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Legislative term limits and state spending

H. Abbie Erler

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Abstract Supporters of legislative term limits often claim that they will lower state spending levels. Using fiscal data from 48 states from 1977 to 2001, this paper finds little support for this assertion. Instead, this analysis finds that states with term limits have higher spending levels than states without term limits. These results suggest that term limits give legislators greater incentives to deviate from socially optimal fiscal policy by altering the legislative environment in which such policy is formulated.

Keywords Term limits · State spending · Budgeting · Institutions

Part of the appeal of legislative term limits to many voters was the expectation that they would curb wasteful government spending and reduce the size of state government. Their supporters frequently heralded legislative term limits as a way to restore fiscal sanity to state legislatures across the nation. Term limits, it was argued, would put an end to wasteful pork-barrel spending by removing the rationale behind such spending. Absent the possibility of reelection, legislators would have little incentive to deliver targeted benefits to their constituents or trade legislative favors for campaign contributions with interest groups (Bandow 1995; Greenberg 1994; Petracca 1994; Will 1992). Further, supporters of term limits often link tenure in office with a proclivity for government spending. The longer a legislator remains in office, the more willing she is to spend public money (Payne 1992, 1990; Moore and Steelman 1994). By precluding lengthy legislative careers, term limits would prevent legislators from “growing” in office. Yet despite these claims, it is unclear whether term limits have lived up to their promise of increasing fiscal responsibility.

This study assesses the effects of legislative term limits on state spending. Using fiscal data from the 48 continental states from 1977 to 2001, this paper compares the spending patterns of states with and without term limits. The results presented here suggest that so far term limits have failed to live up to the expectations of their supporters. Instead of halting

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wasteful legislative spending, term limits have increased expenditures in a broad range of categories.

1 Term limits and spending

While term limits found few supporters among political scientists, they were (and continue to be) very popular with the public (Karp 1995; Petracca 1994; Stein et al. 2002). Term limits initiatives in 11 states were approved by more than 60% of voters. Many supporters of term limits view increased government spending as the result of both an adverse selection and a moral hazard problem. Popular wisdom holds that lengthy careers in the state legislature encourage those individuals to run for office who favor a more expansive government (adverse selection) (Bandow 1995; Coyne and Fund 1992; Will 1992) and alter the incentives of legislators once in office, leading them to favor higher levels of spending (moral hazard) (Payne 1990). Term limits, by eliminating lengthy stays in office, solve both of these problems and thus, according to their supporters, should lead to lower overall levels of spending.¹

First, term limits will remedy the problem of adverse selection by facilitating the election of citizen-legislators. Supporters of term limits see citizen-legislators as the antithesis of the professionalized politicians who have come to dominate state legislatures. Unlike their professionalized peers, citizen-legislators have no desire to make careers out of service in the government. Instead, these individuals take time off from their jobs as teachers, CEOs, and mechanics to serve briefly in the state legislature, returning to the private sector once their terms of service end. More importantly, these citizen-legislators are thought to have policy preferences at odds with those of career politicians. They are more likely to favor lower levels of government spending and a more limited government. Having come from established careers in the private sector, and knowing that they will soon have to return to those careers, they will be more mindful of how the laws they enact as legislators will impact society (Bandow 1995). They will also have “retain[ed] the ability to discriminate between appropriate and inappropriate functions” of government (Will 1992). Further, supporters of term limits argue that full-time service in the state legislature appeals only to those individuals who believe that government is a worthy enterprise and beneficial to society. An individual who believes that the government that governs least, governs best, is unlikely to want to devote her life to a career in politics. Thus, government service attracts only those individuals who see government as a legitimate solution to the nation’s problems. As Alan Ehrenhalt (1991, 21) explains, “In another sort of political environment . . . in which it did not take much time or trouble to serve in office, belief in government might not be a crucial point. People who disliked government might become candidates and win elections in large numbers whether they found the work exciting or not.” Supporters argue that term limits create just this sort of political environment. Under term limits, government service should no longer appeal only to those individuals who favor an activist government.

Secondly, term limits will put an end to the “culture of spending” that pervades state legislatures (Coyne and Fund 1992; Payne 1992). According to this view, legislators do not

¹ In contrast to this popular view, the academic literature (with a few exceptions) has been more skeptical of these claims as will be discussed below. As Garrett (1996) has argued, it is unlikely that term limits will alter the type of individual who runs for office. The opportunity structure facing potential candidates is a much more significant determinant of who runs for office than ideology or spending preferences. Indeed, those who run for public office do not differ fundamentally from those who do not.

necessarily enter office with pro-spending preferences but, over time, develop these preferences as they become immersed in the process of governing. Thus, there emerges a positive relationship between a legislator's tenure in office and her propensity to support higher levels of spending. For Payne (1992, 1990), this positive relationship between tenure and spending preferences is directly linked to the socialization process that all legislators (both state and national) undergo once in office. "Government spending grows," he writes, "because the decisions about spending are made by government officials who have been socialized into pro-spending beliefs by their membership in government organization" (Payne 1990, 488). There are two ways that legislators are socialized to favor higher spending. First, legislators become attached to the programs they develop. Secondly, argues Payne (1992, 1990) there is a "congressional brainwashing machine" at work, operated by interest groups, administrators, and other legislators that socializes new members to favor higher levels of spending. Legislators are constantly bombarded with pro-spending arguments by individuals and groups who benefit from increased government spending.² Given enough exposure to these arguments, Payne claims, legislators become brainwashed into favoring higher levels of government spending. For example, using ratings from the National Taxpayers Union for members initially elected in 1975 and 1977, Payne finds that legislators' spending scores are below their party's average for their first 12 years in office, but rise considerably each additional year in office. From this evidence, Payne concludes that lengthening congressional careers leads to higher levels of aggregate spending.³

Moore and Steelman (1994) also present evidence that tenure and spending are positively correlated in their examination of 13 key votes in Congress during the 1980s and 1990s. To test their hypothesis that junior members prefer lower levels of spending than more senior legislators, they compare actual policy outcomes with the policy outcome that would have resulted if only members with less than six years of service in the House and 12 years in the Senate had voted. They find that if only junior members had their votes counted, several key issues that would have reduced spending, such as a balanced budget amendment and spending cuts to reduce the deficit, would have passed, while pay raises for members of Congress in 1989 and 1992 would have failed. From this, they conclude that senior members are less fiscally responsible than their junior colleagues.

Despite these claims, the relationship between tenure in office and spending remains unclear.⁴ At the aggregate level, there is little evidence that increases in the average tenure level of members of Congress have led to higher government spending measured in real dollars (Aka et al. 1996). Similarly, at the individual level, there is no clear connection between a legislator's length of service in office and her preferences for spending. Empirical research on Congress finds little evidence that tenure in office is positively associated with congressional spending or that legislators not running for reelection spend less than those who are running for reelection (Alvarez and Saving 1997; Moore and Hibbing 1996). While Reed et al. (1998) do find limited support for the "culture of spending" hypothesis articulated by Payne, the increase in congressional spending attributed to congressional tenure is small enough to lead them to conclude that term limits are likely to have a negligible impact on

²For example, of the 1060 witnesses who testified before congressional committees in 1986, less than 1% testified against the program under consideration (Payne 1992).

³Using data from the 99th Congress (1985–86), Payne also calculates a spending support for each legislator that measures a member's propensity for spending based on 36 domestic spending votes. In a multivariate analysis he finds that for each year a member serves in the House her spending support score increases by more than a third of a point.

⁴See Lopez (2003) for a fuller summary of this literature.

government spending. Lee (2002) argues that term limits may in fact lead to higher levels of pork-barrel spending due to changes in the distribution of seniority among legislators. By increasing the relative seniority of junior members, term limits may increase their ability to transfer wealth to their constituents. Whether or not term limits produce this effect, however, depends on the structure of seniority within the legislature.

In addition, we might question whether state legislators remain in office long enough to become socialized to higher levels of spending. Payne finds that it takes approximately 12 years in office before a legislator's spending score is above her party's average.⁵ As 12 years appears to be a considerable time for a state legislator to remain in office, it is reasonable to question whether the imposition of term limits will have any noticeable effect on state spending. However, research on tenure levels prior to term limits have found that a considerable number of legislators remain in office for more than 12 years. Moncrief et al. (1992) report that 27% of all state legislators first elected to office in 1979–1980 were still serving 12 years later. In professionalized legislatures this number is even higher, with 40.2% of members originally elected in 1979–80 still in office 12 years later. As professionalized legislatures in several states, such as California and Michigan, have adopted term limits, term limits may still impact spending.

Further, despite the predictions of their supporters it does not appear that term limits have solved the adverse selection problem by facilitating the election of citizen legislators. Based on survey data from 1995, 1997, and 2002, Carey et al. (2000a, 2000b) and Carey et al. (2006) found few changes in the demographics of representatives elected after the adoption of term limits. Term-limited legislators tend to be drawn from the same professions and occupations as their predecessors. Nor did they find any significant differences between term-limited legislators and unterm-limited legislators in other key demographic characteristics such as age, religion, education level, and race. A similar study of the California Assembly and the Michigan House of Representatives also failed to find significant differences between these two groups of legislators (Faletta et al. 2001). Term limits also have done little to change the relationship between legislators and their constituents. While supporters had hoped that term limits would insulate legislators from the demands of their constituents (Will 1992), Wright (2007, in press) finds that legislators facing term limits are just as likely to vote according to the ideological preferences of their districts as those legislators unconstrained by term limits.

2 Data and analysis

To test the hypothesis that term limits increase spending, I analyze fiscal data from 47 continental US states from 1977 to 2001.⁶ This analysis looks at general spending, which includes spending on education, highways, welfare, and interest on general debt. Expenditures per capita as well as expenditures as a percentage of income are both used as dependent variables. Data were obtained from the *Statistical Abstract of the United States*, *State Government Tax Collections*, *Fiscal Survey of States*, and the *Book of the States*.

⁵This time is considerably reduced if a legislator has previous experience in office.

⁶Alaska and Hawaii are omitted from this analysis because their fiscal structures are unlike those found in other states. Alaska receives the majority of its revenue from severance taxes on oil, while in Hawaii school funding comes from the state rather than the local governments, making expenditure levels between Hawaii and other states incomparable. Nebraska is omitted because its state legislators are selected in nonpartisan elections.

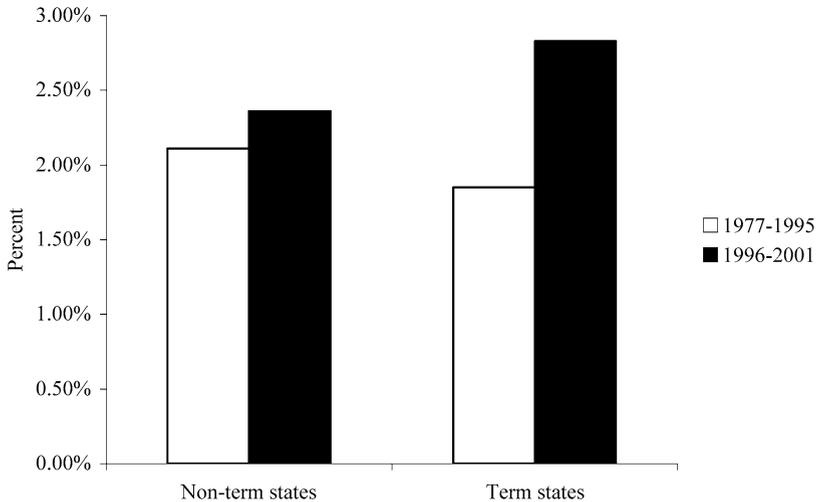


Fig. 1 Average growth rate of expenditures per capita in termed and untermed states. Note: The first states—California and Maine—implement term limits beginning in 1996, with the remaining states implementing term limits shortly thereafter

A visual inspection of the data suggests that term limits have had a significant impact on state spending. As displayed in Fig. 1, states with term limits have seen their average growth rate of expenditures per capita increase considerably after the implementation of term limits. The growth rate of expenditures in states with term limits jumped from 1.8% to 2.8% after term limits were implemented in most states beginning in 1996. In contrast, the average growth rate of expenditures in states without term limits remained relatively stable during this period.⁷ Of course, a multivariate analysis is needed before we conclude that term limits are the cause of increased spending.

The main independent variable of interest is the presence of legislative term limits. Following previous studies (see e.g., Carey et al. 2000b; Johnson and Crain 2004; Meinke and Hasecke 2003; Moncrief et al. 2004), a dummy variable is used to indicate if a state has implemented term limits. This variable is coded 0 before a state implements term limits and 1 beginning with the legislative session before term limits are implemented. There are several reasons to code the variable in this manner. First, I expect term limits to affect state spending before the first cohort of state legislators is forced out of office. Legislators are forward-looking and should anticipate the effects of term limits before they bind. This assumption has been supported by previous studies that have found that legislative behavior changes in response to term limits before term limits are actually implemented (Carey et al. 1998). Secondly, the legislative session prior to term limits being implemented is the first session to contain a substantial number of legislators who are ineligible to run for office. Coding the term limits variable 1 when term limits take effect ignores the fact that legislators are already operating under the new rules. However, coding the term limits variable 1 beginning when term limits are passed by voters is also problematic. In most states, there is a substantial time lag between the passage of legislative term limits and the first cohort of legislators being barred from running for reelection. In addition, in several

⁷The difference-in-difference value between these two groups is 0.7%.

states the constitutionality of term limits was in question. Legislators may not have altered their behavior in the hope that term limits would be overturned by the state supreme court or repealed by the legislature, as they were in some states.⁸ In states that fail to adopt term limits, the term limits variable is coded 0 for the entire time period. States with term limits during this time period include Arizona, Arkansas, California, Colorado, Florida, Maine, Michigan, Missouri, Ohio, Oregon, and South Dakota.⁹

I also control for a number of demographic and economic factors commonly found to be significant in studies of state fiscal policy (see, e.g., Alt and Lowrey 1994; Besley and Case 2003; Knight 2000, 2002; Matsusaka 1995; Poterba 1994, 1997; Reed 2006). These variables include state income per capita, the unemployment rate, population density, and state per-capita federal grants.¹⁰ These variables proxy the public's demand for spending. While earlier studies found little relationship between party control and spending (Dye 1984; Winters 1976), more recent studies have found that party control is an important determinant of state fiscal policy (Alt and Lowry 2000; Rogers and Rogers 2000; Reed 2006). Variables indicating the presence of divided government as well as the party affiliation of the governor are included to take this into account. A table of summary statistics may be found in the [Appendix](#).

Studies that estimate the effect of fiscal institutions on economic policy must confront the problem that these institutions are often endogenous (see, e.g., Besley and Case 2003; Knight 2002). Adoption of budget rules is not random, but instead may reflect the fiscal preferences of voters. In the case of term limits, voters in states with high spending levels may be more likely to adopt term limits in an attempt to impose greater fiscal discipline on their state legislators. However, I argue that term limits are an exogenous institution. Their adoption is not correlated with a state's economic conditions. Instead, the main determinant of whether or not voters adopt term limits for their representatives is the presence of the initiative process. In every state with the initiative process, except one, voters have passed some form of term limits legislation. Similarly, no state without the initiative process currently has term limits for their state representatives. However, this does not mean that all states with the initiative process currently have term limits. Term limits were declared unconstitutional in four states, and repealed by the legislature in two others.

The presence of the initiative process is uncorrelated with the present fiscal preferences of voters in that state (Knight 2000; Matsusaka 1995). Most direct democracy procedures, such as the initiative, were adopted by states in the early 1900s, well before the start of the time period under consideration here. The one exception is Mississippi, which adopted its initiative process in 1992. Mississippi is also the only state with the initiative process where voters rejected term limits for their state legislators.¹¹

If the presence of the initiative process is the best predictor of whether or not a state will adopt term limits, it is important to ascertain if states with direct democracy differ from other states in their fiscal policy choices. Previous studies of the effect of voter initiatives on state fiscal policy present mixed evidence. Zax (1989) reports that states with direct democracy

⁸Term limits were repealed by the state legislature in Idaho and Utah. The state supreme courts of Massachusetts, Oregon, Washington, and Wyoming struck down term limits.

⁹Oregon's term-limit law was struck down by the state supreme court in 2002.

¹⁰However, see Knight (2002) for a discussion of the potential endogeneity problems with including this variable. Including this variable does not change the overall results reported below.

¹¹Alaska also has the initiative process but does not have term limits. However, Alaska's initiative process is for statutes only and may not be used for altering the constitution. Thus, term limits could not be adopted by initiative.

procedures have levels of state spending significantly higher than other states. More recently, cross-sectional time series studies by Matsusaka (1995; 2000) and Matsusaka and McCarty (2001) find that states with voter initiatives have spending levels significantly lower than other states, particularly when Democrats control the state legislature. However, a review of this literature by Besley and Case (2003) casts doubt on the robustness of these findings. Using a between-state estimator they find little evidence that state initiatives lower spending. Thus we can safely treat term limits as an exogenous institution.

The models in this analysis are linear cross-sectional time series models and are estimated using OLS with panel-corrected standard errors, as described in Beck and Katz (1995). Results are corrected for first-order autocorrelation. State and year dummy variables are also included in order to control for state and year-specific factors that might cause a spurious correlation between term limits and fiscal policy. These are not reported in the final results.

As Table 1 makes clear, term limits have not had the effect on spending that their supporters expected. Rather than reducing spending levels, states with term limits exhibit higher levels of expenditures than other states. This result holds for both specifications of the dependent variable. Expenditures per capita in term-limited states are, on average, 2.1% higher than in states without term limits. Spending as a percentage of income in term-limited states is 3.4% higher than in other states. These results are both statistically significant at the

Table 1 Effects of term limits on state expenditures, 1977–2001

	Exp. per capita	Exp. as a % of income
Term limits	59.8 (20.9) ^{***}	0.004 (.001) ^{***}
Divided government	42.6 (13.4) ^{***}	.001 (.0007)
Governor (1 = democrat)	32.8 (12.7) ^{***}	.0009 (0.0007)
Grants	0.830 (0.115) ^{***}	0.00003 (0.000006) ^{***}
Income	0.0000001 (0.0000001) ^{***}	
Population density	0.0008 (0.0004) ^{**}	0.00000004 (0.00000002) ^{**}
Unemployment rate	0.276 (0.392)	0.00004 (0.00002) ^{***}
Observations	1175	1175
Number of states	47	47
Number of years	25	25
R-squared	0.94	0.92

All estimates include fixed effects for states and years (not reported)

Entries are regression coefficients from panel data regression models. Figures in parenthesis are panel corrected standard errors

* $p < 0.1$

** $p < 0.05$

*** $p < 0.01$

99% confidence level. Party control also has a significant effect on spending levels. Divided government increases per capita expenditures by \$50, or 1.8%. Similarly, the election of a Democratic governor raises per capita expenditures by \$33, or 1.2%. While the coefficients on these variables are significant at the 99% confidence level when expenditures per capita is the dependent variable, they both fail to reach statistical significance in the alternative specification of the dependent variable. These results confirm the conclusions drawn from visual inspection of the data in Fig. 1.

To check the robustness of these results, the model was re-estimated with a different set of independent variables, two of which—the percentage of the population over 65 years of age and gross state product (GSP)—serve as proxies for the demand for state government spending. In order to control for partisan differences a variable indicating whether or not a Democratic majority controls both houses of the legislature is entered.¹² In addition, the number of seats in the lower house of the state legislature and the presence of gubernatorial term limits are also controlled for. Both of these variables have been found to increase state spending (Besley and Case 1995; Gilligan and Matsusaka 2001, 1995). As seen in Table 2, the original results are confirmed in this alternative specification of the model. Term limits are still positively associated with higher levels of spending. However, the magnitude of this effect is somewhat dampened. Term limits increase expenditures per capita by only \$36, or 1.3%. Expenditures as a percentage of income are 3.5% greater in states with term limits than in other states. Both of these results reach standard levels of statistical significance.

2.1 Spending categories

While the previous results demonstrate that aggregate spending levels are affected by term limits, they tell us little about how the composition of state spending is altered by term limits. To test whether specific categories of state spending change after term limits, I examine four budget line-items: health, highways and transportation, welfare, and education.¹³ The results are presented in Table 3. Term limits do not appear to impact all spending categories equally. Education spending is unchanged by term limits. In contrast, the other three expenditure categories exhibit substantial increases after the implementation of term limits. States with term limits spend 29% more on welfare and 14.3% more on transportation than states without term limits. Both of these results are statistically significant at the 90% confidence level. By far, the biggest increase in spending is found in health spending. Term-limited states have health expenditures 31.5% higher than other states. This result is statistically significant at the 99% confidence level.¹⁴ Further research is needed to determine why these categories of spending are differentially affected by term limits.

2.2 Variations in term-limit laws

To some extent, it is disingenuous to talk about states with term limits as if they were one homogeneous group. States with term limits differ from each other in several important respects. Foremost, the provisions of state term-limit laws are not uniform. Term-limit laws vary as to both the number of terms legislators may serve as well as whether or not they

¹²These variables are chosen because they have been found to be significant in previous studies of state spending. See Alt and Lowery (1994, 2000), Gilligan and Matsusaka (1995), Poterba (1994, 1997).

¹³Data were unavailable for 1979.

¹⁴This result also holds if Medicaid spending is removed from the dependent variable.

Table 2 Robustness check

	Exp. per capita	Exp. as a % of Income
Term limits	36.8 (19.0) ^{**}	0.004 (0.0008) ^{***}
Gross state product	0.03 (0.004) ^{***}	−0.0000008 (0.0000002) ^{***}
Percent over 65	1.79 (0.83) ^{**}	−0.000002 (0.00003)
Democratic legislature	16.9 (17.5)	−0.0008 (0.0006)
Number of seats	3.93 (1.18) ^{***}	0.0001 (0.00004) ^{***}
Gubernatorial term limit (1 = lame duck)	−9.76 (14.1)	−0.0006 (0.0006)
Population density	0.001 (0.0002) ^{***}	0.00000005 (0.00000001) ^{***}
Unemployment rate	0.784 (0.431) [*]	0.00002 (0.00002)
Observations	1175	1175
Number of states	47	47
Number of years	25	25
R-squared	0.93	0.91

All estimates include fixed effects for states and years (not reported)

Entries are regression coefficients from panel data regression models. Figures in parenthesis are panel corrected standard errors

* $p < 0.1$

** $p < 0.05$

*** $p < 0.01$

include a lifetime ban on future service in the legislature. States can be classified as having either strict or lenient term-limit laws. Those states with the most restrictive laws limit their members to six years (three terms) in the House and eight years (two terms) in the Senate. States with this six–eight pattern include Arkansas, California, Michigan, and Oregon. The remaining states with term limits have provisions only slightly less restrictive. Seven states—Arizona, Colorado, Florida, Maine, Missouri, Nebraska, and South Dakota—limit their state senators and state representatives to eight years of service in each chamber. At the other end of the continuum, Nevada and Wyoming limit their state legislators to 12 years of service in each house.

The second dimension along which term-limit laws vary is whether or not they impose a lifetime ban on service. In five states—Arkansas, California, Michigan, Missouri, and Nevada—legislators are prohibited from serving in the state legislature again once they have served the maximum number of terms allowed in both chambers. Oklahoma’s law is even more restrictive, permitting legislators to serve no more than 12 years total in the legislature. In the remaining states there is no lifetime ban on service. In these states, limits on service apply to consecutive terms only. A legislator previously termed out of office may return to

Table 3 Expenditure categories

	Education	Transportation	Welfare	Health
Term limits	−116 (382)	117 (55.5)**	677 (356)*	246 (98.6)***
Divided government	298 (106)***	64.1 (22.1)***	293 (95.8)***	47.9 (29.1)*
Governor (1 = democrat)	−41.9 (74.5)	−35.1 (18.8)*	−78 (78.6)	14.9 (29.7)
Grants	−1.05 (0.463)**	−0.204 (0.088)**	0.836 (0.436)**	−0.212 (0.13)*
Income	0.000002 (0.000001)**	0.0000004 (0.0000001)***	0.000003 (0.000007)***	0.0000006 (0.0000002)
Population density	0.003 (0.002)*	0.0008 (0.0005)*	−0.008 (0.002)***	0.0009 (0.0005)*
Unemployment rate	2.49 (2.84)	1.19 (0.60)**	9.76 (2.73)***	1.35 (0.71)**
Observations	1128	1128	1128	1128
Number of states	47	47	47	47
Number of years	24	24	24	24
R-squared	0.93	0.93	0.90	0.90

All estimates include fixed effects for states and years (not reported)

Entries are regression coefficients from panel data regression models. Figures in parenthesis are panel corrected standard errors

* $p < 0.1$

** $p < .05$

*** $p < 0.01$

the legislature after sitting out a term. For example, a state senator in Colorado termed out of office in 1998 is free to run for the state senate again in 2002.

To test if these differences in the provisions of term-limit laws have an impact on fiscal policy, I reran the above analysis coding for the severity of a state's term-limit law. A dummy variable was coded 1 if a state limited members of the House to eight years in office and imposed a lifetime ban on future legislative service. The results are presented in Table 4. The results show that states with strict term-limit laws have higher levels of spending than states with less restrictive laws. Expenditures per capita in these states are \$174 more, or 6.2% greater, relative to the mean, than in other states. The coefficient for this variable is statistically significant at the 99% confidence level. A similar result is found if expenditures as a share of income is used as the dependent variable. States with strict laws have spending levels 4.3% greater than states with less restrictive laws or no term limits at all.

3 Discussion

The empirical results suggest that term limits have had the opposite result of what their supporters expected. Instead of reducing state spending, term limits have led to increased

Table 4 Strict term limits

	Exp. per capita	Exp. as a % of Income
Term limits	174.4 (28.3)***	0.005 (0.002)**
Divided government	43.9 (13.4)***	0.0008 (0.0006)
Governor (1 = democrat)	37.1 (13.8)***	0.0009 (0.0007)
Income	0.0000009 (0.0000001)***	
Population density	0.001 (0.0003)***	0.00000004 (0.00000002)*
Unemployment rate	0.358 (0.403)	0.00004 (0.00002)***
Observations	1175	1175
Number of states	47	47
Number of years	25	25
R-squared	0.94	0.86

All estimates include fixed effects for states and years (not reported)

Entries are regression coefficients from panel data regression models. Figures in parenthesis are panel corrected standard errors

*** $p < 0.01$

** $p < 0.05$

* $p < 0.1$

spending levels. Further, these increases are not confined to one category of spending but are evident in several major categories of state spending.

Why did term-limit supporters get it wrong? To some degree, the results found here are counterintuitive. It is commonplace to portray legislators as single-minded pursuers of reelection, doling out projects to their districts in an attempt to maximize their vote shares. It is not unreasonable to assume that once the electoral connection is severed, spending would decrease. However, this argument ignores the important ways that institutions shape policy outcomes. Existing research on the relationship between institutional structure and fiscal policy outcomes may provide us with some insight into why term limits have led to increases in state spending.

Excessive legislative spending is often attributed to the existence of a common pool problem. The degree to which individual legislators and committees internalize the costs of spending has important consequences for the aggregate level of expenditures (Bradbury and Crain 2001; Gilligan and Matsusaka 1995; Roubini and Sachs 1989; Weingast et al. 1981). Tax revenues can be viewed as a common pool out of which legislators and committees finance projects for their own constituents. While each legislator fully internalizes the benefits from such spending, she only bears a fraction of the total cost, which is spread out over the entire legislature. Thus, there exists the potential for overexploitation of the common pool of tax revenues. This danger increases as the number of legislators or committees demanding spending increases: the “Law of $1/n$ ” (Weingast et al. 1981).

However, this common pool problem is not inevitable. The structure of the budget process can help alleviate exploitation of the common pool of state revenue. Numerous studies have demonstrated that a centralized budget process is more effective at lowering aggregate spending levels than a decentralized system (Brady and Morgan 1987; Cogan 1994; Crain and Muris 1995; Hallerberg and Marier 2004; Velasco 1999). For example, Cogan (1994) and Brady and Morgan (1987) find that federal spending began to rise when the number of congressional committees with control over spending decisions increased. Prior to the 1880s, spending authority was, for the most part, consolidated in a single committee in both the House and Senate. However, beginning in the early 1880s, spending authority was transferred from the Appropriations Committee to various legislative committees, such as Agriculture and Rivers and Harbors. Government spending quickly rose after this balkanization of spending authority. Cogan (1994) estimates that spending increased at an annual rate of 1.8% from 1887 to 1897, and continued to increase steadily thereafter. Similarly, Brady and Morgan (1987) find that splitting spending authority between multiple committees had a statistically significant effect on spending. This steady increase in legislative appropriations came to a halt in the 1920s, when both the House and Senate voted to remove spending authority from the various committees and, once again, centralized spending authority in the hands of a single committee. Crain and Muris (1995) reach a similar conclusion in their study of state budgeting practices from 1982 to 1990. They find that states that centralize spending authority have expenditure levels 6% lower, on average, than states where spending power is spread among several committees.

Term limits can be expected to exacerbate this common pool problem by further decentralizing the budget process. State legislatures subject to term limits have undergone several important structural changes that have led to a more diffuse and individualistic legislative environment. Prominent among these changes has been a decrease in the power of party leaders and committee chairs (see, e.g., Carey et al. 2006; Carey et al. 2006, 2000a; La Raja and Apollonio 1999; Moen et al. 2005; Peery and Little 2003). Committees have seen their gate-keeping authority diminish under term limits due to increased turnover, inexperienced committee chairs, and the increased time pressures on legislators to pass their policies before their terms expire (Cain and Kousser 2004; Kousser 2006; Moen and Palmer 2003; Straayer 2003).¹⁵ Term limits have also created the unique situation of lame-duck party leaders who are unable to credibly commit to sanctions or rewards for rank-and-file members and, as a result, cannot effectively maintain party discipline (Bowser et al. 2003; Carey et al. 2000a). This diffusion of power has opened up the legislative process, especially the budget process, to a greater number of participants, including other legislators, interest groups, and agency officials. For example, Brake's (2002) study of the budget process in Michigan and Maine finds that term limits led to an increase in the number of floor amendments proposed to the budget bill, an uncommon occurrence when the budget process was controlled by the chair of the appropriations committee and party leaders. Numerous other states with term limits have undergone similar changes in their budget processes (Dire 1998; Leonard 2001; Price 2003). These institutional changes associated with term limits have most likely made it more difficult for state legislators to control aggregate levels of spending.

¹⁵ See Erler (2005) for evidence that the number of bills that die in committee decrease substantially after the implementation of term limits.

4 Conclusion

This study has illustrated that political reforms often have unforeseen and unintended consequences. While supporters of term limits believed they would reduce legislative spending, the results found here do not support this claim. Instead, term limits appear to do just the opposite. States have higher levels of spending after the implementation of term limits than they did previously. However, the reason that term limits have increased state spending is still unclear. While this paper has speculated that institutional changes affecting the power of committees and party leaders have exacerbated the common pool problem facing legislators, alternate explanations are possible. Future research is needed to establish the relationship between term limits, institutional structure, and state spending.

Yet the results presented above do suggest that states with term limits could alleviate their spending woes by relaxing the provisions of their term-limit laws. There have been efforts in a majority of states to repeal or reform term limits. The most popular proposals either increase the number of terms that members may serve or lengthen the duration of each term. For example, a bill proposed in the California legislature would lengthen a term in the Senate from four years to six years, thus increasing the number of years that legislators could serve in office from six years to 12 years in the Assembly and from eight years to 12 years in the Senate. A recent bill in Michigan proposed allowing members of the House to serve six instead of three two-year terms and three, rather than two, four-years term for members of the Senate. Changing term-limit laws in this manner would likely have beneficial effects on state fiscal policy.

Appendix

Table 5 Summary statistics

Variable	Mean	St. dev.	Min	Max
Democratic legislature	0.525	0.500	0	1
Divided government	0.540	0.499	0	1
Exp. as a % of state income	0.116	0.025	0.048	0.214
Exp. per capita	2784	707.6	1016	5220
Governor (1 = Democrat)	0.547	0.498	0	1
GSP per capita	28715	5643	17842	52524
Gubernatorial term limits (1 = lame duck)	0.274	0.446	0	1
Income*	6.09×10^8	2.30×10^8	2.31×10^8	1.82×10^9
Number of seats in the Lower House	114.3	55.0	40	400

Table 5 (Continued)

Variable	Mean	St. dev.	Min	Max
Percent of the population over 65*	151.9	47.2	56.3	346
Population density*	84057	2117724	2.57	1272479
Term limits	0.053	0.224	0	1
Unemployment rate*	41.1	30.8	4.84	324

* Indicates a quadratic term

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