

# Partisan Policies, Fiscal Constraints, and the Growth of Regulation

by

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## Abstract

We investigate whether laws restricting fiscal policies across U.S. states lead politicians to regulate more instead. We first show that partisan policy outcomes do exist across U.S. states using panel budget data from 1970 to 2009. Then we demonstrate that these partisan policy outcomes are moderated in states with no-carry restrictions on public deficits. We then test whether unified Republican or Democratic state governments regulate more when they are constrained by no-carry restrictions. We find no-carry laws restrict partisan fiscal outcomes but tend to lead to more-partisan regulatory outcomes.

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## 1. Introduction

Since the Great Depression the size of U.S. government has grown consistently. While most focus is traditionally on the expansion of the federal government, Figure 1 illustrates the significant role played by the states in this transformation. The size of state and local consumption as a proportion of total government spending increased from 43% to 67% between 1960 and 2010. As a proportion of GDP it grew from 9% to 12%. As is fitting in a federalist economy, much of the growth in the states concerns local public goods such as education, law and order, social transfers (welfare programs), and health expenditures. Voters pay close attention to these programs since they directly affect their lives. Furthermore, there are significant differences in policy preferences between Republicans and Democrats concerning these budget items which both voters and politicians are highly conscious of. In general, the consensus view is that Republicans favor smaller government (lower taxes and spending), while Democrats are viewed as favoring a larger role for government (higher taxes and spending).

These observations raise the question of what role does partisanship play in U.S. state fiscal policy making? When a state has either unified Republican or Democratic government, are fiscal policies different? If so, is it possible to reduce these partisan policy outcomes using laws, such as restrictions on the ability to carry a deficit into the next fiscal year? Finally, if such laws do effectively constrain partisan *fiscal* policy choices, do politicians simply appeal to their constituencies through other legislative endeavors, such as *regulatory* policy? This last point is particularly important since it holds important implications for constitutional design. If we wish to limit government activism using constitutional constraints, then we would like to know if these constraints simply shift activity from one area of government (fiscal policy) to another (regulatory policy). If they do, then it may be more prudent to pursue alternative policies to limit government, such as rules designed to increase electoral competition and ensure a balance of interests among state legislators.

We use panel data on U.S. State fiscal and regulatory policies between 1971 and 2008 to answer these questions. We begin by identifying a strong effect of political parties on state policy outcomes. Previous attempts to do this have either found no effect of unified party control (James Garand (1988); Gilligan and Matsusaka (1995) ) or that taxes and spending tend to increase with Democratic control (Alt and Lowry, 1994; Caplan, 2001). Reed (2006) estimates

that after five years of Democratic control of the legislature, state government is about 3% to 5% larger. We adopt the basic identification strategy of Reed (2006), but unlike his study which focuses on just one dependent variable, “Tax Burden” (the ratio of state and local tax revenues to state personal income), we look at ten different measures of state fiscal policy. What emerges is a more nuanced picture of party activism. We find significant evidence for policy preferences across both parties. When Democrats or Republicans control both the legislature and governorship, six out of ten of our fiscal policy variables are significantly affected. Four of these policies are pursued by Republicans and three by Democrats. We conclude that parties definitely use state fiscal policies to appeal to their voter base.

We next investigate whether the partisan policy preferences we identify disappear in the presence of laws designed to constrain the size of government. We focus on “No-carry” restrictions which limit the ability of the government to carry a deficit into the next fiscal year. The literature on the effect of such budget rules is large (see Drazen, 2004 and Rose, 2006 for a review). We find that No-carry budget rules do constrain political parties. Only two out of ten of our fiscal policies are still significant in states with No-carry budget rules. But does this mean that politicians in No-carry states turn into statesmen and stop trying to legislate in favor of their voter base?

The final stage of our investigation seeks to answer this question by looking at whether politicians engage in offsetting behavior in the presence of binding budget rules. In particular, we compare the regulatory environment in states with No-carry rules and those without, holding constant the amount of unified government. We find that such laws tend to lead to offsetting partisan behavior along the regulatory dimension: when Democrats cannot increase spending, they regulate more and when Republicans can’t cut spending they tend to reduce regulation.

Before we present our empirical results, we develop a simple theoretical model of fiscal constraint. We show that if voters view regulatory and spending policies as non-separable, and if a fiscal constraint binds spending policy to some level between the universal ideal of Republicans and Democrats, then the constraint will result in more-partisan regulatory policies.

## 2. Theoretical Model

Public finance scholars have long recognized the inherent substitutability between fiscal and regulatory policy instruments. As Richard Wagner (1989, p. 108) has put it, “a central principle of public finance is that any statute or regulation can be translated into a budgetary equivalent.” In the simple model that follows, we incorporate voter recognition that fiscal and regulatory policy can be substitutes for one another. We then examine the impact of a fiscal policy constraint such as a strict balanced budget requirement on both fiscal and regulatory policy platforms.

There are two separate primary elections (Republican and Democratic) with two candidates each ( $R1$ ,  $R2$  and  $D1$ ,  $D2$ ). Each primary candidate adopts a platform in two-issue policy space—regulation ( $R$ ) and spending ( $S$ )—during the primary. Larger numbers of each value represent more activity along that dimension (i.e., more regulation or more spending). Each candidate forms his primary platform in such a way as to maximize the expected vote share of his party’s primary electorate. Following the large literature on probabilistic voting, we assume that the probability of a candidate winning a particular voter’s vote is a smooth, continuous, concave function of the utility that the voter receives from that candidate’s platform as well as the utility she would receive from the other primary candidate’s platform.<sup>4</sup> To keep the analysis simple, we assume that there are only two candidates in each primary, though Wittman (1984) has shown that an equilibrium may be obtained in probabilistic vote models with more than two candidates.

Let the superscript represent the candidate and the subscript represent the voter. The probability that Republican voter,  $v$ , will vote for Republican candidate  $R1$  in the primary will be:

$$(1) \pi_v^{R1} = f_v(U_v^{R1}, U_v^{R2}), \quad \frac{\partial f_v}{\partial U_v^{R1}} > 0, \quad \frac{\partial f_v}{\partial U_v^{R2}} < 0$$

where  $U_v^{R1}$  is the utility voter  $v$  will receive from  $R1$ ’s platform and  $U_v^{R2}$  is the utility she will receive from the other Republican candidate’s platform. Let the probability of voter  $v$  voting for candidate  $R2$  be similarly defined.

Now let the aggregate expected number of votes for Republican candidate  $R1$  be equal to the sum of the individual probabilities that any one Republican voter will vote for this candidate:

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<sup>4</sup> The approach was originally developed by Hinich and Ordeshook (1969, 1971), and Hinich, Ledyard and Ordeshook (1971), but it has seen many refinements. See overviews by Enelow and Hinich (1984, ch. 5), Ordeshook (1986, pp. 177-80; 1997), Coughlin (1992), and Mueller (2003, pp. 249-254).

$$(2) EV^{R1} = \sum_{v=1}^n \pi_v^{R1}$$

Coughlin and Nitzan (1981a,b) show that if individual probabilities take the form,

$$(3) \pi_v^{R1} = \frac{U_v^{R1}}{U_v^{R1} + U_v^{R2}}$$

then an equilibrium will obtain in which candidates position themselves at the peaks of the aggregate expected vote function of (2). We assume that a similar contest takes place in the Democratic primary.

Now consider the consequences of assuming that voters view regulatory and fiscal policies as tradeoffs along some margin. This requires us to more-explicitly define the voters' utility functions.

Let  $I_v = \begin{bmatrix} S_v \\ R_v \end{bmatrix}$  be a two-dimensional policy vector representing voter  $v$ 's ideal spending and regulatory combination, and let  $P_C = \begin{bmatrix} S_C \\ R_C \end{bmatrix}$  be the stated policy platform of candidate  $C$ .

The utility that each voter gets from the platform of any candidate is a negative function of the "weighted Euclidian distance" of that candidate's policy vector ( $P_C$ ) from the voter's ideal policy vector ( $I_v$ ). That is:

$$(4) U_v^C = fWED_v^C(I_v, P_C), \quad \frac{\partial U_v^C}{\partial WED_v^C} < 0$$

Following Hinich and Munger (2001, p. 84), the weighted Euclidian distance between voter  $v$ 's ideal and candidate  $C$ 's platform is given by:

$$(5) WED_v^C(I_v, P_C) = \sqrt{\alpha(S_v - S_C)^2 + 2\beta(S_v - S_C)(R_v - R_C) + \gamma(R_v - R_C)^2}$$

where  $\alpha$  is the salience term for spending issues,  $\beta$  is the interaction term, and  $\gamma$  is the salience term for regulatory issues.  $\alpha$  and  $\gamma$  are, by definition, nonnegative. They may take the value 0, however, if spending or regulation have no salience for the voter whatsoever (for our purposes, we assume these values are positive).  $\beta$  indicates the voter's conditional preference for one policy, based on the value taken by the other policy. If  $\beta$  equals 0, the issues are said to be separable and the value of one policy does not affect the voter's preferences for the other.<sup>5</sup>

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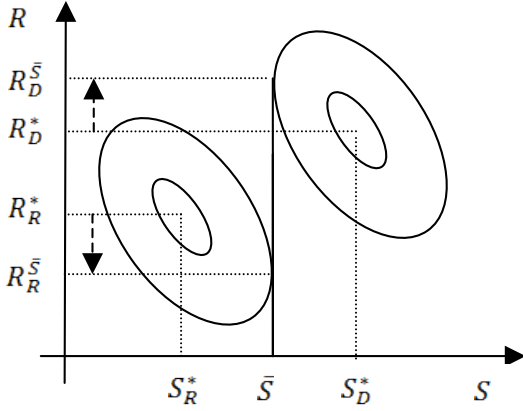
<sup>5</sup> In order for the voter's preference to be concave, and for his indifference curves to be ellipses, it must be true that  $\alpha\gamma - \beta^2 > 0$ .

**Assumption 1:** We assume that  $\beta > 0$ . This implies *negative complementarity* between spending and regulation. In other words, if the given level of spending is high, then all things being equal, the voter would prefer a lower level of regulation. And if the given level of spending is low, the voter would prefer more regulation. This is true for both Republicans and Democrats and is a natural consequence of voters' understanding that fiscal and regulatory policies can be substitutes for one another.

**Assumption 2:** We further assume that some institution—for example, a strict balanced budget requirement or a tax and expenditure limitation—constrains spending policy to some level,  $\bar{S}$ , which lies between the ideal spending levels of the median Republican voter,  $S_R^*$ , and Median Democratic voter,  $S_D^*$ . Therefore, we have  $S_R^* < \bar{S} < S_D^*$ . Given the fact that these institutional constraints are themselves the products of political compromise, it seems reasonable that they would restrict spending to some level between the respective ideal spending positions of Democrats and Republicans. For the time being, we assume that this level of spending is binding in both directions (i.e., it is not just a spending ceiling but also a floor).

Given the assumptions above, the respective indifference curves of a typical Democrat and Republican voter will appear as they do in Figure 1 below, with the Democrat's ideal point being  $I_D = \begin{bmatrix} S_D^* \\ R_D^* \end{bmatrix}$  and the Republican's ideal point being  $I_R = \begin{bmatrix} S_R^* \\ R_R^* \end{bmatrix}$ . With spending fixed at  $\bar{S}$ , the Republican's conditional ideal regulatory policy shifts down to  $R_R|\bar{S}$ , while the Democrat's conditional ideal regulatory policy shifts up to  $R_D|\bar{S}$ . The reason is intuitive: if institutional constraints force spending to a level that is greater than that preferred by the typical Republican, he will prefer that regulations be particularly light so as to counteract what he perceives as overly-burdensome spending policies. Similarly, if spending is constrained to some level below that preferred by a Democratic voter, he will wish that regulatory policy be more aggressive to make up for what he perceives as insufficient spending.

Figure 1. Conditional Preferences with Negative Complementarity



Mathematically, the task of any candidate seeking his party's nomination in the primary is to maximize his expected vote function (equation (2) above, in the case of candidate  $R1$ ). If individual primary voters are normally distributed about some point such as  $(S_R^*, R_R^*)$  in the case of the Republicans, then the contours of the aggregate expected vote function (equation (2)), will follow a pattern similar to the weighted Euclidian distance function of equation (5) above. The candidate will maximize his probability of winning the nomination by adopting a platform that is in the center of the aggregate expected vote function.

Given Assumption 2, however, the candidate will not be able to position himself at the center of the expected vote function. Instead, he will be bound to the line traced out by  $\bar{S}$  and will select a regulation which, conditioned on  $\bar{S}$ , minimizes (5). Thus, his platform will be the vector

$$P_C = \begin{bmatrix} \bar{S} \\ R_C^{\bar{S}} \end{bmatrix}.$$

Let the distance between the voter's ideal spending level and the institutional spending restraint equal  $\theta = S_v^* - \bar{S}$ . By assumption 2, this is assumed to be positive in the case of a Democratic voter and negative in the case of a Republican. In this case, (5) simplifies to:

$$WED_v^C(I_v, P_C) = \sqrt{\alpha\theta^2 + 2\beta\theta(R_v - R_C) + \gamma(R_v - R_C)^2}$$

Taking the derivative with respect to  $R_C$  and setting equal to 0, we obtain:

$$\frac{\partial WED_v^C(I_v, P_C)}{\partial R_C} = \frac{1}{2}(\alpha\theta^2 + 2\beta\theta(R_v - R_C) + \gamma(R_v - R_C)^2)^{-\frac{1}{2}} \cdot (-2\beta\theta - 2\gamma(R_v - R_C)) = 0$$

$$-2\beta\theta - 2\gamma(R_v - R_C) = 0$$

Which simplifies to:

$$(6) R_C = \frac{\beta\theta}{\gamma} + R_v = R_C^{\bar{S}}$$

From (6) it is clear that, upon the condition of a spending constraint, Democratic candidates (for whom  $\theta > 0$ ) will select a regulatory platform that involves more regulation than  $R_v$  (which is what they would select in the absence of a constraint). On the other hand, Republican candidates (for whom  $\theta < 0$ ) will select a regulatory platform that involves less regulation than otherwise.

Before moving on to the empirical investigation, it is important to revisit one particularly-stylized assumption above: the idea that the spending constraint  $\bar{S}$  is binding in both directions. Some might suppose that such a constraint would only be an *upward* bound on spending. In this case, only Democratic candidates would condition their regulatory platforms on the presence of  $\bar{S}$ . On the other hand, Republican candidates—who would prefer to spend less than the constraint anyway—would be free to select their voters' ideal regulatory policy position,  $R_R^*$ .

In our view, the idea that a spending constraint would be binding in both directions is not entirely unrealistic. A number of empirical analyses have found that tax and expenditure limits (TEs) seem to lead to *more* spending in high-income states where the TEL formula permits more spending than the state would otherwise select.<sup>6</sup> From a theoretical perspective, it may be that these types of constraints act as Shelling Points, directing politicians to adopt the constraint-dictated level of spending or perhaps providing candidates who want to spend beyond the constraint with an excuse to do so. In any case, we believe the theoretical prediction in the case of Republicans remains ambiguous.

In summary, we have two theoretical predictions. First, in states where Democrats control the legislative process, a fiscal constraint will induce the adoption of relatively more regulation. Second, in states where Republicans control the legislative process, a fiscal constraint may or may not induce the adoption of relatively less regulation, depending on whether or not the constraint is binding in both directions. In the next sections we test these two predictions using U.S. state level data. We first establish that partisan preferences over fiscal policy exist. The,

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<sup>6</sup> On this possibility, see studies by Shadbegian (1996), Crain (2003), and Mitchell (2010).



we exploit the institutional variation across states with regards to constitutional constraints on budget deficits to establish that partisan fiscal preferences can be constrained. Finally, we investigate whether unified democratic or republican governments in states with binding budget rules pursue more active regulatory policies to offset their inability to affect fiscal policy.

### **3. Identification Strategy and Data**

#### *A. Partisan Fiscal Policy Preferences*

We use panel data on U.S. state fiscal policy, economic conditions and partisan control for 1970 through 2009 inclusive. Our dependent fiscal variables are five measures of state tax and five measures of state spending. Each dependent variable is measured in 10,000 dollars per capita. The five revenue measures are: “Total Taxes”, “Sales Taxes”, “Personal Income Taxes”, “Corporate Income Taxes”, and “Federal Transfers”. The five spending measures are: “Total Expenditures”, “Education Expenditures”, “Law and Order Expenditures”, “Welfare Expenditures”, and “Health Expenditures”.

We measure partisan control as Democratic and Republican control of both the lower house of the legislature and governorship, with the omitted category being split control.<sup>7</sup> Previous work by Alt and Lowry (1994, 2000) has found that partisan control of both branches of state government is more strongly correlated with fiscal actions than individual control of each branch. Nebraska is excluded from the data since politicians in that state do not formally affiliate with parties. We also follow convention and exclude Alaska due to its location and resource-dependence.<sup>8</sup>

We include several variables to control for economic, demographic, fiscal and political factors. The economic variables are the “Log Real Personal Income per worker”, “Unemployment Rate”, “Unionization Rate”, “Real Wage Rate in manufacturing”, “Percent Earnings from Manufacturing” and “Percent Earnings from Agriculture”. The demographic variables are “Percent of Population Female”, “Percent of Population Black”, “Percent of Population 0-17 years old”, “Percent of Population 65+ years old” and “Log Population Density”. The fiscal variable is “End of Year Budget Balance” measured as 10,000 dollars per person. Besley and Case (1995a) argue that

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<sup>7</sup> We thank Shanna Rose for providing us with her data from her 2006 paper.

<sup>8</sup> See, for example, Shadbegian (1996), Besley and Case (2003) or Primo (2006).

politicians are constrained in their policy-making behavior by the current tax burden in the state. The political variables are a dummy for a “Lame Duck Governor” and indices of “Citizen Ideology” and “Government Ideology”. The ideology indices are an updated version of Berry et al. (1998).

To avoid making restrictive (and potentially erroneous) assumptions concerning the lag structure of our policy variables, we follow Grier and Tullock (1989) and Reed (2006) and aggregate our 40 yearly observations into 10 four-year election cycles.<sup>9</sup> As a result, the final data set contains 480 observations on 48 states over 10 election cycles.<sup>10</sup> Descriptive statistics for our ten dependent variables are presented in Panel A of Table 1. The means and standard deviations of each variable are shown for the full sample, Unified Democratic, Unified Republican and Split. The variables are all in terms of 10,000 real per capita dollars. Thus, the values of 0.1235 and 0.2731 for total taxes and total spending for the full sample are interpreted as saying that the average citizen in a U.S. state paid \$1,235 in taxes and received \$2,731 of expenditures.

Perhaps the most interesting fact to emerge from Table 1A comes from looking at the means of the policy variables under either unified Democratic or Republican governments presented in columns (2) and (3). Bluntly stated, in levels, Democratic policy looks like Republican policy and vice versa. Total Taxes (and all the sub-categories of taxation) are lower in states with unified Democratic governments than in those with unified Republican governments. Likewise, Total Expenditures and its sub-components are all lower under unified Democratic governments. One possible explanation for this regularity is that Democrats and Republicans don't act in accordance with our priors. Alternatively, a more likely interpretation would be that voters elect either Democratic or Republican governments to do exactly what we expect them to do. If state spending and taxation is high and voters wish to rein this in, they can elect Republican politicians whom they expect to shrink the size of government. Likewise, if citizens' perception of their local government is that it is spending too little on public goods, then they elect Democrats. The key question is not what is the value of the *level* of state policies under

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<sup>9</sup> Of the 48 states, 7 hold elections during the presidential cycle, 2 hold elections one year after the presidential cycle, 33 hold elections two years after the presidential cycle, 3 hold elections three years after the presidential cycle and 3 hold elections every two years.

<sup>10</sup> Law and Order spending and Health spending are only available consistently for 1977 onwards and therefore these regressions contain 477 observations.

different political parties, but what is the subsequent *change* in policy after these politicians are elected.

We identify the change in state fiscal policy under unified Republican or Democratic government by running a series of differences-in-differences regressions based on,

(7)

$$y_{st} = \alpha + \sum_i \beta_i \text{PoliticalPartyVariable}_{i,st} + \sum_j \gamma_j \text{StateCharacteristicVariable}_{j,st} + \delta_s + \lambda_t + \varepsilon_{st}$$

where  $y_{st}$  is one of our ten fiscal policy variables in state  $s$  in cycle  $t$ . The term  $\sum_i \beta_i \text{PoliticalPartyVariable}_{i,st}$  contains two dummy variables for either unified Democratic or unified Republic government. These are also our coefficients of interest which we expect to be economically and statistically significant if political parties favor one set of policies or another.  $\sum_j \gamma_j \text{StateCharacteristicVariable}_{j,st}$  is a vector of the state controls listed in Table 1B.  $\delta_s$  is a vector of state fixed effects and  $\lambda_t$  is a vector of fixed cycle (time) dummies.  $\varepsilon_{st}$  is an i.i.d. error term.

### *B. The Effect of No-carry Laws on Partisan Fiscal Policy*

Our next task is to investigate whether the partisan policy preferences identified using specification (7) can be constrained by political institutions. Previous work on the effect of fiscal rules across the U.S. states tends to focus on overall effect of the various constraints on budget balance. Notable examples include Von Hagen (1991), Bohn and Inman (1996), Poterba (1994) and Alt and Lowry (1994), Crain (2003), and Primo (2007) who all generally find that fiscal rules lead to lower deficits and/or less spending. Bohn and Inman (1996) test the effectiveness of a wide variety of rules with different requirements and enforcement characteristics and find that no-carry provisions are the most effective in generating large general fund surpluses. Since one of our primary interests is in the potential offsetting behavior of fiscal constraints, rather than the effectiveness of a broad range of rules, we follow Rose (2006) in focusing on no-carry rules.

No-carry rules combine what Bohn and Inman refer to as “proscriptive” rules on the size of the budget with more stringent “retrospective” rules that prevent a state from “carrying” a deficit into the next fiscal year. At present, twenty-seven states have no-carry rules. Rose (2006) argues that these (and most other balanced budget requirements) are exogenous since their adoption was largely based on historical accident. Indeed, with the exception of Tennessee and California, who adopted their rules in 1977 and 2004, most states adopted their no-carry restrictions in their original constitutions (Savage, 1990).

We identify the constraining effect of no-carry restrictions on the ability of unified Democratic or Republican governments to engage in their preferred fiscal policies by adding an interaction term to specification (7). The resulting specification is,

$$(8) \quad y_{st} = \alpha + \sum_i \beta_i \text{PoliticalPartyVariable}_{i,st} + \sum_i \phi_i (\text{PoliticalPartyVariable}_{i,st} * \text{NoCarry}_s) \\ + \sum_j \gamma_j \text{StateCharacteristicVariable}_{j,st} + \delta_s + \lambda_t + \varepsilon_{st}$$

where the term  $\sum_i \phi_i (\text{PoliticalPartyVariable}_{i,st} * \text{NoCarry}_s)$  contains two interaction terms between the unified party variable and our variable describing whether or not a state has a no-carry restriction. If no-carry restrictions effectively eliminate partisan policy outcomes, then we would expect the expression for the effect of political party on the fiscal policy outcome in (2) to be statistically insignificant. That is, we expect,

$$(9) \quad \left( \frac{\partial y_{st}}{\partial \text{PoliticalPartyVariable}_{i,st}} \Big|_{\text{NoCarry}_s=1} \right) = (\beta_i + \phi_i) \approx 0$$

In states with no-carry restrictions, the direct effect of having a unified political party in office on fiscal policy ( $\beta$ ) should be completely offset by the indirect effect of the no-carry restriction ( $\phi$ ). We report the results of (8) in Table 3.

### *C. The Effect of No-carry Laws on Regulatory Activity*

The final question we ask is whether constraining politicians from pursuing partisan fiscal policies causes them to shift their behavior towards more regulation. The literature is relatively mute on this question. Nonetheless, most theories of regulation assume that the electorate plays at least some role in pressuring politicians to adopt regulations that conform to their preferences (Stigler, 1971; Becker, 1983; Yandle, 1983). Our reasoning is that politicians have only a limited menu of policy instruments with which to convince voters that they are acting in their interests. One important sub-set of these instruments is fiscal policy. However, there are plenty of other margins politicians can manipulate to get reelected, such as regulatory policy. Our question boils down to whether—as in the theoretical section above—political actors view regulatory and fiscal policy as substitutable means to achieve public policy goals? To the extent that we cleanly identify partisan policy preferences and the effect of no-carry restrictions in constraining fiscal outcomes in the first two sections above, we have a ready-made identification strategy for answering this query.

We interpret states with no-carry restrictions as a treatment group and states without these restrictions as a control group. We then interpret the degree of unified government (Democrat or Republican) as a treatment applied randomly (conditional on observed state controls) across both groups of states and compare the amount of regulation between those states with and without no-carry restrictions.

We use two approaches to examine the impact of fiscal restrictions on regulatory policies. In the first, we use panel data on four specific regulatory measures: “Workers’ Compensation”, “Minimum Wage”, “Right to Work” and “Collective Bargaining.”. Workers’ Compensation is total benefit payments per 10,000 persons.<sup>11</sup> Minimum Wage is the effective minimum wage in each state. We use data for 1981 to 2010 since only Alaska had a minimum wage above the federal level before 1981. Right to Work is a dummy variable indicating whether a state has adopted a right to work law prohibiting a “closed union shop” in which payment of union dues can be made a condition of employment. Collective bargaining is a seven category classification of state laws measuring the strength of collective bargaining rights for public sector workers developed by

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<sup>11</sup> We also measured Workers’ Compensation as total benefit payments divided by nonfarm earnings (Edmiston, 2006) and by employment and obtained similar results.

Freeman and Valletta (1988) and extended by Kim Rueben to 1996. The categories from lowest to highest are: 0. Collective Bargaining Prohibited 1. No Provision 2. Employer Authorized but not required to Bargain 3. Right to present proposals 4. Right to meet and confer 5. Duty to Bargain Implied 6. Duty to Bargain Explicit.

In addition to this panel estimation framework, we also make use of a new dataset by Ruger and Sorens (2009) which allows us to examine our hypothesis in the context of a broad range of regulations that are not typically justified on economic grounds. Many indexes of “freedom,” such as the Fraser Institute’s annual *Economic Freedom of North America*, are heavily-weighted toward fiscal policy. Ruger and Sorens, however, have extensive coverage of what most people would consider “regulation,” so this index allows us to gauge the impact of fiscal constraints on a broad basket of regulatory policies. We focus on what Ruger and Sorens call “Personal Freedom Regulations.” These are laws which don’t seem easily justified on any economic grounds, but rather are more directly a reflection of individual preferences. Examples include education laws (home schooling, curriculum, etc.), alcohol regulations, marriage and civil union laws (gay marriage, etc.), gun laws, and marijuana laws (for a full list of the regulations included, see Ruger and Sorens, 2009, “Data Appendix”). We omit two components of the index: campaign finance regulations and arrests for victimless crimes. Campaign finance laws are omitted out of concerns about reverse-causality (Besley and Case, 2003, find that restrictions on corporate donations tend to benefit Democratic candidates). And the victimless crimes component was omitted because it does not measure laws per se, but the application of those laws.<sup>12</sup>

The Ruger and Sorens index is only available in one year. We therefore collapse the rest of our panel dataset into a cross-section, using each state as the unit of observation. The variables of interest continue to be the no-carry dummy, the Democratic and Republican Control variables, and the interactions between control and no carry. In the cross-section, we define “Average Democratic Control” as the average number of terms in which Democrats controlled both the legislature and the governorship from 1971 through 2006. “Average Republican Control” is

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<sup>12</sup> To be precise, the component is based on residuals from an OLS regression of the incarceration rate on the violent crime rate and the property crime rate. We felt that, unlike other components of the index, this component might be subject to endogeneity concerns given the fact that it measured an outcome rather than a law.

similarly defined. We use the following economic control variables: “Log of Real GSP Per Worker”, “Percent Earnings from Manufacturing”, and “Percent Earnings from Agriculture.” The demographic variables are “Percent of Population Female”, “Percent of Population Black”, “Percent of Population 0-17 Years Old”, “Percent of Population 65+”, “Log Population Density”, and “Percent of Adult Population with 16+ Years of Schooling in 1960.” We also used “Citizen Ideology” and “Government Ideology” indices as political controls. Unless otherwise noted, each of these variables is taken from the first four year cycle of our panel set so as to minimize the possibility of reverse-causality. We also include regional dummies for “North”, “South”, and “West” (with “North Central” as the omitted variable).

Lastly, to control for possible endogeneity concerns with our political control variables (the “treatments”), we instrument partisan unity using the average degree of either republican or democratic partisan control during the previous period redistricting (see Besley and Case, 2003, p. 34, for a discussion of this instrument). Our two redistricting instruments (one for Democrats and one for Republicans) are equal to the fraction of redistricting years (1971, 1981, 1991, and 2001) in which each party was in control of both branches of government.

Table 6 presents descriptive statistics for our cross section data. Higher values of the “Personal Freedom” index imply *less* regulation. The first row of the table implies states with no-carry laws have about one-fifth standard deviation less regulation than states without no-carry laws.

An important assumption of our identification strategy is that no-carry states look somewhat similar to states without such restrictions. In other words, we want our treatment and control groups to look the same, except for the presence of the no-carry restrictions. As discussed above, since most states adopted their no-carry restriction with their original constitutions, there are good reasons to believe their presence should be unrelated to other factors affecting regulatory activity. A joint test of the difference in means between the control group variables for no-carry and carry states confirms this intuition. The null hypothesis of a difference in means between groups of states is rejected at the 10% level (p-value = 0.112 using Wilk’s Lambda).

To test the effect of party unity on regulatory activity in the presence of no-carry restrictions we run a series of regressions based on,

(10)

$$r_s = \alpha + \beta NoCarry_s + \gamma DemAvg_s + \delta(NoCarry_s \cdot DemAvg_s) + \zeta RepAvg_s + \theta(NoCarry_s \cdot RepAvg_s) + X_s' \eta + \varepsilon_s$$

where  $r_s$  is our measure of regulation in state  $s$ .  $NoCarry$  is equal to 0 in states without no-carry restrictions and 1 in states with those rules.  $(NoCarry_s \cdot DemAvg_s)$  is an interaction between  $NoCarry$  and  $DemAvg$  and  $(NoCarry_s \cdot RepAvg_s)$  is an interaction between  $NoCarry$  and  $RepAvg$ .  $X$  is a vector of state level controls listed in Table 6. Region dummies are included in all of our specifications. We are mainly interested in the effect of the “treatments”,  $DemAvg$  and  $RepAvg$ , on no-carry states relative to our control states. These effects are captured by  $\delta$  and  $\theta$ . If, as in the theoretical model of Section 2 above, fiscal constraints cause Democrats to substitute into more regulatory activity and Republicans to substitute into less regulatory activity, then we would expect the estimate of  $\delta$  to be negative and statistically significant and the estimate of  $\theta$  to be positive and statistically significant.

### 3. Results

#### A. Partisan Fiscal Policy Preferences

Table 2 presents the results of estimating specification (7) for each of our ten fiscal policy variables. The results are broadly in line with what we would expect to see from unified Democratic or Republican governments. The possibility presented by Table 1A that Democrats act like Republicans and vice versa at the state level is soundly rejected.

Unified Republican governments lower total taxes by \$265 per capita over the four year election cycle on average. Republicans also cut individual income taxes \$99 per capita, cut total spending \$353 per capita, cut education spending by \$135 p.c., and lower welfare spending by \$113 p.c.. Unified Democratic governments raise individual income taxes by \$66 per capita, These point estimates are not only statistically significant, but they also have a great deal of economic significance when compared to the standard deviations of the relevant variables (unified government typically leads to a change of between 100% and 300% of a standard deviation in the dependent variable).



### *B. The Effect of No-Carry Laws on Partisan Fiscal Policy*

In Tables 3A and 3B we report the effect of no-carry restrictions on the partisan fiscal policy preferences identified in Tables 2A and 2B. For ease of interpretation, we report the point estimate and standard error associated with the sum of each unified partisan variable and the interaction term. That is, we report the estimate of  $\beta_i + \phi_i$  from equation (3). This conveys the marginal impact of a unified government on fiscal policy, conditional on being in a no-carry state. There are two estimates of this number for each policy, one for unified Republican government and one for unified Democratic government.

This part of the table makes it clear that, for the most part, no-carry restrictions reduce partisan policy preferences. Of the six policies we identified as significant in Tables 2A and B, only two remain significant after controlling for no-carry restrictions. These are the Democratic tendency to increase individual income taxes and the Republican tendency to reduce total taxes. The other partisan preferences, however, disappear just as we would expect them to. Indeed, if one compares the  $\beta$  estimate on the direct effect of having either a unified Republic or Democratic government with the  $\phi$  estimate on the interaction, the two coefficients are frequently of the same size but have the opposite sign, the interpretation being that no-carry restrictions completely counteract the effect of unified party government.

### *C. Partisan Regulatory Policy*

Table 4 presents the impact of party control on the adoption of four regulatory policies: “Workers’ Compensation”, “Minimum Wage”, “Right to Work” and “Collective Bargaining.” Among Democrats, two of the four regulations are statistically significant and have the expected sign. Specifically, Democrats appear to raise the minimum wage and are less-likely to adopt right to work statutes (in other words, they favor closed union shops). Among Republicans, one variable is statistically significant and of the expected sign: they appear more likely to adopt right to work statutes outlawing the closed union shop.

#### *D. The Effect of No-carry Laws on Four Measures of Regulation*

Table 5 presents the effect of no-carry restrictions on the adoption of these four regulations. As predicted in the theoretical discussion above, fiscal restrictions seem to lead parties to adopt more-partisan regulatory positions. Among Democrats, no-carry restrictions appear to lead to further increases in the minimum wage and even less likelihood of adoption of a right to work statute. Among Republicans, no-carry restrictions enhance the likelihood of adopting a right to work statute outlawing the closed union shop.

#### *E. The Effect of No-Carry Laws on Personal Freedom Regulations*

Table 7 presents the effect of no-carry restrictions on the extent of regulatory activity, as measured by the Ruger and Sorens cross-sectional index. Column (1) presents the results the OLS regression while column (2) presents the results of the two-stage-least squares regression, using partisan control during redistricting periods as the instrument for average Democratic and Republican control. The negative point estimate on the Democratic interaction term suggests that, in states with no-carry provisions, Democrats tend to regulate more than they otherwise would. And the positive point estimate on the Republican interaction term suggests that Republicans react to these fiscal restrictions by regulating less. These effects are both statistically and economically significant. The coefficient on the democratic interaction term indicates that democratic no carry states have, on average, 1.7 times a standard deviation more regulation than the rest of the country.

When we implement the instrumental variables regression, the point estimates retain their sign, while slightly increasing in magnitude and statistical significance.

#### **4. Conclusion**

We begin by presenting a simple theoretical model in which voters view fiscal and regulatory instruments as substitutable means to achieve the ends of government policy. We show that in the presence of a fiscal constraint that binds the parties to some spending position that is between their most-preferred spending levels, the parties will adopt more-partisan regulatory

positions. That is, Democrats will adopt platforms that call for more regulation while Republicans will adopt platforms that call for less regulation.

We then run a series of statistical tests to examine the validity of this story. In the first set of tests, we find strong support for partisan policy preferences. We contribute to the literature that studies the role of political parties in government by looking at a broader range of policies than previous studies. This allows us to confirm that parties do indeed matter for fiscal policy. We find that Republicans do generally support budgets that decrease the size of government, whereas Democrats favor higher taxes and spending. Furthermore, to the extent that unified Republic governments seem to be elected in states with higher spending and taxes and vice versa for Democrats, it seems that voters expect the parties to pursue these policies.

Our second contribution is to show that no-carry restrictions do constrain partisan policy preferences. This is consistent with previous literature though, again, our contribution is to show this for a broader set of policies than previous researchers.

Our most intriguing result is that politicians in states that prevent them from pursuing votes through partisan fiscal policies will instead substitute into regulatory efforts. We show this, first, in a panel framework, finding that in the presence of fiscal constraints, Democrats tend to favor further increases in the minimum wage and are less-likely to outlaw a closed union shop by adopting a right to work statute. Republicans, on the other hand are even more likely to adopt right to work statutes in the presence of a fiscal constraint.

We buttress these results with cross-section regressions that make use of a new index of personal freedoms. The index includes the kinds of laws that are relatively inexpensive for a politician to pass (e.g. gay marriage bans), but over which parties tend to have strong preferences. It goes without saying, however, that such regulations can still come at a significant cost to individual liberty. We find that in the presence of no-carry restrictions, Democrats tend to regulate these matters less while Republicans tend to regulate them more. We corroborate these results with an instrumental variables regression in which we attempt to account for the endogeneity of partisan control with instruments for partisan control during previous periods of redistricting.

Our results suggest political actors will use whatever policy instruments are available to them in order to achieve their ends. If they are constrained along one dimension, they will substitute into more-partisan activities along the other dimension. If there is one over-arching message to our findings, it is that voters “get what they ask for”. And this holds true even if they attempt to bind themselves using constitutional rules. Politicians will find a way to do their job, often in unintended ways.

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Figures and Tables





**Table 1: Descriptive Statistics for Panel Data**  
**Panel A: Revenue and Expenditure Policies**

| Variable               | Full Sample        | Unified Democratic | Unified Republican | Split              |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| Total taxes            | 0.1235<br>(0.1069) | 0.0965<br>(0.0970) | 0.1300<br>(0.0859) | 0.1399<br>(0.1166) |
| Sales taxes            | 0.0569<br>(0.0491) | 0.0461<br>(0.0453) | 0.0657<br>(0.0446) | 0.0611<br>(0.0520) |
| Ind. Income taxes      | 0.0348<br>(0.0375) | 0.0269<br>(0.0314) | 0.0329<br>(0.0328) | 0.0409<br>(0.0418) |
| Corp. Income taxes     | 0.0077<br>(0.0117) | 0.0059<br>(0.0078) | 0.0078<br>(0.0086) | 0.0089<br>(0.0145) |
| Federal transfers      | 0.0755<br>(0.0582) | 0.0600<br>(0.0504) | 0.0848<br>(0.0517) | 0.0827<br>(0.0634) |
| Total spending         | 0.2731<br>(0.2487) | 0.2082<br>(0.2310) | 0.3025<br>(0.2068) | 0.3071<br>(0.2661) |
| Education spending     | 0.0872<br>(0.0791) | 0.0662<br>(0.0708) | 0.0995<br>(0.0700) | 0.0971<br>(0.0848) |
| Law and Order spending | 0.0096<br>(0.0093) | 0.0072<br>(0.0083) | 0.0107<br>(0.0077) | 0.0109<br>(0.0101) |
| Welfare spending       | 0.0572<br>(0.0599) | 0.0438<br>(0.0568) | 0.0602<br>(0.0459) | 0.0654<br>(0.0649) |
| Health spending        | 0.0091<br>(0.0100) | 0.0070<br>(0.0090) | 0.0098<br>(0.0079) | 0.0102<br>(0.0112) |
| Observations           | 480                | 161                | 86                 | 233                |

Standard deviations in parentheses

**Table 1: Descriptive Statistics for Panel Data**  
**Panel B: Economic and Demographic Variables**

| Variable                      | Full Sample          | Unified Democratic   | Unified Republican   | Split                |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|
| No Carry                      | 0.5417<br>(0.4988)   | 0.5466<br>(0.4994)   | 0.6628<br>(0.4755)   | 0.4936<br>(0.5010)   |
| Log of real income per worker | 10.9557<br>(0.1310)  | 10.9337<br>(0.1346)  | 10.9523<br>(0.1150)  | 10.9721<br>(0.1322)  |
| Unemployment rate             | 5.8839<br>(1.7265)   | 6.3302<br>(1.7324)   | 4.9723<br>(1.4607)   | 5.9119<br>(1.6898)   |
| Unionization rate             | 16.0491<br>(7.8912)  | 16.7451<br>(7.7969)  | 13.7833<br>(8.3933)  | 16.4044<br>(7.6464)  |
| Real wage rate                | 14.5074<br>(1.8895)  | 14.2097<br>(1.9034)  | 14.3915<br>(1.8836)  | 14.7558<br>(1.8559)  |
| Percent in Manufacturing      | 0.1331<br>(0.0644)   | 0.1366<br>(0.0017)   | 0.1270<br>(0.0020)   | 0.0037<br>(0.0022)   |
| Percent in Agriculture        | 0.0037<br>(0.0020)   | 0.0037<br>(0.0628)   | 0.0037<br>(0.0704)   | 0.1329<br>(0.0632)   |
| Percent Female                | 0.5101<br>(0.0076)   | 0.5117<br>(0.0080)   | 0.5075<br>(0.0065)   | 0.5099<br>(0.0074)   |
| Percent Black                 | 0.0989<br>(0.0938)   | 0.1275<br>(0.1031)   | 0.0617<br>(0.0735)   | 0.0928<br>(0.0879)   |
| Percent 0-17 years old        | 0.2736<br>(0.0345)   | 0.2772<br>(0.0357)   | 0.2768<br>(0.0351)   | 0.2699<br>(0.0332)   |
| Percent 65+ years old         | 0.1197<br>(0.0199)   | 0.1167<br>(0.0215)   | 0.1219<br>(0.0214)   | 0.1210<br>(0.0180)   |
| Log of population density     | 4.4033<br>(1.3061)   | 4.6499<br>(1.1891)   | 3.9963<br>(1.4202)   | 4.3831<br>(1.3054)   |
| End of year budget balance    | 0.0048<br>(0.0097)   | 0.0032<br>(0.0077)   | 0.0057<br>(0.0082)   | 0.0055<br>(0.0112)   |
| Lame Duck Governor            | 0.2833<br>(0.4455)   | 0.3271<br>(0.4650)   | 0.2645<br>(0.4412)   | 0.2600<br>(0.4328)   |
| Citizen ideology              | 48.9780<br>(15.5645) | 48.4972<br>(17.7797) | 46.0251<br>(10.7647) | 50.4002<br>(15.3062) |
| Government ideology           | 52.9631<br>(11.9781) | 63.5311<br>(6.3111)  | 35.5193<br>(7.7515)  | 52.0992<br>(7.4627)  |
| Observations                  | 480                  | 161                  | 86                   | 233                  |

**Table 2: Partisan Impacts on Fiscal Policy**  
**Panel A: Revenue Policies**

| VARIABLES           | (1)<br>Total Tax      | (2)<br>Sales Tax   | (3)<br>Ind. Income<br>Tax | (4)<br>Corp. Income<br>Tax | (5)<br>Fed.<br>Transfers |
|---------------------|-----------------------|--------------------|---------------------------|----------------------------|--------------------------|
| Unified Democrat    | 0.0049<br>(0.006)     | -0.0016<br>(0.004) | 0.0066*<br>(0.003)        | 0.0011<br>(0.001)          | -0.0014<br>(0.005)       |
| Unified Republican  | -0.0265***<br>(0.009) | -0.0047<br>(0.005) | -0.0099**<br>(0.004)      | -0.0015<br>(0.002)         | -0.0036<br>(0.006)       |
| Observations        | 480                   | 480                | 420                       | 440                        | 480                      |
| Number of states    | 48                    | 48                 | 42                        | 44                         | 48                       |
| Time Period         | 1970-10               | 1970-10            | 1970-10                   | 1970-10                    | 1970-09                  |
| R-squared           | 0.950                 | 0.913              | 0.887                     | 0.691                      | 0.920                    |
| Controls            | YES                   | YES                | YES                       | YES                        | YES                      |
| State Fixed Effects | YES                   | YES                | YES                       | YES                        | YES                      |
| Year Fixed Effects  | YES                   | YES                | YES                       | YES                        | YES                      |

**Panel B: Expenditure Policies**

| VARIABLES           | (1)<br>Total<br>Spending | (2)<br>Education<br>Spending | (3)<br>Law & Order<br>Spending | (4)<br>Welfare<br>Spending | (5)<br>Health<br>Spending |
|---------------------|--------------------------|------------------------------|--------------------------------|----------------------------|---------------------------|
| Unified Democrat    | 0.0027<br>(0.012)        | -0.0033<br>(0.004)           | -0.0007<br>(0.001)             | 0.0049<br>(0.006)          | 0.0010<br>(0.001)         |
| Unified Republican  | -0.0353**<br>(0.017)     | -0.0135**<br>(0.006)         | 0.0002<br>(0.001)              | -0.0113*<br>(0.007)        | -0.0014<br>(0.002)        |
| Observations        | 480                      | 480                          | 477                            | 480                        | 477                       |
| Number of states    | 48                       | 48                           | 48                             | 48                         | 48                        |
| Time Period         | 1970-09                  | 1970-09                      | 1970-09                        | 1970-09                    | 1970-09                   |
| R-squared           | 0.972                    | 0.957                        | 0.933                          | 0.950                      | 0.820                     |
| Controls            | YES                      | YES                          | YES                            | YES                        | YES                       |
| State Fixed Effects | YES                      | YES                          | YES                            | YES                        | YES                       |
| Year Fixed Effects  | YES                      | YES                          | YES                            | YES                        | YES                       |

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.10

**Table 3: Partisan and No Carry Impact on Fiscal Policy**  
**Panel A: Revenue Policies**

| VARIABLES                           | (1)<br>Total Tax     | (2)<br>Sales Tax   | (3)<br>Ind. Income<br>Tax | (4)<br>Corp. Income<br>Tax | (5)<br>Fed.<br>Transfers |
|-------------------------------------|----------------------|--------------------|---------------------------|----------------------------|--------------------------|
| Unified Democrat                    | -0.0078<br>(0.007)   | -0.0032<br>(0.006) | -0.0036<br>(0.005)        | 0.0003<br>(0.001)          | 0.0013<br>(0.005)        |
| Unified Republican                  | -0.0375**<br>(0.015) | -0.0053<br>(0.006) | -0.0100*<br>(0.005)       | -0.0023<br>(0.003)         | -0.0109<br>(0.010)       |
| Unified Democrat Interaction        | 0.0196**<br>(0.009)  | 0.0025<br>(0.006)  | 0.0158***<br>(0.004)      | 0.0011<br>(0.001)          | -0.0049<br>(0.005)       |
| Unified Republican Interaction      | 0.0217<br>(0.015)    | 0.0015<br>(0.006)  | 0.0037<br>(0.005)         | 0.0014<br>(0.003)          | 0.0101<br>(0.010)        |
| Unified Democrat +<br>Interaction   | 0.0117<br>(0.007)    | -0.0006<br>(0.005) | 0.0122***<br>(0.004)      | 0.0014<br>(0.001)          | -0.0036<br>(0.007)       |
| Unified Republican +<br>Interaction | -0.0158*<br>(0.008)  | -0.0038<br>(0.005) | -0.00633<br>(0.003)       | -0.0009<br>(0.001)         | -0.0008<br>(0.006)       |
| Observations                        | 480                  | 480                | 420                       | 440                        | 480                      |
| Number of states                    | 48                   | 48                 | 42                        | 44                         | 48                       |
| Time Period                         | 1970-10              | 1970-10            | 1970-10                   | 1970-10                    | 1970-09                  |
| R-squared                           | 0.951                | 0.913              | 0.893                     | 0.692                      | 0.921                    |
| Controls                            | YES                  | YES                | YES                       | YES                        | YES                      |
| State Fixed Effects                 | YES                  | YES                | YES                       | YES                        | YES                      |
| Year Fixed Effects                  | YES                  | YES                | YES                       | YES                        | YES                      |

**Table 3: Partisan and No Carry Impact on Fiscal Policy**  
**Panel B: Expenditure Policies**

| VARIABLES                           | (1)<br>Total<br>Spending | (2)<br>Education<br>Spending | (3)<br>Law & Order<br>Spending | (4)<br>Welfare<br>Spending | (5)<br>Health<br>Spending |
|-------------------------------------|--------------------------|------------------------------|--------------------------------|----------------------------|---------------------------|
| Unified Democrat                    | -0.0127<br>(0.014)       | -0.0085**<br>(0.004)         | -0.0016**<br>(0.001)           | 0.0028<br>(0.007)          | -0.0000<br>(0.001)        |
| Unified Republican                  | -0.0653**<br>(0.026)     | -0.0256***<br>(0.009)        | -0.0006<br>(0.001)             | -0.0132*<br>(0.008)        | -0.0035<br>(0.003)        |
| Unified Democrat Interaction        | 0.0233*<br>(0.013)       | 0.0077<br>(0.005)            | 0.0014*<br>(0.001)             | 0.0033<br>(0.005)          | 0.0014<br>(0.001)         |
| Unified Republican Interaction      | 0.0514*<br>(0.026)       | 0.0203**<br>(0.009)          | 0.0016<br>(0.001)              | 0.0037<br>(0.006)          | 0.0035<br>(0.003)         |
| Unified Democrat +<br>Interaction   | 0.0106<br>(0.013)        | -0.0007<br>(0.005)           | -0.0002<br>(0.001)             | 0.0061<br>(0.007)          | 0.0014<br>(0.001)         |
| Unified Republican +<br>Interaction | -0.0138<br>(0.016)       | -0.0053<br>(0.005)           | 0.0010<br>(0.001)              | -0.0095<br>(0.007)         | 5.41e-05<br>(0.002)       |
| Observations                        | 480                      | 480                          | 477                            | 480                        | 477                       |
| Number of states                    | 48                       | 48                           | 48                             | 48                         | 48                        |
| Time Period                         | 1970-09                  | 1970-09                      | 1970-09                        | 1970-09                    | 1970-09                   |
| R-squared                           | 0.973                    | 0.958                        | 0.934                          | 0.950                      | 0.823                     |
| Controls                            | YES                      | YES                          | YES                            | YES                        | YES                       |
| State Fixed Effects                 | YES                      | YES                          | YES                            | YES                        | YES                       |
| Year Fixed Effects                  | YES                      | YES                          | YES                            | YES                        | YES                       |

Robust standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.10

**Table 4: Partisan Impacts on Regulation**

| VARIABLES           | (1)<br>Workers'<br>Comp. | (2)<br>Minimum<br>Wage | (3)<br>Right to<br>Work | (4)<br>Collective<br>Bargain. |
|---------------------|--------------------------|------------------------|-------------------------|-------------------------------|
| Unified Democrat    | 0.0097<br>(0.010)        | 0.1324*<br>(0.077)     | -1.5150***<br>(0.263)   | -0.2719<br>(0.283)            |
| Unified Republican  | -0.0036<br>(0.012)       | -0.0397<br>(0.095)     | 1.3058***<br>(0.404)    | 0.4333<br>(0.277)             |
| Observations        | 432                      | 336                    | 1,824                   | 1,228                         |
| Number of states    | 48                       | 48                     | 48                      | 48                            |
| Time Period         | 1970-07                  | 1981-10                | 1970-09                 | 1970-96                       |
| R-squared           | 0.638                    | 0.951                  | -                       | -                             |
| Controls            | YES                      | YES                    | YES                     | YES                           |
| State Fixed Effects | YES                      | YES                    | NO                      | NO                            |
| Year Fixed Effects  | YES                      | YES                    | YES                     | YES                           |

**Table 5: Partisan and No Carry Impact on Regulation**

| VARIABLES                        | (1)<br>Workers'<br>Comp. | (2)<br>Minimum<br>Wage | (3)<br>Right to<br>Work | (4)<br>Collective<br>Bargain. |
|----------------------------------|--------------------------|------------------------|-------------------------|-------------------------------|
| Unified Democrat                 | 0.0103<br>(0.013)        | 0.0962<br>(0.096)      | -1.5076***<br>(0.417)   | -0.5754<br>(0.395)            |
| Unified Republican               | -0.0111<br>(0.014)       | 0.0989<br>(0.109)      | 0.5586<br>(0.536)       | 0.9224**<br>(0.394)           |
| Unified Democrat Interaction     | -0.0016<br>(0.010)       | 0.0732<br>(0.106)      | -0.1967<br>(0.420)      | 0.5261<br>(0.393)             |
| Unified Republican Interaction   | 0.0111<br>(0.012)        | -0.1922*<br>(0.105)    | 1.1603***<br>(0.409)    | -0.7277<br>(0.462)            |
| Unified Democrat + Interaction   | 0.0087<br>(0.009)        | 0.1695*<br>(0.106)     | -1.7042***<br>(0.419)   | -0.0493<br>(0.327)            |
| Unified Republican + Interaction | 7.77e-05<br>(0.013)      | -0.0933<br>(0.089)     | 1.7188***<br>(0.290)    | 0.1947<br>(0.287)             |
| No Carry                         |                          |                        | 0.7914<br>(0.652)       | -0.5452*<br>(0.318)           |
| Observations                     | 432                      | 336                    | 1,824                   | 1,228                         |
| Number of states                 | 48                       | 48                     | 48                      | 48                            |
| Time Period                      | 1970-07                  | 1981-10                | 1970-09                 | 1970-96                       |
| R-squared                        | 0.639                    | 0.951                  |                         |                               |
| Controls                         | YES                      | YES                    | YES                     | YES                           |
| State Fixed Effects              | YES                      | YES                    | NO                      | NO                            |
| Year Fixed Effects               | YES                      | YES                    | YES                     | YES                           |

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.10

**Table 6: Descriptive Statistics for Cross Section Regulation Data**

| <b>Variable</b>  | <b>Full Sample</b>   | <b>No Carry<br/>Law = 0</b> | <b>No Carry<br/>Law = 1</b> |
|--|----------------------|-----------------------------|-----------------------------|
| Personal Freedom Index (2011)  | -0.0043<br>(0.1049)  | -0.0164<br>(0.1312)         | 0.0060<br>(0.0773)          |
| Average Democratic Control<br>(1971-2006)  | 0.3223<br>(0.2904)   | 0.3232<br>(0.2935)          | 0.3216<br>(0.2936)          |
| Average Republican Control<br>(1971-2006)  | 0.1508<br>(0.1849)   | 0.1174<br>(0.152)           | 0.1791<br>(0.2075)          |
| Log of Real GSP Per Worker<br>(1971-1974)  | 10.8555<br>(0.1627)  | 10.9293<br>(0.1857)         | 10.7930<br>(0.1095)         |
| Percent of Earnings from<br>Manufacturing (1971-1974)  | 0.1761<br>(0.078)    | 0.1600<br>(0.0766)          | 0.1897<br>(0.078)           |
| Percent Earnings from Agriculture<br>(1971-1974)   | 0.0041<br>(0.0018)   | 0.0038<br>(0.0013)          | 0.0043<br>(0.0022)          |
| Percent of Population Female<br>(1971-1974)  | 0.5099<br>(0.0079)   | 0.5075<br>(0.0098)          | 0.5120<br>(0.0051)          |
| Percent of Population Black<br>(1971-1974)   | 0.0909<br>(0.093)    | 0.0731<br>(0.0794)          | 0.1059<br>(0.1023)          |
| Percent of Population 0-17 Years<br>Old (1971-1974)  | 0.3380<br>(0.0193)   | 0.3380<br>(0.016)           | 0.3380<br>(0.022)           |
| Percent of Population 65+ (1971-<br>1974)  | 0.0994<br>(0.0176)   | 0.0953<br>(0.0146)          | 0.1029<br>(0.0193)          |
| Log Population Density (1971-<br>1974)   | 4.2024<br>(1.3786)   | 4.2557<br>(1.5359)          | 4.1573<br>(1.2596)          |
| Percent of Adult Population with<br>16+ Years of Schooling in 1960<br>Citizen Ideology (1971-1974) | 0.8338<br>(0.0341)   | 0.8229<br>(0.0269)          | 0.8430<br>(0.0372)          |
| Government Ideology (1971-1974)  | 44.6993<br>(16.065)  | 48.8393<br>(16.1126)        | 41.1962<br>(15.4686)        |
| North  | 53.5455<br>(10.9578) | 53.7433<br>(11.6823)        | 53.3782<br>(10.5372)        |
| South  | 0.1875<br>(0.3944)   | 0.2273<br>(0.4289)          | 0.1538<br>(0.3679)          |
| West   | 0.3333<br>(0.4764)   | 0.2727<br>(0.4558)          | 0.3846<br>(0.4961)          |
| Observations   | 0.2500<br>(0.4376)   | 0.3182<br>(0.4767)          | 0.1923<br>(0.4019)          |
|  | 48                   | 22                          | 26                          |



**Table 7. Partisan and No Carry Impact on Index of Paternalistic Regulations**

| VARIABLES                  | (1)<br>OLS            | (2)<br>IV              |
|----------------------------|-----------------------|------------------------|
| Average Democratic Control | 0.3000***<br>(0.0972) | 0.3220***<br>(0.0907)  |
| Average Republican Control | -0.3704**<br>(0.1645) | -0.5171***<br>(0.1664) |
| Democrat Interaction       | -0.1687*<br>(0.0951)  | -0.1983**<br>(0.0888)  |
| Republican Interaction     | 0.2668<br>(0.1930)    | 0.3351*<br>(0.1811)    |
| No Carry                   | 0.0260<br>(0.0593)    | 0.0347<br>(0.0541)     |
| Number of states           | 48                    | 48                     |
| R-squared                  | 0.74                  | 0.73                   |
| Controls                   | YES                   | YES                    |
| Regional Dummies           | YES                   | YES                    |

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.10