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Master Thesis

The Allocation of Budget in the US:

Does the President use his Power for Electoral Purposes?

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Abstract

This thesis investigates the role of the President in the allocation of budget to the individual states. Most of the existing literature focuses on Congressional influence. However, the executive is also an important player in the budgetary process, not only because of his veto power. The main question of our thesis is whether the President uses his power to allocate federal outlays for electoral purposes. In the field of distributive politics there are two dominant hypotheses regarding the targeting of voters.

The first hypothesis predicts that the President targets states with a considerable share of swing voters. By providing extra outlays, the executive tries to convince these swing voters to vote for him. The second hypothesis predicts that the President provides more federal budget to states where a considerable share of residents voted for him in the last elections. In an empirical investigation using data on federal outlays in the period 1987-2009, we find significant evidence in favor of the loyal voter hypothesis. States with a considerable share of supporters tend to receive more outlays, while swing states are not rewarded.

Our results also show that partisanship is important. More outlays are provided to states where the majority of state delegates in the House is of the same party as the President. These results indicate that the President has a bias towards his own supporters when allocating the federal budget to the states.

Keywords: Distributive Politics, Federal Budget, Loyal Voter Theory, President, Swing Voter Theory, US Elections.

Content

Chapter I

Introduction

The territorial distribution of the US federal budget is commonly regarded as a task for the Congress. Individual congressmen bargain over the allocation of around 3.200 billion dollars in order to bring the highest possible budget home for their voters. [1]
The President of the United States, however, is also engaged in the allocation of the budget. It is the President who starts the budgetary process by sending a draft to the Congress. Then the Congress may alter this budget proposal in any number of ways. In the end the President has veto power to block certain budget decisions. Therefore, the Congress will not completely ignore the priorities of the President.

In the literature, much attention has been paid to the role of the Congress in the allocation of budget. Fewer empirical studies highlight the influence of the President on the federal budget. As we will see in the literature section, these studies mainly focus on two hypotheses.
The first hypothesis is the swing voter model. This model, formally developed by Dixit and Londregan (1996), proposes the idea that political parties maximize their expected election probability by allocating federal funds towards so-called swing states.[2] These swing states have a considerable share of moderate or independent voters, who are easier to persuade. Voters that are moderate in terms of ideology are neither explicitly 'conservative' nor 'liberal'. They are most likely to be convinced by extra federal outlays compared to voters that have strong ideological positions. The same applies for independent voters. It is important to note that, according to this theory, federal funds are not directed to voters who *promise* to support them. Instead, extra budget is allocated to geographical areas with voters who have the highest probability of being persuaded.
The second hypothesis is the loyal voter model. This model predicts that, if parties have a comparative advantage in providing federal outlays to certain groups, they will allocate more outlays to loyal voters. The idea is that the President knows the

[1] Total budget for the year 2009 – Consolidated Federal Funds Report 2009
[2] Probably, the original model is developed earlier, but Dixit and Londregan designed a model specifically on the relation between political parties and government spending.

priorities of his core supporters. It is more effective to 'reward' them than to figure out which other groups he might be able to persuade.

In our thesis we want to test these hypotheses empirically in order to check which model fits the best. As we will point out in section 3, the role of the President in the allocation of budget is quite substantial. Therefore, as opposed to other empirical studies that highlight the role of the Congress, we will focus on the role of the President.

We start our analysis with total federal outlays as variable of interest. This enables us to get an overall picture, a picture that is missed when only specific programs are studied. Subsequently, we will go in detail on the different types of federal expenditures. Our goal is to make a distinction between 'fixed budget' and budget which is more flexible. [3]

Federal grants are an example of expenditures for specific groups. The Congress or the President can decide to provide a particular grant to a state. With these grants the state government has more discretion in the allocation of the money. This is interesting for us, since it provides incentives for the President and the Congress to please individual states.

This thesis contributes to the ongoing debate in the literature in two ways. First, we use relatively new data. While most studies focus on the New Deal program, our study highlights the past 20 years of federal budget allocation.

Secondly, we focus on different types of federal outlays. This allows us to isolate fixed expenditures from our analysis. Besides that, we use federal grants as an explanatory variable. Given the possibility for the President to influence this type of federal outlays, we expect the effect (if any) to be present here.

The remaining of our thesis is organized as follows. In the next section we consult the literature on previous work that has been done on this subject. Section 3 provides insight in the way in which the budget process is organized. This allows us to discover the role and impact of the President in the budgetary process.

Section 4 covers a description of the data and methodology that we have used. In section 5 we present our results. In the end we draw our conclusions and discuss them.

[3] For example: Social Security, Medicare, pensions etc. We assume that the role of the President in the allocation of fixed expenditures is very limited.

Chapter 2

Related Literature

The distribution of federal budget to the individual states has attracted much attention in both the empirical and theoretical literature. Numerous studies highlight different aspects of the allocation process, such as the equal distribution of funds, the role and power of institutional players or the effectiveness of spending.

In this section we discuss previous work that is related with presidential influence on the allocation process.

Congressional influence

Within the distributive politics literature, much research is focused on congressional influence.[4] According to Burden et al. (2010), committee membership and majority party status are the two most prominent reasons for this attention. State representatives seek to maximize their state's budget via committees that debate on the allocation of federal funds. Although this sounds reasonable from a theoretical point of view, empirical studies provide mixed support for this statement. Some studies show that members of particular committees indeed secure more spending. Heitshusen (2001) finds that members of the Agricultural Committee managed to obtain a higher budget, while members of the Education and Labor Committee failed to do so for their states. On the other hand, a study by Rundquist and Ferejohn (1975) ended with the conclusion that 'the basic assumption that congressmen seek to serve their constituencies' economies by becoming members of relevant standing committees is not reflected in our data'. [5]

In our opinion the lack of consensus is due to data limitations. Most studies investigate only a few committees or for a short time period. This makes it difficult to draw general conclusions.

Concerning the relation between Congressional influence and majority party status, it is clear that being in the majority party has its advantages. The majority party has the privilege to determine the agenda and the assignments of the committee. However, empirical studies do not provide profound insight in the influence of the majority

[4] For an overview on the Committee influence literature see Bond et al (2004).

[5] Rundquist and Ferejohn (1975), page 107.

party on the allocation of funds. Most studies focus on a single policy domain over a short time period, which makes it difficult to generalize outcomes to other policy domains. [6]

Presidential influence

The role of the President in the allocation of the federal budget has been largely overlooked in the literature. There are a few exceptions. A number of scholars investigated the presidential influence in the New Deal program, a series of economic programs implemented between 1933 and 1938 by Franklin D. Roosevelt.

Presidential influence in the New Deal spending

It was commonly believed that the preferences of the President did play a role in the allocation of the budget for this program. There were basically two hypotheses. The first hypothesis was that the President tried to target swing voters by spending more budget on swing states. Another explanation was that the President did reward loyal voters.

Wright (1974) and Wallis (1987) found evidence for the first hypothesis. States with high volatility of presidential vote received more budgets.

On the other hand, Anderson and Tollison (1991) find that loyal states rather than swing states did receive more federal support. Fishback et al. (2003) find evidence for both hypotheses. Due to the fact that most studies investigate a part of the New Deal program, it is difficult to obtain a decisive answer on the hypotheses. The bottom-line is that the New Deal program is widely used as a political instrument. Depending on the specific actions in a state, it could be that loyal voters, swing voters or both are rewarded.

Empirical work after the 1974 reform

There are, apart from the studies on the New Deal program, hardly other studies that investigate presidential influence on the budget allocation. This is unfortunate, since there were significant changes in the balance of power between the Congress and the President in the last couples of decades. After the reform in 1974 the power has shifted from the President to the Congress. We elaborate on the relationship between the President and the Congress later.

A paper by Larcinese et al. (2006) tries to bridge this empirical gap after the 1974 reform. Using panel data on federal outlays from 1982 to 2000, they have tested three hypotheses. First, they questioned whether federal funds are disproportionately

[6] Burden et al. (2010)

targeted to swing states. Whether a state is a swing state or not, is measured with past election results. If the margin between the winner and the loser of the elections is small, the state can be characterized as a swing state. Additionally, they constructed a dummy variable with value 1 if the state swung at the last presidential election.
The ideological bias was tested in the second hypothesis, which is the idea that more budget is allocated to states with a large share of voters for the current President. These two hypotheses were tested simultaneously in order to check which effect is more dominant. Their third hypothesis is that party alignment plays an important role. The expectation is that states where the governors belong to the same party as the President, receive on average more than states where there is no alignment between the governors and the executive.

Larcinese et al. found no evidence on the swing voter hypothesis. Swing and marginal states did not receive more budget than other states. However, states with a high proportion of voters for the President tend to receive more federal outlays. This effect is significant, both in statistical and economical terms. One standard deviation in the share of presidential vote is worth 97-164 $. [7]
The authors conclude that the President wants to improve his chances for re-election by rewarding loyal voters rather than targeting swing voters. He expects a higher electoral return from his supporters. In the paper the authors do not take the different stages of the presidential term into account. In our opinion this is unfortunate, because probably there are different patterns in years close to and years right after the elections. It could be the case that the President ultimately wants to convince swing voters during the year prior to the elections.
In the third place different aspects of party affiliation are analyzed. The researchers have observed the relationship between the President and the House, Senate and governors respectively. They found that state where the governor belongs to the same party as the President received more funds. By contrast, states that have a delegation in the House which is predominantly opposed to the President, tend to be penalized.
Other interesting findings are the positive significant effect of a Democratic President on federal outlays and the positive relation between the number of senators per capita and federal outlays.

[7] Larcinese et al., (2006), p. 12.

The problem of endogeneity

Next to this study the authors came up with a different approach [8]. Rather than using past election results, they have used exit polls to estimate voting behavior. They argue that variables constructed from voting data or election outcomes are confronted with the problem of endogeneity. This means that the independent variables are correlated with the error term, resulting in a bias towards zero for the explanatory variables. The most important source of endogeneity is reverse causality. Most papers use past election results to explain current federal spending, while voters might use current federal spending for future voting behavior. We do not know if voters are retrospective or prospective. Larcinese et al. argue that this is problematic: 'if voters are somewhat prospective and parties keep their promises (…) then lagged votes are a function of lagged promises which are equal to (or at least highly correlated with) current spending.' [9]

In order to overcome this bias, they have used exit polls. Exit polls are interviews conducted by news organizations. The interviews are held directly after the voter has left the polling booth. They ask them how they voted and also some questions on ideological identification. Using this information, the researchers tried to measure underlying partisan leaning and ideological attitudes of voters. The idea is that party identification and ideology are more or less stable over time [10] and remain unchanged by short-term policies as the annual federal budget. According to the researchers, variables constructed with exit poll data are therefore more exogenous. In addition, exit polls provide a direct measure of the share of swing voters. The fraction of people who consider themselves as 'independents' and 'moderates' is known and these voters typically do not have stable political preferences.[11]

The results of this study are as follows. They did not find support for the swing voter's hypothesis. Across various specifications, the conclusion holds that states with more independent voters do not receive more federal funds. In states with a close presidential election race, a negative sign was found. This is opposed to what would be expected from the swing voter hypothesis, but provides evidence for the loyal voter hypothesis. This is the only hypothesis for which they found significant coefficients with the expected sign. In the end they conclude that to the extent that voter targeting

[8] Larcinese et al. (2009)
[9] Larcinese et al. (2009), p. 8
[10] The authors name several papers that underline this assumption. See: Goren (2005) about stable partisan identity and ideology.
[11] Stable political preferences in the sense that they do not vote 'always Republican' or their ideological position cannot be characterized as 'liberal' nor 'conservative'

occurs, it is driven more by policy-motivations than by strategic calculations to win electoral support.

Government spending and voting behavior

These findings raise the question if it is reasonable to assume that voters are sensible for the receipt of more federal outlays in turn for votes. This is a relevant issue, since it is an important premise of the hypotheses in the field of distributive politics. For example, in the swing voter model it is assumed that the President (or broader: politicians) can buy votes by giving more federal outlays to swing states. Swing voters are 'easier' to buy, since they do not have strong attachments to a political party. Stated differently, the swing voter model assumes that the President can maximize his expected probability of winning the elections by using distributive policies. But what if voters do not respond to these policies?

In the literature the relation between government spending and voting is worked out in more detail. Some researchers suggest that the evidence is weak. Besley (2006), for instance, found insignificant effects of state expenditures on voting.
By contrast, Litschig and Morrison (2010) found evidence in favor of the proposition that voters do respond to more federal budget. In an empirical paper about government spending in Brazil, they found that an increase of 20% in per capita spending over a four-year period resulted in an improvement of re-election chances by 10 percentage points. The extra government spending also improved education outcomes and household income for the poor, which indicates that the extra money is spent on public services that are highly valued by voters.
So, the literature does not speak with one voice about the response of voters to government spending. The different time frames and the inclusion of control variables make it difficult to compare the studies. More research is certainly needed.

However, regardless whether voters are responding, the loyal voter and swing voter hypotheses have become the conventional way of thinking about distributive politics. The underlying assumptions are widespread, namely that federal outlays are used as a tool to maximize re-election chances and that voters are responding to this gesture of the President. If the evidence shows that there is no significant relationship between federal outlays and the political variables and these assumptions are correct, then the President may not act as a rational player. This in itself is a striking result, which changes the conventional way of thinking in the field of political economy.

Chapter 3

The Budgetary Process

In 1921, the Budget and Accounting Act was established. This act enables the President to compose a budget for the federal government each year. The Budget and Accounting Act is commonly considered as a starting point for domination of the President over the Congress. After the escalating conflict with the Nixon administration, the Congress wanted to modify its role in the budgetary process. In 1974 the Congressional Budget and Impoundment Control Act was implemented. According to Schick (1979), the reform 'has the potential of altering presidential-Congress relationship contributing to a resurgence of Congress'.

For our analysis it is necessary to define the role of the President in the budgetary process. We start with the reform of 1974. Subsequently, the opportunities of the President to influence the budget allocation are analyzed. We conclude this section with information on the time structure of the budget.

Congressional Budget and Impoundment Control Act

There were several reasons for the Congress to implement the Congressional Budget and Impoundment Control Act. First, President Nixon impounded more often and much higher amounts than previous Presidents. The power of impoundment means that the President may decide not to spend all or only part of the money appropriated by the Congress.[12] Nixon reduced 17% to 20% of all expenditures between 1969 and 1972. In the next two years, he impounded nearly 4% of the spending the Congress already had appropriated.[13] President Nixon said that these budget cuts were necessary in order to bring down the budget deficit.

On top of that, he publicly stated that *'the constitutional right of the President of the United States to impound funds….is absolutely clear. I will not spend money if the Congress overspends, and I will not be for programs that will raise the taxes and put a bigger burden on the already overburdened American taxpayer'.* [14]

From the perspective of the Congress the impoundments of the President were seen as a threat to their authority. Therefore, a Joint Study Committee on Budget Control

[12] http://law.onecle.com/constitution/article-2/37-impoundment-of-appropriated-funds.html
[13] 24 U. Fla. L. Rev. 226 (1971-1972) Executive Impoundment of Congressionally Appropriated Funds
[14] President Nixon, news conference, Jan. 31, 1973.

was established. The committee came with the recommendation to reform the budget process, resulting in the Congressional Budget and Impoundment Control Act of 1974.

The Act had two main goals. The first goal was to strengthen and centralize Congress' budget authority. Therefore, the Congressional Budget Office was created, which provided independent economic analysis to the Congress. In the time before the Act the White House had the monopoly on information with respect to the budget. Additionally, a number of committees were created. The Budget Committee, for example, is responsible for the draft of the Congress' annual budget plan.

The second goal of the Act was to reduce the President's impoundment authority. To this end guidelines were created with restrictions on the impoundment of funds. Impoundments are divided into two categories: deferrals and rescissions. In the first category the President asks the Congress to delay the release of appropriated funds, while rescissions can be used to cancel the appropriation of funds. The consequence of these restrictions is that some funds cannot be cancelled.
Nixon tried to veto the Act. The Congress, however, has overridden the veto with a majority of the votes. In 1974 the Act was passed, in the end resulting in less power for the President and a resurgence of Congress.
In the remaining of this paragraph we investigate the budgetary process and the 'new' role of the President.

Office of Management and Budget

The process starts with the collection of requests from federal agencies. Individual states submit their priorities list to the Office of Management and Budget (OMB). [15] This institution, formerly known as the Bureau of the Budget, assists the White House in the preparation of the budget. Once the funding requests are known, the President and the OMB decide which requests will be honored. The OMB-employees are working on behalf of the President and therefore they want to ensure that the President's budget reflects his policy priorities. When requests are not in line with these priorities, officials at OMB can return them to individual states for revision or adjust the documents themselves. In the end, the proposal is a good reflection of the President's policy agenda.
In this part of the process we already observe a possibility for the President to influence the federal outlays in favor of a particular state.

[15] For a detailed overview of the activities of the OMB, see: http://www.whitehouse.gov/omb/

The Congress

On or before the first Monday of February the budget request is submitted to the Congress. The Congress itself may change the budget proposal in any number of ways. Therefore, it is often assumed that the Congress has more power in the allocation of the budget compared to the President. In the literature, committee membership and majority party status are seen as two characteristics that largely determine the influence of individual members in the Congress.

The Congress has several special committees. The Budget Committee, for example, can decide to alter the proposal of funds. Another committee involved with the budgetary process is the Committee on Appropriations. These two committees have the task to hold hearings, to make drafts for new legislation and sometimes revise legislation. As part of the budget process they debate on the draft that is sent by the President. They have the power to change the draft in any number of ways. It is widely believed that these committee members seek to serve their states' interests, in order to 'bring the bacon home'. [16]

This conclusion from the literature is important. Apart from presidential influence on federal outlays, committee members are also likely to influence the allocation of the budget. To avoid omitted variable bias, we therefore include committee membership and different Congress' characteristics in our analysis.

The President actively engages in the process of approving the budget plans by the Congress. First, the sending of the proposal to the Congress coincides with the State of the Union speech. In this speech the President gives an overview of the plans for the coming year and publicly explains his budget choices to the Congress. This provides him the opportunity to emphasize his budget priorities. The Congress members keep these priorities in mind, knowing that the executive can veto the budget if it differs too much from his wishes.

Secondly, the executive used to send some of his own experts to bargain over budget priorities. Furthermore, sometimes the President himself weighs in with direct solicitations to key members of Congress. [17]

[16] See for example: Adler and Lapinski (1997); Deering and Smith (1997) Weingast and Marshall (1988)
[17] Neustadt (1990)

Veto Power

The most important instrument of the President is his veto power. The executive can use this veto power in order to block a program that is approved by the Congress.[18] The veto power can only be overridden by a qualified majority equal to 2/3 of Congress.

It is important to gain a better understanding of the veto power. How often does the White House make use of this instrument? What are the effects of the veto on the overall budget?

To start with the first question, over the years the number of vetoes has declined. President Ronald Reagan vetoed 78 times and of these vetoes 12% was overridden by the Congress. George W. Bush vetoed only 12 times and 33% was overridden.

However, these numbers do not specify the type of vetoes. The table below provides more insight in the number of vetoes concerning the budget allocation. A veto of an appropriations bill can result in the closure of federal agencies and the interruption of federal programs and services.

Table 1: Vetoes and budget allocation

Period	President	Congress	Appropriations Acts Vetoed	Vetoes of Appropriations Acts Overridden
1981-1989	Reagan	97th - 100th	6	1
1989-1993	G. H. W. Bush	101st - 102nd	8	0
1993-2001	Clinton	103rd - 106th	14	0
2001-2009	G. W. Bush	107th - 110th	2	0

Source: U.S. Congress, Senate, Secretary of the Senate, "Vetoes" Web page.

From the table we can infer that only during the Bush jr. Administration the number of appropriation vetoes has declined.

It is interesting to analyze the effects of a presidential veto. According to a study by Kiewiet and McCubbins (1988), the effects of the veto on the overall budget are asymmetric. They found that if the President prefers a lower budget than the Congress, the effect of the veto power is a lowering of the spending. On the contrary, if the President wants to increase spending and the Congress is reluctant, the threat of veto power is not enough to force the Congress to increase spending. On the basis of this finding we could conclude that the veto-instrument is of limited importance for the President.

[18] U.S. Constitution, Article 1, section 7

However, this conclusion does not do justice to the balance of power of both the Congress and the President. A statement based on the occurrence of vetoes gives only partly information about the influence of the President, because it is at the end of the budgeting process. The process itself can be characterized as a bargaining process, as a matter of giving and taking. Presidents almost always give a signal when a veto is forthcoming. The Congress used to anticipate to this signal by altering the allocation. We therefore suggest that if vetoes occur, these are a way of positioning. Congress may approve the budget plan while knowing beforehand that the President is going to veto it. The President in turn, can decide to veto a particular decision while he knows that the Congress is going to override him. In both cases the actors want to send a signal to the public. Focusing only at the number of vetoes is therefore not enough to obtain a comprehensive view on the balance of power between the President and the Congress. The threat of a veto is often enough to 'force Congress to tailor a bill conform to administration wishes'. [19]

Influence after budget approval

After the budget passage, the President has additional opportunities to influence the allocation of the budget. According to Lowry and Potoski (2004), a substantial part of the budget is reserved for discretionary spending. In principle it is the Congress who decides how much is reserved for these programs and grants. Executive agencies, however, may decide on the distribution across the states. On top of that, these agencies under supervision of the President decide on agency expansion, personnel, and grant eligibility requirements. [20]

Besides the influence via executive agencies, the President has the opportunity to redistribute federal outlays. He can transfer funds –within certain boundaries– allowing him to favor states above others. The budget for emergency aid, for example, provides room for the President to influence the geographical distribution of the budget.

Time structure

The fiscal year is different from the calendar year. Since the 1974 reform, the US government fiscal year starts on 1 October of the previous calendar and ends on 30 September of the year with which it is numbered. The process of approving the budget is summarized in the table below.

[19] Cumming and Wise (1981)
[20] Berry, Burden and Howell (2010)

Table 2: Time structure of the Budget Allocation Process [21]

On or Before:	Action to be completed:
First Monday of February	The President submits his budget
February 15	Congressional Budget Office submits report to Budget Committees.
+/- March 15	Committees submit views and estimates to Budget Committees.
April – June	Budget Committees change and work out the budget plan in detail
June 15	Congress completes action on reconciliation legislation
June 30	House completes action on annual appropriation bills.
October 1	Fiscal year begins

As can be seen from the table, the budget proposal is submitted in the year before the fiscal year starts. For example, the budget for the year 2009 is submitted in February 2008. This is important for our analysis, because we have to be precise on the specification of the political variables. If the President wants to reward the states where he has won the elections of 2008, it is impossible for him to do so in the fiscal year 2009. The elections took place in November 2008 and by that time the budget for fiscal year 2009 has already passed the Congress. Therefore, the first opportunity for the President to reward his voters is in fiscal year 2010.

Another important issue is the question whether the outgoing or incoming President submits the budget for the coming fiscal year. In the past, outgoing Presidents were responsible for the budget. They submitted their proposal just prior to leaving the White House. The incoming Presidents, however, used to revise the proposal just after they have entered the Office.

Since the year 1990 the deadline for submission is set on the first Monday in February. The presidential transition officially takes place on January 20, providing the incoming President the opportunity to give an outline for the new budget. The three incoming President since 1990 (Clinton, Bush and Obama) submitted their budgets for FY1994, FY2002 and FY2010 respectively. President Reagan submitted the budget for FY 1989 just prior to leaving the Office, but President G.W.H. Bush did choose not to revise his predecessor's budget. [22]

[21] Retrieved (and later simplified) from: https://www.senate.gov/reference/glossary_term/fiscal_year.htm

[22] Christensen (2012)

Apart from the lag between submission and appropriation of the budget, we have to consider that part of the budget for the current year will be postponed to later years. From official forecasts of the Office of Management and Budget we know that the spendout rate in the first year is approximately 75 percent. [23] We assume that the other 25% is spent in the following year.

If we combine the information about the delay between appropriation and spending and the spendout rate, we learn that past policy makers are responsible for current outlays. In our model specification we need to account for that. We elaborate on this in the data section.

To conclude, we have seen that the President has a first mover advantage by making the initial proposal. Secondly, the Congress bears in mind the preferences of the President during the process of approval, knowing that the executive has the power to veto the budget plan. After the budget is approved the President still has some opportunities to influence the allocation, because part of the budget can be discretely allocated.

Finally, we have pointed out the time structure of the budget process. This is important with respect to the use of lagged variables in our regressions. Past policy makers are responsible for current outlays and we need to account for that in our models.

[23] Office of Management and Budget, *Analytical Perspectives* (2012)

Chapter 4

Data and Methodology

In this section our variables are explained and a definition of the hypotheses is provided.

Methodology

Regarding the methodology, we follow most of the literature by using lagged values of political variables. We partly agree with the critique of Larcinese et al. (2009). As mentioned in the literature section, they argue that the use of past election results is problematic for a couple of reasons. First, they state that the budgetary process is sluggish, which means that there is time between the appropriation of funds and the actual spending. Past policy makers are therefore responsible for current outlays. We recognize this and tackle this problem with the use of lagged values of the political variables. Secondly, they argue that lagged votes are a function of lagged promises, which are highly correlated with current federal spending. At this point we do not agree. The authors assume that voters are prospective; e.g. they promise to vote for a particular candidate if he promises to provide extra federal spending. We, however, assume that voters are more retrospective. Voters take past government spending into account when deciding to re-elect a President or not. More importantly, since we want to explain the allocation choices of the President, we have to look from the perspective of the executive. The President does not aim voters who promise to vote for him, he targets states with a higher share of voters that are moderate or independent. Our hypothesis is that he identifies swing states on the basis of pas election results.

Thirdly, Larcinese et al. used exit polls to obtain a direct measure of partisanship and ideological leaning. They argue that the distance in votes between the winner and the loser of the elections does not provide a complete picture of the underlying ideological leaning. While we are not convinced of the argumentation, we have found a variable that measures the fraction of swing voters per state. To our opinion this is more accurate than the dummy variable that often is used. This dummy variable is equal to 1 if the state swung at the last presidential election and 0 otherwise.

Nevertheless, it would have been interesting to include exit poll data into our analysis as a robustness check. Unfortunately, these data were not available to us.

Data

We have data on federal outlays for the 51 US states from 1987 to 2009. We have chosen the years corresponding to the 5 last presidential terms in order to analyze relatively recent data. The panel structure of the data allows us to observe multiple phenomena over a longer time span. Additionally, we can include both state and time fixed effects in order to reduce the problem of unobserved heterogeneity.

The estimation strategy is thus a two-way panel model without missing values for any of the variables. The index for states is denoted by $i \in \{1, \ldots, 51\}$ and years are denoted by $t \in \{1987, \ldots, 2009\}$.

Dependent variables

We consider three different dependent variables.

1. **Federal outlays per capita** in $ per state. This variable captures all federal outlays.
2. **Targetable expenditures per capita** in $ per state. This variable is defined as federal outlays minus payment to individuals. A significant proportion of the outlays is fixed and it is likely that the President cannot influence this part of the budget. Examples of fixed expenditures are social security, pensions and government wages. We try to remove most of these fixed expenditures from our analysis with this variable.
3. **Grants per capita** in $ per state. Grants contain a larger share of discretionary spending. This means that the Government (both the Congress and the President) can decide to provide extra money to a particular state. A nice property of grants is that state governments have discretion over the way the money is spent. Giving more grants to a particular state is probably a good way to increase popularity, since receiving a higher budget and more discretion is generally seen as positive. Additionally, grants are mostly given to geographical areas instead of individuals. For example, budget that is provided in order to improve poorer neighborhoods.

Hypotheses

There are two hypotheses that we are testing: the swing voter hypothesis (H1) and the loyal voter hypothesis (H2).

H1: States that are marginal and swing receive more outlays than other states

H2: States with the same ideology as the President receive more outlays.

Variables for the swing voter hypothesis

The variable **margin** is used to identify which states are 'battleground' states. The idea is that the President identifies swing states on the basis of past election results. In states where the margin is small, we expect the President to spend more than in states with a high margin. By doing so, he tries to convince voters to support him.

Alternatively, we use the variable **swing percentage**. This variable measures the fraction of voters who swung at the last presidential election. Theoretically, these voters should be easier to convince than voters who have strong ideological positions.

We start with an analysis over the whole time period. It is often assumed that the President targets his voters in the year before the elections. The idea is that the executive convinces the swing voters to support him by giving them extra budget.

Although we think that this is a reasonable assumption, we first want to analyze the whole time period. It could be the case that the President builds a reputation. Voters need to have the perception that the current President seeks the best for their state. It takes time to build this reputation; therefore we analyze the whole time period.

Subsequently, we zoom into the years where we expect the President to put more effort on targeting. The expectation is that the President does this in the year prior to the elections. We include an interaction term 'Swing Percentage * Pre-election year' to observe if this expectation is correct.

Given the time structure of the budget process and the spendout rate, we incorporate lagged values of our political variables. This enables us to ensure that we match election results to the corresponding budget years. For all regressions with respect to the swing voter hypothesis, we define the political variable P as the weighted average of two lagged variables:

$$P_{it} = 0{,}75 * P_{i\,(t-1)} + 0{,}25 * P_{i\,(t-2)}$$

The swing voter model is described as:

$$y_{it} = \propto_i + \delta_t + \beta_1 * Swingpercentage_{it} + \beta_2 * Z_{it} + \beta_3 * X_{it} + \varepsilon_{it} \qquad (1)$$

or

$$y_{it} = \propto_i + \delta_t + \beta_1 * Margin_{it} + \beta_2 * Z_{it} + \beta_3 * X_{it} + \varepsilon_{it} \qquad (2)$$

The variable y_{it} can represent the three different dependent variables: total federal outlays per capita, targetable expenditures per capita or grants per capita.

Here, Z_{it} represents a vector of all other relevant political variables and β_2 provides the vector of its regressors. In the section below an overview of the political variables is provided.

X represents the vector of control variables: population, personal income, unemployment rate, fraction of urban population, fraction of residents aged under 18 years and above 65. All control variables are on state level. δ_t captures the time fixed effects, $\propto_i$ the state fixed effects and ε_{it} is the error term.

Both swing voter percentage and margin are included in order to check if the outcomes are different. We expect the coefficient of swing percentage to be positive: the higher the fraction of swing voters, the higher the federal outlays in that particular state. The margin coefficient should be negative: the closer the presidential elections (margin is small), the more budget is allocated.

Variables for the loyal voter hypothesis

The loyalty of voters is measured with the variable **presidential share**, which provides the fraction of voters for the incumbent President in the last presidential election.

According to this hypothesis, the President tends to reward states on the basis of past election results. We have matched the election results with the corresponding years. In transition years we have taken into account which President was responsible for the budget. Fiscal year 1994 is an example of a transition year. In February 1993, President Clinton came into Office. He is responsible for the proposal of the budget of 1994 and Clinton uses the election results of November 1992 to decide whether to reward a state in 1994 or not.

The regression analysis has the following form:

$$y_{it} = \propto_i + \delta_t + \beta_1 * Presidential\ share_{it} + \beta_2 * Z_{it} + \beta_3 * X_{it} + \varepsilon_{it} \qquad (3)$$

The variable y_{it} can represent the three different dependent variables: total federal outlays per capita, targetable expenditures per capita or grants per capita.

Z includes all other relevant political variables. In the section below an overview is provided.

The variable X represents the control variables: population, personal income, unemployment rate, fraction of urban population, fraction of residents aged under 18 years and above 65. All control variables are on state level. δ_t captures the time fixed effects, $\propto_i$ the state fixed effects and ε_{it} is the error term.

According to the loyal voter hypothesis, we expect the coefficient β_1 of equation (3) to be positive. This means that, ceteris paribus, the higher the presidential share, the more budget is allocated.

Political variables

We have included other political variables that are expected to have influence on the distribution of federal outlays.

The alignment of different political actors can have an important effect on the budget allocation. If the President and the majority of state delegates in the House are of the same party, cooperation is likelier to occur. Otherwise the House is able to override a veto of the President. For this purpose we include a dummy variable with value 1 in case there is an alignment between the President and the majority of state delegates in the House. The same holds for the alignment between the President and the Senate. We also expect that it matters if the President and the two Senators belong to the same party.

As mentioned before, the members of the Budget Committee are quite influential in the budgetary process. Therefore, the number of committee members per state is included in our regressions. Finally, we add a variable with value 1 if a majority of state delegates to the House are in the majority party in the House and 0 otherwise. If, for example, the majority party in the House is Democratic and the majority of House representatives of a state is Democratic too, then the variable has value 1.

Estimation strategy

We start our analysis with estimating the effect of the main explanatory variables. For example, in order to test the loyal voter hypothesis, we run a regression with federal outlays per capita as dependent variable. We take presidential share as explanatory variable and include the standard control variables, as well as state and time fixed effects. This model is called the restricted model.

Subsequently, we add other political variables in order to see whether this changes the results. This model specification is referred to as the full model.

Chapter V

Results

Descriptive statistics

In table 3 the summary statistics of all variables are reported.

The differences in federal outlays per state can be quite substantial. Table 4 shows the average federal outlays per state over the whole period. From this table we can infer that there is a gap of almost $ 5.000 between the states Virginia and Nevada. In the original dataset this gap was even bigger. The states D.C. and Alaska did receive on average ten times more per capita outlays than other states. As customary, we have excluded these states. District of Columbia attracts a disproportionate amount of spending for administrative reasons, while Alaska needs extra budget for defense spending. However, the gap is still substantial. Although this can be entirely due to the characteristics of a particular state, it might be true that political factors also contribute to this gap.

From table 3 we also infer that the average amount of grants represents around 19% of total federal outlays, which is quite substantial.

Swing voter hypothesis

The swing voter hypothesis is tested with two explanatory variables: electoral margin and swing percentage. In table 5 we present our results. Model [1] represents the restricted model, while in model [2] also other political variables are included.

Swing margin

The p-value of 0.01 provides evidence that the influence of swing margin on federal outlays is significant. The sign, however, is opposed to our expectations. According to the swing voter hypothesis, it is expected that more federal budget is provided to states with a close presidential election race. In other words, we expect a negative coefficient of the swing margin variable: the smaller the margin, the closer the race and hence, the more budget is allocated.

To the contrary, column 1 shows that the coefficient is positive. Our findings therefore provide no significant evidence in favour of the swing voter hypothesis. Column 2 shows the model including other political variables. The swing margin coefficient is also positive here, but only significant at the 10% level. This underlines

the results of the restricted model. From the extra political variables that we take into account in the full model, only the alignment between the President and the House is significant. Compared to the restricted model, the effect of the control variables aged under 18, aged above 65 and personal income is more pronounced, whereas the effect of urban population and state population is weaker. It is interesting to observe that the sign of the unemployment coefficient is opposed to the coefficient of the restricted model. We do not know if this is the result of the fact that no time fixed effects are included in the restricted model or that other political variables change the sign of the unemployment coefficient.

The second dependent variable, targetable expenditures per capita, seems to be completely uncorrelated with the number of swing voters. We find no significant values for the variable swing margin. In fact, there are hardly significant coefficients in neither the restricted nor the full model. These findings cast doubts about the accuracy of our model specification. The goodness of fit indicator (R^2) is also low in both cases.

Furthermore, our analysis shows that there is hardly evidence for the swing voter hypothesis if we take grants as our dependent variable. However, it is interesting to note that the coefficient of the interaction term 'Swing margin*Pre-election Year' is negative and significant. This seems to suggest that, as predicted by theory, states with a small margin between the winner and loser of the presidential elections do receive extra grants in the year before the elections.

Swing percentage

The variable swing percentage is used as an alternative measure for the fraction of swing voters in a state. According to theory, we would expect a positive sign of this variable: the higher the fraction of swing voters in a state, the more budget is allocated. Table 6 shows that this expectation is not supported by the data. Although the coefficient is positive in the first two columns, none of the coefficients in any specification is significant at the 5% level.

It is striking to see that the interaction term is negative and significant in this model specification. With a p-value of 0.05 and a magnitude of -1262.45 there is significant evidence that in the year before the elections the President provides more federal outlays to states with a low fraction of swing voters. The same applies for targetable spending and grants per capita. These findings are remarkable, since contradicting outcomes are found if swing margin is used. So, what can be concluded on the basis of these regressions?

To summarize, we find no conclusive evidence in favour of the swing voter hypothesis. The regression coefficients are either insignificant or have the 'wrong' sign. The regression with the swing margin variable, for example, provides significant evidence for the loyal voter hypothesis, rather than the swing voter hypothesis. States with a big electoral gap between the winner and the loser receive extra federal outlays. Furthermore, our analysis shows that in the year before the elections opposing effects are found. While the analysis with swing margin predicts that extra grants are provided to swing states, we find with the swing percentage variable that the opposite is true.

Our findings are mostly in line with the existing literature. It is difficult to compare the different studies, because different time periods, variables and specifications are chosen. The bottom line, however, is that the swing voter hypothesis is not supported by the data. From the researchers mentioned before, Larcinese et al. (2006) Taylor (2008) and Larcinese et al. (2009), no one did found significant evidence for the statement that the President targets swing voters with the allocation of federal outlays.

Loyal voter hypothesis

In this section we explore the results with respect to the loyal voter hypothesis.

As column 1 of table 7 shows, we find evidence in favour of the loyal voter hypothesis. An increase of 1% in the share of voters for the incumbent President is accompanied with an increase of around 644 $ in federal outlays per capita. In column 2, we include other political variables. Then, the effect is less pronounced, but it is still significant at the 10% level. The other political variables turned out to be insignificant here. Regarding the alignment between the President and the House and Senate respectively, we found that these coefficients are set to zero if state and time fixed effects are included.

The analysis with targetable spending as dependent variable provides no significant evidence in favour of our hypothesis. The share of presidential voters seems to be uncorrelated with the amount of targetable spending. However, if we observe the full model, there is reason to believe that the alignment between the President and the Senators matters. More importantly, we find a negative relation between targetable spending and the interaction term, which suggests that the President does not use targetable spending to reward loyal voters in pre-election years. Instead, in these years the executive tends to reward states with a low fraction of supporters.

If we observe the results of the last two columns, we notice that the variable presidential share is again insignificant. No evidence is found that the President uses grants to reward loyal voters. Then it is worth analysing if we see similar patterns as with targetable spending in the year before the election. Indeed, the coefficient of the interaction term is negative and significant again. This indicates a negative relation

between the provision of grants and the presidential support in the year before the election. However, we should be careful with the interpretation of both the targetable spending and grants per capita models. The goodness of fit numbers are very low and a considerable number of coefficients are insignificant. Additionally, we have to take into account that in the full model some political variables are state invariant. There is not enough variation across states and across time for some political variables. The implication thereof is that we have to be careful with the interpretation of the political variables in the full model.

The literature provides support for and against the loyal voter hypothesis. Wright (1974) finds no effect of the share of presidential votes on government spending. Larcinese et al. (2006), on the other hand, find that the share of presidential vote has a positive and significant effect on federal outlays. Earlier work by Anderson and Tollison (1991) and Couch and Shughart (1998) suggests the same: they investigated the period of the Roosevelt Administration. States with a high share of votes for President Roosevelt in 1932 did receive more federal outlays than states with a low share.

Robustness

So far, we have tested our hypothesis separately. As a robustness check, we also want to perform a regression where the different hypotheses are tested at the same time. It could be true that we miss important correlations if we look at the hypotheses separately. Therefore, we test the joint impact of swing percentage and presidential share on federal outlays per capita. We have chosen the variable swing percentage, because swing margin is much more correlated with presidential share. If the margin is high, the presidential share is also high and vice versa. Therefore we are able to make a better distinction with the swing percentage. In table 8 the results are shown.

From this table we can infer that in the restricted model only presidential share is significant. The variable swing percentage is insignificant and has the opposed sign. In the full model presidential share is not significant anymore. Likewise, this is due to the interaction terms, which are both significant at the 10% level. The President spends less money to loyal voters in the year before the elections and more to swing states. This is in line with earlier results.

Control variables

In each model specification we have included 6 control variables: fraction of people above 65, fraction of people under 18, personal income, unemployment rate and urban population.

In the model using targetable expenditures as dependent variable almost all coefficients turned out to be insignificant. Hence, it is not useful to discuss the impact of the control variables in this model specification.

In general, the number of people aged above 65 has no significant impact on federal outlays or the amount of grants. Since data on this variable are only available per 5 years, the variance is likely to be too low. Therefore, the effect is probably captured in the fixed effects terms.

The percentage of under aged citizens in a state is of significant influence, both in statistical and economical terms. The sign of the coefficient is negative, indicating that the fraction of under aged is negatively correlated with the amount of grants and outlays. This finding is in line with other studies. [24]

An explanation for the negative correlation is that states that have relatively 'young' residents do not have much costs for medical care or pensions compared to states with a high fraction of elderly residents.

The influence of the number of residents on outlays is statistically significant in the restricted model. However, if we observe the sign and magnitude of the coefficient, we have to conclude that the variable population does not have a significant economic impact on the dependent variables. The coefficients are close to zero and in the full model population is even not significant in statistical terms. Probably, this has to do with the fact that the dependent variables are in per capita terms.

The variable personal income is of limited influence in the regressions. Although its coefficients are significant and positive, they are close to zero. Likewise, the effect of the variable income is already captured by the fixed effects terms.

Regarding the unemployment rate, we found opposing effects. The coefficient of the restricted model is negative in all specifications, while it is positive in the full model. For example, in the loyal voter model with federal outlays per capita as dependent variable, the restricted model has a coefficient with a value of –74.98 and the full model's coefficient is 245.48. Both numbers are statistically significant. Thus, if other political variables are included (as in the full model), the unemployment rate is positively correlated with federal outlays and grants, while it is vice versa in the restricted model. The reason for this remarkable difference could be that no time fixed effects are included in the full model or that the other political variables change the effect of unemployment. Beforehand we expected a positive relationship between unemployment and outlays, because of higher social security payments.

[24] Larcinese et al. (2006) and Larcinese et al. (2009)

The last control variable that we have considered is urban population, which captures the fraction of people in a state that live in urban areas. This variable is almost always significant, both in statistical and economical terms. The coefficient is strongly negative, implying that states with a low urbanization rate attract a disproportionate amount of federal spending.

Chapter VI

Discussion

In the previous section we have discovered the results of our regressions. In this section we take a closer look on the results and provide directions for further research.

Multicollinearity

One concern is the issue of multicollinearity. This means that two or more independent variables are highly correlated, such that it affects the predicting power of these variables. Correlated variables produce large standard error and this could also be the reason for the low significance of some explanatory variables. Multicollinearity does not change the predicting power of the model as a whole, but only the individual effect of the predictor on the dependent variable.

We have performed the Variance Inflation Factor-test for all our regressions in order to check if multicollinearity is a problem in our dataset. The results are reported in table 9. We have reason to believe that *aged under 18*, *personal income*, *alignment between President and Senate* and *alignment between President and House* are somewhat affected by multicollinearity, since their values are higher than 1. However, in general multicollinearity has very limited impact on our dataset. None of our variables exceeds a VIF-value of 10, which is generally seen as a critical value. Above this value the explanatory variables are seriously correlated.

Although the impact of multicollinearity is limited, we have to be careful with the interpretation of variables with a higher VIF-value. This means that we are not sure about the exact effect of the variables mentioned above. We found that the alignment between the President and the House is in most cases significant, but we are not sure about the exact effect.

Effect of population

Another point of interest is the effect of population on federal spending. As mentioned before, this variable has little to no economic impact on spending. This is remarkable, since we would expect that the number of residents by state matters for the provision of federal funds. Therefore we have performed a regression with a log transformation of the variable population to see whether this changes the results. Indeed, population is now significant and negatively influencing federal outlays per

capita. The effect remains the same across the different model specifications, although it is not always statistically significant. The other variables do not change that much under the new population variable and other studies also find that more outlays are provided to states with fewer residents. [25] The result with the log transformation is therefore more in line with our expectations and other empirical work.

Discussion

We also want to discuss our results and provide possible explanations for the results that we have found.

The swing voter theory predicts that it is easier to convince indifferent voters than voters that have a strong ideological position. The underlying assumption is that voters take the amount of federal spending into account when deciding whom to vote. At least, it is assumed that the President thinks he can buy votes with the allocation of federal funds. The logic of the swing voter theory is that moderate voters are cheaper to 'buy'. If, for example, a democratic President wants to convince a devoted Republican, he has to transfer more funds to him in order to overcome his aversion. In other words, the electoral return from targeting swing voters is the highest.

However, the predictions of the swing voter model are not supported by our data. We do not find that the President targets states with close presidential elections in the past nor states with a high fraction of swing voters. Instead, we found evidence that the President targets loyal voters. What is the reasoning behind these results?

To our opinion, the President has an informational advantage. He knows the preferences of his electorate and it is likely that his preferences are in line with that of his supporters. Therefore, we think that it is easier for supporters 'to get something done' than for residents with an ideological position that is opposed to the President.

In theory swing voters may be cheaper to buy. In practice, however, the electoral reward from a dollar is higher to his own electorate due to the informational advantage of the President.

Another argument for the targeting of loyal voters could be that the executive has the perception that targeting swing voters is ineffective. Swing voters, as the name already says, used to decide right before the elections on which person they cast their vote. Is it therefore reasonable to assume that they take into account the government spending over the past 4 years? Probably, they cast their vote based on the last debate between the candidates or they just vote for the candidate with the biggest smile.

[25] Larcinese et al. (2006) and Larcinese et al. (2009)

The time between the appropriation and the actual spending of outlays makes it also difficult to target this type of voters. Therefore, the allocation of federal outlays as an instrument to convince swing voters may not be as effective as other measures.
Another possible explanation for rewarding loyal voters is the deliverance of promises that have been made during the campaign. For a running candidate it is common to make a tour throughout the country. During such a tour companies are visited, speeches are held and promises are made. In order to be a credible politician and to increase re-election chances, the President has to fulfill these obligations.

Future research

In our analysis we did not find overwhelming evidence that the President uses grants as a tool to target voters. This is surprising to us, because we proposed that grants are an excellent instrument for targeting since the executive has discretion over the way the money is spent. It would be interesting to get a better understanding of this result. For example, what is the role of local and state governments in relation to the President? In our study we have not focused on the interaction between these local governments and the President, but it is likely that partisanship plays a role here. A more detailed analysis of the grants allocation process would certainly deepen our understanding.
Secondly, it would be interesting to make a more detailed analysis of the categories of federal outlays. It could be true that targeting only occurs in specific types of federal outlays. If, for example, the majority of swing voters is women, the President might use measures that result in more benefits for this group of women. The general data that we have used, do not give information on that kind of patterns.
Another direction for future research is to analyze the geographical distribution of campaign funds. First, it is worth investigating where the money comes from. Who are the donors? Is it possible to establish a link between these donations and past government spending? The reasoning behind this is that the financiers reward the President for transferring extra outlays to their state or projects. It is also possible that it is the other way around: the President rewards states that have contributed to the campaign budget.
To our opinion, it is worth analyzing the validity of these arguments in order to get a better understanding of the geographical distribution of federal funds.

Chapter VII

Conclusion

In the distributive politics literature much attention has been paid to the role of the Congress and committee members in particular. The idea is that these representatives try to influence the budgetary process in favor of their state in order to 'bring the bacon home'. While this idea is supported by some empirical studies, the role of the President in the geographical allocation of budget is largely overlooked.
This is unfortunate, because the executive plays an important role as anecdotal evidence shows. The current running candidate for the Republican party, Mitt Romney, said in an interview with Washing Post in 2004: "For republican governors, it means we have an ear in the White House, we have a number we can call, we have access that we wouldn't have otherwise had, an that's of course helpful". [26]

In this thesis the role of the President in the allocation of budget is analyzed. First, we investigate the role of the President in the budgetary process. Some researchers claim that the influence of the executive is diminished, since the reform of 1974 resulted in a 'resurgence of the Congress'. However, we think that the President is still an influential player. The White House has a first mover advantage by having the opportunity to make the initial budget proposal. The President can set priorities and, given the veto power, it is likely that Congress members bear these priorities in mind when altering the initial budget proposal. After the budget is approved the executive still has other opportunities to influence the allocation.

Thus, the President is engaged in the tactical distribution of budget across the states. Then it is worth asking what the reasoning behind this engagement is.
According to theoretical and empirical work, the President uses his power in two ways. The first hypothesis predicts that more money is allocated to states with a higher fraction of swing voters. The idea is that the President tries to convince swing voters to vote for him by providing extra federal outlays. Swing voters used to have moderate preferences and are therefore easier to buy compared to voters with strong ideological

[26] Interview after the re-election of G.W. Bush with Governor Mitt Romney, Washington Post, Monday November 22, 2004.

positions. The second hypothesis predicts that the President rewards loyal voters. This means that states with a high fraction of supporters receive more budget than other states.

We have tested these hypotheses using panel data on federal outlays in the period 1987-2009. Our results show that there is evidence in favor of the loyal voter hypothesis. The President tends to reward states with a high fraction of his supporters at the last presidential elections. These states receive on average 644 $ outlays per capita extra. This result is robust if we include several other political variables that are expected to influence the amount of federal outlays. We found no evidence that more budget is transferred to states with a high fraction of swing voters. Instead, the effect of the variable swing margin also suggests that more money is provided to states with a high fraction of supporters of the President.

Apart from the analysis on total federal outlays, we have taken a closer look on the most manipulative items of the budget. We consider targetable spending and grants as alternative depending variables. With the variable targetable spending we try to remove categories of the budget that are fixed. Grants are expenditures where the President has discretion over the way the money is spent. This probably provides incentives to allocate grants to favored groups.

At this point our results are somewhat disappointing. The variable targetable spending seems to be uncorrelated with the main variables of interest. We find no evidence for the swing voter hypothesis or the loyal voter hypothesis. There is also no significant evidence that more grants are provided to either swing states or loyal states.

We included several other political variables in our analysis. Of these variables, the alignment between the President and the state representatives in the House is important. More money is transferred to states where the majority of state representatives belongs to the same party as the President. This result is robust across the different types of federal outlays.

In the last section of our thesis we provide explanations for our results. Based on theory, we expected that the President targets swing voters because they are cheaper to buy. On the other hand, the President may think that targeting swing voters is ineffective. A more sophisticated explanation is that the executive has an informational advantage on his own voters. His preferences are mostly in line with his supporters, while this is not necessarily true for swing voters.

Chapter VIII

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Chapter IX

Appendix

Tables

Table 3: Summary Statistics

Summary Statistics	Variable	Mean	Median	Minimum	Maximum	Std. Dev.
Dependent variables	Federal Outlays per Capita	$5.954	$5.452	$485	$19.734	$2.304
	Targetable Expenditures per Capita	$3.031	$2.414	$0	$186.452	$5.779
	Grants per Capita	$1.119	$980	$0	$7.183	$729
Explanatory variables	Margin	6,93%	7,33%	-79,84%	85,92%	18,25%
	Presidential Share	50,16%	50,26%	8,95%	92,46%	10,33%
	Swing Voters	8,49%	7,05%	0,06%	45,26%	6,61%
Political variables	Budgetcommittee members	0,806	0,000	0,000	6,000	1,068
	Alignment Senators-President	0,290	0	0	1	0,454
	Alignment President-Senate	0,304	0	0	1	0,460
	Alignment President-House	0,391	0	0	1	0,488
	Alignment House Majority	0,580	1	0	1	0,494
Control variables	Aged above 65 years	12,78%	12,97%	8,52%	17,57%	1,59%
	Aged under 18 years	25,14%	25,05%	20,65%	32,18%	1,76%
	Personal income	$30.854	$30.285	$17.203	$56.959	$6.327
	Population	5586580	3915740	453589	36961664	6039091
	Unemployment	5,27%	5,10%	2,30%	13,30%	1,63%
	Urban population	71,00%	71,50%	38,18%	94,40%	14,52%

Table 4: Average Federal Outlays per Capita. Period 1987-2009

State	Average Federal Outlays per capita
Virginia	$ 9.209,86
Maryland	$ 8.762,87
New Mexico	$ 8.215,56
Hawaii	$ 7.855,68
North Dakota	$ 7.533,87
Mississippi	$ 6.874,40
Massachusetts	$ 6.870,19
South Dakota	$ 6.756,36
Missouri	$ 6.690,06
Louisiana	$ 6.607,15
Alabama	$ 6.584,10
Connecticut	$ 6.575,47
Wyoming	$ 6.499,49
Rhode Island	$ 6.295,73
Maine	$ 6.291,40
West Virginia	$ 6.285,20
Montana	$ 6.221,30
Kentucky	$ 6.125,89
Pennsylvania	$ 6.051,76
Washington	$ 5.983,47
Tennessee	$ 5.960,96
New York	$ 5.865,77
Oklahoma	$ 5.864,68
Florida	$ 5.825,73
Kansas	$ 5.818,63
Arizona	$ 5.670,76
South Carolina	$ 5.668,53
Colorado	$ 5.661,30
Vermont	$ 5.612,34
Nebraska	$ 5.580,87
Arkansas	$ 5.546,18
California	$ 5.463,70
Iowa	$ 5.391,61
New Jersey	$ 5.334,98
Georgia	$ 5.163,80
Texas	$ 5.163,31
Ohio	$ 5.151,53
Idaho	$ 5.130,75
Delaware	$ 5.093,14
North Carolina	$ 5.025,45
Oregon	$ 4.939,44
Illinois	$ 4.908,95
Indiana	$ 4.899,99
New Hampshire	$ 4.888,96
Michigan	$ 4.860,49
Minnesota	$ 4.802,45
Wisconsin	$ 4.774,79
Utah	$ 4.724,65
Nevada	$ 4.667,11

Table 5: Swing Voter Hypothesis with Swing Margin as explanatory variable

Dependent variable	**Federal outlays per capita** [1]	**Federal outlays per capita** [2]	**Targetable expenditures per capita** [1]	**Targetable expenditures per capita** [2]	**Grants per capita** [1]	**Grants per capita** [2]
Constant	16388.10	6478.63	39466.48	64112.98	11058.60	6723.19
	[0.00]	[0.14]	[0.25]	[0.03]	[0.00]	[0.00]
Swing Margin	370.42	345.12	-273.42	897.18	59.46	121.64
	[0.01]	[0.08]	[0.81]	[0.50]	[0.34]	[0.15]
Aged under 18	-162.35	-556.07	743.97	-179.30	-187.77	-194.83
	[0.09]	[0.00]	[0.33]	[0.78]	[0.00]	[0.00]
Aged above 65	168.63	550.45	18.65	152.69	-48.67	24.82
	[0.21]	[0.00]	[0.98]	[0.87]	[0.40]	[0.68]
Personal Income	0.088	0.311	0.117	0.238	0.03	0.095
	[0.00]	[0.00]	[0.53]	[0.02]	[0.00]	[0.00]
Population	0.000	0.000	0.00	0.00	0.00	0.000
	[0.00]	[0.52]	[0.94]	[0.42]	[0.04]	[0.92]
Unemployment	-62.99	250.16	-85.40	337.27	-8.85	57.00
	[0.05]	[0.00]	[0.74]	[0.04]	[0.51]	[0.00]
Urban Population	-13393.50	-6071.81	-82116.04	-97540.69	-7339.18	-5998.54
	[0.00]	[0.16]	[0.00]	[0.00]	[0.00]	[0.00]
Alignment Delegates-House Majority		-96.04		726.56		-20.11
		[0.14]		[0.11]		[0.48]
Alignment President-House		244.11		-261.05		257.09
		[0.04]		[0.74]		[0.00]
Alignment President-Senate		175.25		108.48		-121.53
		[0.13]		[0.89]		[0.02]
Alignment President-Senators		79.54		986.72		51.885
		[0.28]		[0.05]		[0.09]
Budget committee members		-33.30		-299.97		-14.15
		[0.18]		[0.08]		[0.18]
Swing margin*Pre-election Year		-61.40		-2072.28		-359.17
		[0.86]		[0.38]		[0.01]
State / Year Fixed Effects included	Yes / Yes	Yes / No	Yes / Yes	Yes / No	Yes/ Yes	Yes / No
Observations	1029	1029	1029	1029	1029	1029
R-squared	0.90	0.87	0.13	0.11	0.83	0.76

Table 6: Swing Voter Hypothesis with Swing Percentage as explanatory variable

Dependent variable	**Federal outlays per capita** [1]	**Federal outlays per capita** [2]	**Targetable expenditures per capita** [1]	**Targetable expenditures per capita** [2]	**Grants per capita** [1]	**Grants per capita** [2]
Constant	16455.24	6541.55	39200.20	72627.56	11060.27	7018.14
	[0.00]	[0.14]	[0.26]	[0.02]	[0.00]	[0.00]
Swing Percentage	241.79	376.87	-7363.01	-6725.22	-263.27	-81.40
	[0.64]	[0.52]	[0.08]	[0.09]	[0.24]	[0.74]
Aged under 18	-143.57	-553.54	729.24	-309.08	-184.80	-194.59
	[0.13]	[0.00]	[0.34]	[0.63]	[0.00]	[0.00
Aged above 65	143.43	549.35	199.09	138.93	-45.91	45.76
	[0.29]	[0.00]	[0.85]	[0.88]	[0.43]	[0.43]
Personal Income	0.086	0.31	0.11	0.169	0.030	0.089
	[0.00]	[0.00]	[0.57]	[0.10]	[0.00]	[0.00]
Population	0.00	0.00	0.00	0.00	0.00	0.00
	[0.00]	[0.40]	[0.93]	[0.47]	[0.04]	[0.79]
Unemployment	-64.72	250.21	-115.90	343.68	-10.47	57.89
	[0.04]	[0.00]	[0.65]	[0.04]	[0.44]	[0.00]
Urban Population	-13511.81	-6100.14	-82980.93	-100537.9	-7398.20	-6447.84
	[0.00]	0.16	[0.00]	[0.00]	[0.00]	[0.00]
Alignment Delegates-House Majority		-110.87		653.13		-28.25
		[0.09]		[0.14]		[0.30]
Alignment President-House		283.20		420.16		393.20
		[0.02]		[0.62]		[0.00]
Alignment President-Senate		139.42		-431.90		-225.41
		[0.25]		[0.60]		[0.00]
Alignment President-Senators		113.39		1113.92		61.59
		[0.11]		[0.02]		[0.04]
Budget committee members		-33.01		-312.73		-17.61
		[0.18]		[0.06]		[0.09]
Swing Percentage*Pre-election Year		-1262.45		-8527.75		-2426.33
		[0.05]		[0.06]		[0.00]
State / Year fixed effects included	Yes / Yes	Yes / No	Yes / Yes	Yes / No	Yes/ Yes	Yes / No
Observations	1029	1029	1029	1029	1029	1029
R-squared	0.90	0.87	0.14	0.12	0.83	0.78

Table 7: Loyal Voter Hypothesis with Presidential Share as explanatory variable

Dependent variable	**Federal outlays per capita** [1]	**Federal outlays per capita** [2]	**Targetable expenditures per capita** [1]	**Targetable expenditures per capita** [2]	**Grants per capita** [1]	**Grants per capita** [2]
Constant	15193.96	15567.05	2661.52	22326.06	30746.29	10090.08
	[0.00]	[0.00]	[0.51]	[0.48]	[0.26]	[0.00]
Presidential Share	644.42	566.02	-302.07	756.25	63.41	-106.20
	[0.01]	[0.06]	[0.88]	[0.69]	[0.57]	[0.36]
Aged under 18	-188.41	-203.23	563.39	-96.49	-202.12	-199.59
	[0.04]	[0.03]	[0.44]	[0.87]	[0.00]	[0.00]
Aged above 65	157.19	138.84	145.07	559.77	-43.83	49.05
	[0.23]	[0.30]	[0.89]	[0.54]	[0.44]	[0.38]
Personal Income	0.080	0.080	0.102	0.214	0.030	0.092
	[0.00]	[0.00]	[0.56]	[0.02]	[0.00]	[0.00]
Population	0.000	0.000	0.00	0.000	0.000	0.000
	[0.00]	[0.00]	[0.97]	0.6315	[0.03]	[0.44]
Unemployment	-74.99	-73.61	-117.99	270.85	-14.19	47.78
	[0.01]	[0.00]	[0.60]	[0.08]	[0.24]	[0.00]
Urban Population	-10835.87	-10431.92	-52922.93	-58910.53	-5557.70	-4215.81
	[0.00]	[0.00]	[0.03]	[0.01]	[0.00]	[0.00]
Alignment Delegates-House Majority		-35.62		569.76		-23.17
		[0.49]		[0.16]		[0.35]
Alignment President-House		NA		150.16		303.03
				[0.83]		[0.00]
Alignment President-Senate		NA		-14.63		-119.96
				[0.98]		[0.00]
Alignment President-Senators		36.15		883.30		68.74
		[0.53]		[0.05]		[0.01]
Budget committee members		-10.29		-205.07		-7.25
		[0.63]		[0.23]		[0.48]
Presidential share*Pre-election Year		86.84		-1884.78		-462.44
		[0.88]		[0.03]		[0.00]
State / Year fixed effects included	Yes / Yes	Yes / No	Yes / Yes	Yes / No	Yes/ Yes	Yes / No
Observations	1078	1078	1078	1078	1078	1078
R-squared	0.91	0.91	0.13	0.10	0.83	0.10

Table 8:
Full model with Presidential Share and Swing Percentage

Dependent variable	**Federal outlays per capita** [1]	**Federal outlays per capita** [2]
Constant	16044.10	5136.23
	[0.00]	[0.24]
Presidential Share	629.77	446.62
	[0.02]	[0.14]
Swing Percentage	-79.03	-576.45
	[0.64]	[0.37]
Aged under 18	-156.15	-524.03
	[0.10]	[0.00]
Aged above 65	170.41	596.47
	[0.29]	[0.00]
Personal Income	0.088	0.31
	[0.00]	[0.00]
Population	0.00	0.00
	[0.00]	[0.34]
Unemployment	-64.53	240.68
	[0.04]	[0.00]
Urban Population	-13508.00	-6258.25
	[0.00]	[0.15]
Alignment Delegates-House Majority		-101.40
		[0.10]
Alignment President-House		279.00
		[0.01]
Alignment President-Senate		176.15
		[0.09]
Alignment President-Senators		83.12
		[0.22]
Budget committee members		-13.17
		[0.61]
Presidential Share*Pre-election Year		-737.35
		[0.00]
Swing Percentage*Pre-election Year		1859.72
		[0.09]
State / Year fixed effects included	Yes / Yes	Yes / No
Observations	1029	1029
R-squared	0.90	0.87

Table 9: Variance Inflation Factor Test

Model Specification	Swing Margin [1]	Swing Margin [2]	Swing Percentage [1]	Swing Percentage [2]	Presidential Share [1]	Presidential Share [2]
Swing Margin	1.02	1.40				
Swing Percentage			1.02	1.34		
Presidential share					1.01	1.13
Aged under 18	1.47	5.79	1.47	6.10	1.44	5.75
Aged above 65	1.29	2.40	1.30	2.45	1.28	2.38
Personal Income	1.36	5.44	1.36	5.89	1.33	5.23
Population	1.14	1.64	1.13	1.62	1.13	1.63
Unemployment	1.23	1.43	1.23	1.45	1.17	1.36
Urban Population	1.22	1.52	1.22	1.52	1.15	1.48
Alignment Delegates-House Majority		1.06		1.04		1.05
Alignment President-House		3.38		4.23		3.65
Alignment President-Senate		2.99		3.44		3.09
Alignment President-Senators		1.17		1.11		1.15
Budget committee members		1.02		1.02		1.02
Swing Margin*Pre-election Year		1.28				
Swing Percentage*Pre-election Year				1.19		
Presidential share*Pre-election Year						1.10

Definitions

Variables from the Yearly Statistical Abstract, United States Census Bureau

- **Federal Outlays:** real federal expenditures per capita, by state.
- **Grants per capita:** real amount of grants per capita, by state.
- **Aged under 18:** share of the population under 18 years old, by state.
- **Aged above 65:** share of the population over 65 years old, by state.
- **Personal income:** real income per capita in USD, by state.
- **Population:** state population.
- **Unemployment:** yearly unemployment rate, by state.
- **Urban Population:** the number of people who live in urban areas as a fraction of total population, by state.
- **Democratic President:** dummy variable equal to 1 when the President is democratic and 0 otherwise.
- **Composition of Congress:** number of House and Senate representatives.

Variables from the State Board of Election Offices and Leip, David.

- **Presidential Share:** share of voters for the incumbent President, by state.
- **Margin:** distance in percentage of vote between the winner and loser of the presidential race, by state.
- **Swing voter percentage:** fraction of voters who swung at the last presidential election, by state.

Variable from the Office of Management and Budget

- **Budget Committee Members:** number of Budget Committee Members by state.

Constructed variables, based on data from the Statistical Abstract of the United Census Bureau

- **Pre-election year:** dummy variable with value 1 in the year before the elections.
- **Alignment President-Senate:** Dummy variable equal to 1 if a majority of state delegates in the Senate are of the same party as the President.
- **Alignment President-House:** Dummy variable equal to 1 if a majority of state delegates in the House are of the same party as the President.
- **Alignment President-Senators:** Dummy variable equal to 1 if a majority of senators (= 2 senators) are of the same party as the President.