democracies, 1955-1989." *Public Choice*. Vol. 91, 375–395.
- Ferris, J. Stephen & West, Edwin G. 1994. "The Cost Disease and Government Growth: Qualifications to Baumol." *Public Choice*. Vol. 89, pp. 35–52.
- Filer, John E. 1977. "An Economic Theory of Voter Turnout." Ph.D. dissertation., University of Chicago.

- Filer, John E., Kenny, Lawrence W., & Morton, Rebecca B. 1993. "Redistribution, Income, and Voting." *American Journal of Political Science*. Vol. 37, No. 1, pp. 63–87.
- Hayek, Friedrich A. von. 1944. *The Road to Serfdom*. Routledge, London: The University of Chicago Press.
- Joulfaian, David & Marlow, Michael L. 1991. "Incentives and Political Contributions." *Public Choice*. Vol. 69, pp. 351–355.
- Larkey, Patrick D., Stolp, Chandler & Winer, Mark. 1981. "Theorizing About the Growth of Government: A Research Assessment." *Journal of Public Policy*, Vol. 1, No. 2, pp. 157–220.
- Liebman, Benjamin H. & Reynolds, Kara M. "The Returns From Rent-Seeking: Campaign Contributions, Firm Subsidies and The Byrd Amendment." *The Canadian Journal of Economics*. Vol. 39, No. 4 (Nov. 2006), pp. 1345–1369.
- List, John A. & Sturm, Daniel M. 2006. "How Elections Matter: Theory and Evidence from Environmental Policy." *The Quarterly Journal of Economics*. Vol. 121, No. 4, pp. 1249–1281.
- Lijphart Arend, "Unequal Participation: Democracy's Unresolved Dilemma," *American Political Science Review*, 91(1), March 1997, pp. 1–14.
- Lott, John R., Jr. and Lawrence W. Kenny, "How Dramatically Did Women's Suffrage Change the Size and Scope of Government?" *Journal of Political Economy*, 107(6), December 1999, pp. 1163–98.
- Meltzer, Alan H. and Scott F. Richard. 1981. "A Rational Theory of the Size of Government," *Journal of Political Economy*, 89, October 1981, pp. 914–27.

- Meltzer, Allan H. & Richard, Scott F. 1983. "Tests of a Rational Theory of the Size of Government." *Public Choice*. Vol. 41, pp. 403–418.
- Miller, Gary J. 1981. *Cities by Contract*. Cambridge, MA: MIT Press.
- Mueller, Dennis C. and Murrell, Peter. 1986. "Interest Groups and the Size of Government." *Public Choice*. Vol. 48, pp. 125–145.
- Mueller, Dennis C. 2003. *Public Choice III*. Cambridge University Press.
- Mueller, Dennis C. & Stratmann, Thomas. 2003. "The Economic Effects of Democratic Participation." *Journal of Public Economics*. Vol. 87 (2003), pp. 2129–2155.
- Niskanen, William A., Jr. 1971. *Bureaucracy and Representative Government*. Chicago: Aldine-Atherton.
- Powell, G. Bingham Jr., "Voting Turnout in Thirty Democracies: Partisan, Legal, and Socio-Economic Influences," in: *Electoral Participation: A Comparative Analysis*, ed. Richard Rose, Beverly Hills, CA: Sage, 1980.
- Powell, G. Bingham Jr., "American Voter Turnout in Comparative Perspective," *American Political Science Review*, 80, March 1986, pp. 17–43.
- Rice, Tom W. 1986. "The Determinants of Western European Economic Growth, 1950-1980." *Comparative Political Studies*. Vol. 19, pp. 233–257.
- Rodrik, Dani, 1998. "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy*. Vol. 106, No. 5, pp. 997–1032.
- Rogers, Diane Lim & Rogers, John H. 2000. "Political Competition and State Government Size: Do Tighter Elections Produce Looser Budgets?" *Public Choice*. Vol. 105, pp. 1–21.
- Rogoff, Kenneth. 1990. "Equilibrium Political Budget Cycles." *The American Economic Review*. Vol. 80, No. 1 (March 1990), pp. 21–36.

- Stromberg, David. 2004. "Radio's Impact on Public Spending." *The Quarterly Journal of Economics*. Vol. 119, No. 1, pp. 189–221.
- Tullock, Gordon. 1980. "Efficient Rent Seeking." in *Toward a Theory of the Rent-Seeking Society*. J.M. Buchanan, R.D. Tollison, & G. Tullock, eds., pp. 97–112.
- Tyran, Jean-Robert & Sausgruber, Rupert. 2000. "On Fiscal Illusion." Mimeo, University of St. Gallen, Switzerland.
- Verba, Sidney and Norman H. Nie, *Participation in America*, New York: Harper & Row, 1972.
- Verba, Sidney, Norman H. Nie and Jae-on Kim, *Participation and Political Equality: A Seven Nation Comparison*, Cambridge: Cambridge University Press, 1978.
- Wagner, Adolf. 1877. *Finanzwissenschaft*. Leipzig: C.F. Winter.
- Wagner, Richard E. 2007. "Fiscal Sociology and the Theory of Public Finance: An Explanatory Essay." Cheltenham: Edward Elgar Publishing, Ltd. 2007.

Table 1: Summary Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
State government spending as a % of state product	11.72	3.12	5.33	30.69
State government spending per capita	4422.81	1912.43	1832.90	18227.4
Log campaign contributions	7.91	0.78	5.657848	10.57253
Turnout	50.66	10.86	20.20124	78.36636
Log state population	14.99	1.01	12.90421	17.41984
Percent of population < age 18	26.18	2.51	20.75	37.9
Percent of population > age 64	12.31	2.05	2.99	18.5
Log state product per capita	10.90	0.23	10.3491	12.38259
Enrollment in state universities/population	0.06	0.01	.0191123	0.2104651

Table 2: Effect of Voter Participation on Government Size and Government Spending per Capita

	State Government Size		Gov spending per capita	
	(1)	(2)	(1)	(2)
Log campaign contributions	0.536 (0.825)	1.552** (0.737)	596.6** (298.1)	299.2 (270.1)
Turnout	0.167 (0.102)	0.267*** (0.0876)	59.76 (38.58)	65.25** (33.23)
Log campaign contributions* Turnout	-0.0208 (0.0134)	-0.0336*** (0.0119)	-8.682* (5.029)	-8.316* (4.456)
Log State population		-3.620*** (0.697)		-1,890*** (284.2)
Percent of population < age 18		-0.138** (0.0613)		9.601 (22.75)
Percent of population > age 64		-0.0677 (0.147)		161.7* (97.33)
Log state product per capita		-8.097*** (0.657)		2,575*** (441.8)
Per Capita Enrollment in State University		-3.530 (6.773)		-761.5 (2,218)
Observations	749	749	749	749
R-squared	0.83	0.88	0.93	0.94

State government size is state government spending as a percent of state product.*** p<0.01

** p<0.05 * p<0.1

Table 3: Effect of Voter Participation on log Government Spending per Capita

	Log government spending per capita	
	(1)	(2)
Log campaign contributions	0.461** (0.041)	0.124** (0.053)
Turnout	0.014** (0.005)	0.023** (0.006)
Log campaign contributions* Turnout	-0.003** (0.0007)	-0.003** (0.0009)
Log State population		-0.298*** (0.059)
Percent of population < age 18		-0.0055 (0.0042)
Percent of population > age 64		-0.016* (0.009)
Log state product per capita		0.470*** (0.050)
Enrollment in State University		-0.010 (0.492)
Observations	749	749
R-squared	0.81	0.91

.*** p<0.01 ** p<0.05 * p<0.1 All regressions include state and year fixed effects.

Figure 1

Log individual political contributions over time

