

## **Blowing Up the State: Interest Groups, Party Competition, and State Spending**

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## **Abstract**

Does the presence of more interest groups, and more citizens mobilized as interest groups, lead to greater spending by state lawmakers as they seek to gain the allegiance of these political organizations? We test this basic question with data on government spending, the number and size of interest groups, and the level of competition between them in the American states from 2005 to 2011. Our results reveal that the interest group effect on state spending is conditional, interest groups only really increase state spending when there is competition between the two main political parties for control of the state, otherwise the effects of interest groups are either negative or entirely absent.

It has often been said that government budgets increase in response to political demand, but demands from whom and under what circumstances political demands are responded to is very unclear. Certainly the need to appease constituents and voters leads elected officials to make promises for new benefits and provide earmarks, or pork-barreling if that term is preferred, in return for enough votes to secure re-election, but not all constituents are equal when it comes to political influence. Those mobilized in organized interest groups may wield much greater influence over legislators than politically quiescent constituents. As lawmakers organized into political parties compete with each other to dominate state governments, they may well have an especially strong incentive to reach out to these organized constituencies, promising increases to the benefits they already enjoy or whole new regimes of benefits and targeted spending. The result, of course, are increases in state annual spending due to indirect interest group influence.

The influence of interest groups on growth in state spending, however, has never been directly tested to our knowledge. That interest groups have detrimental effects on the overall size of governments and their ability to efficiently deliver services has been studied extensively, largely beginning with economist Mancur Olson's dire prediction that too many groups will retard governments' abilities to address real needs and ultimately paralyze the state (Olson 1982). The implication for public sector spending, undeveloped and untested in the literature, is that interest groups pursuing narrowly defined interests seek increases in spending, but only to benefit themselves and not the public interest. We test this proposition in conjunction with political competition between parties with data on interest groups in the states from 2005 to 2011. We find that interest groups with large memberships, which mean lots of voters, and greater levels of competition between groups to influence policy, do have positive effects on growth in state spending, but only when the two parties are fiercely competing to control state

government. Otherwise interest groups have a negative effect on spending or no effect at all. We thus conclude that interest groups are powerful players in state spending, and can effect state spending in ways that ought to be of concern to anyone interested in the health of the public sector, but it is conditioned on the degree of competition between lawmakers themselves, for they control interest group access to and influence over state political institutions and budgets.

### **Competition and the Politics of State Spending**

What drives government spending and growth has encountered no shortage of attention from scholars and researchers over the last several decades. Studies have examined public sector spending at all levels of government and have identified a number of factors that impact government growth and size (e.g. Bails and Tieslau, 2000; Erler, 2007; Johnson and Crain, 2004; Matsusaka, 1995). Often these waves of studies are responding to debates in public discourse about potential constitutional changes at the federal level, or the effects of institutional changes at the state level. For instance, in the 1980s, there was a flurry of articles on the effects of the line-item veto on state spending because Congress was seriously debating the adoption of such a tool (Abney and Lauth, 1985; Holtz-Eakin, 1988). Before and after the term limits movement in the 1990s, researchers explored whether term limits would help reduce excessive spending at the national and later state levels (Payne 1991; Reed et al. 1998).

As for research on state spending, much of it focuses on how institutions incentivize excessive spending or how fiscal rules may or may not arrest it. Aside from these institutional explanations, scholars have also investigated political variables, such as party control, but these efforts usually investigate their impact on certain types of spending, particularly welfare (Poterba, 1996). Barrelleaux, Holbrook, and Langer (2002), for example, found that electoral

competition and the number of legislative seats held by Democrats drive up redistributive spending. And while the political economy literature explores the effect of party competition for control of government on spending (see below), it has not connected it to the roles played by interest groups. This is unfortunate since the two are almost certainly linked together. Since one of the main purposes of interest groups is to seek benefits for their members, we should expect them to bring considerable pressure on political parties to increase spending.

Scholars have long assumed that the basic motivation of politicians is re-election (e.g., Mayhew 1974), and some have argued that this motivation alone leads to irresponsible collective outcomes like excessive spending of taxpayer dollars (e.g., Arnold 1990). Re-election means serving key constituencies, as well as financiers of increasingly expensive elections for state legislative offices. This suggests a need on the part of politicians to pay close attention to the demands of organized interest groups and serve their demands for policy, tax subsidies, and spending whenever possible in return for votes and campaign contributions. Going a step further, it means that if individual lawmakers are trying to benefit their allied interest groups with more public spending and tax subsidies, then, when aggregated, more interest groups overall may well mean more public spending.

That larger numbers of special interest groups threaten representative governments because politicians need to serve them is hardly a new argument. It has long been known that there is a close connection between government growth and growth in the interest group sector, each pushing the other to expand (Truman 1951; Baumgartner, Gray, and Lowery 2009). That interest groups drive much of this process, and do so to such an extent that a nation's or a state's growth could be brought to a halt, however, was first argued by the economist Mancur Olson (1982). Olson, however, was more concerned with how interest groups retard public sector

investment in economic growth rather than state spending, and he never explicitly modeled just how interest groups slowed government growth (Gray and Lowery 1988; Unger and van Waarden 1999). Moreover, empirical evidence supporting Olson's rather apocalyptic hypothesis has been decidedly mixed (Heckelman 2007), both when scholars have examined a variety of nations and forms of government around the world (e.g., Mueller and Murrell 1986; Coates and Heckelman 2003; Horgos and Zimmermann 2009) and in examinations of the American states (Gray and Lowery 1988; Crain and Lee 1999).

The vast literature in political economy that has grown-up around Olson's argument can actually be linked fairly easily to non-interest group models of government spending simply because those models typically do incorporate party competition. Indeed, one of the basic assumptions in political economy is that interest group influence over government is largely a result of party competition and individual legislators' needs for interest group support resulting in redistributions of wealth away from the common needs of citizens (e.g., Buchanan and Tullock 1962; McCormick and Tollison 1982; Avinash and Londregan 1996; Coate and Morris 1995; Grossman and Helpman 1996; 1999). While Gray and Lowery (1988) and Crain and Lee (1999) study the influence of large, diverse communities of interest groups on state growth in government, nobody has explicitly tested the effects of interest group lobbying on spending, either independently or in the context of party competition.

Olson and subsequent work in political economy testing his hypothesis, however, is not the only body of literature to suggest that more interest groups lead to more spending, though the connection is not quite as clear. Economists and political scientists beginning in the 1950s argued that business interests were increasingly adept at gaining strangleholds over both legislative policy and regulation affecting their industries, often designing policy and regulation

to advantage their industries at the expense of competitors (e.g., Bernstein 1955; Stigler and Friedland 1962; Stigler 1971; Peltzman 1976). In these distinct, isolated subsystems of policy-making, often called “subgovernments” and “iron triangles,” legislators, regulators, and lobbyists all direct benefits to their mutual supporters, but this comes at the expense of the larger political system. Such policies, after all, producing tax breaks, trade barriers, and financial subsidies for particular sectors of the economy come at the expense of the collective economic, political, and financial health of the nation, creating waste and inefficiency (McConnell 1966; McCool 1990).

While greater group competition and other forms of countervailing power have arguably eroded many subgovernments at the national level (Hecklo 1978; McFarland 1992; Holyoke 2011), they may well be stronger in many of the states where there is often less group competition and greater numbers of interest groups leads to greater concentration in policy subsystems (Hamm 1986; Gray and Lowery 1993). The number of interest groups in many states has grown significantly in size and diversity, even while remaining somewhat stilted in other states (Nownes and Freeman 1996; Nownes and DeAlejandro 2009; Holyoke N.d.), making the states excellent cases for testing the influence of interest group and party competition on the growth of state spending.

### **Connecting Competition to Spending**

Mancur Olson predicted that more interest groups lead to less government growth because they lock-up public resources that would otherwise be invested in development of, and public support for, economic activity. Their need to secure resources for members also strongly suggests that they will drive-up overall spending so that there is more for their members. Since most groups are inclined to do this, increases in the number of groups suggests increases in

spending. Yet the exact link between the two is not clear, for interest groups and their lobbyists cannot directly manipulate governing institutions. They can only do it through the legislators on whom they depend for access and influence, and then only if they have sufficient leverage. As Gray and Lowery (1988) pointed out, Olson never laid out any murky details as to just how interest groups capture the government, and he never discussed their influence on spending at all. He overlooked the dynamic at the heart of politics – competition, not only between political parties for the votes and financing of special interest groups, but between those interest groups as well. The richest potential exploration of spending policy, and arguably most policy-making in a democracy, likely comes from the interaction of party and group competition.

So how might party competition and interest group competition exacerbate or mitigate state government spending? We start with three assumptions, the first being the basic assumption in political economy, which is that legislators in political parties want to be re-elected and to be in the majority party controlling the legislative branch. Thus the two parties compete with each other to gain the votes and financing offered by interest groups. Legislators are probably concerned about how much money their state spends, but we assume that this concern is secondary to their need to be re-elected and for their party to hold the majority.

Our second assumption is that organized interest groups have demands for policy and government benefits they must make to please the members and funders who support their organizations. We therefore argue that interest group leaders, lobbyists, and members do not care about the state's overall financial condition, not even deficits and debt, because they have no clear responsibility for it. Interest group leaders will only lobby for policy and financial benefits for their members. Finally, because parties and interest groups are aggregations of individual preferences for policy and benefits, legislators in the case of parties and individuals or



organizations in the case of interest groups, not all legislators and group members are likely to have precisely the same preferences for policy outcomes. Consequently, their leaders have some flexibility regarding exactly what policy outcomes parties and groups advocate. Both can, within limits, change their positions to accommodate each other. What is important is who pressures whom to change.

We use these basic assumptions to get some insight into the circumstances where interest groups can pressure parties into reckless spending. In Figure 1 we consider three scenarios. In the first there is no meaningful party competition in the state; one party and its legislators control all access to the levers of making policy and spending. There are four interest groups lobbying for spending benefits here and their member-derived ideal points, along with the party's, are presented on a simple left-right policy outcome space. Two groups represent members whose collective preferences are very close to those of the ruling party and are probably parts of its electoral base. The other two groups try to shift their positions to the extent their members will permit to try to get the ruling party's attention as well. The ruling party may provide spending benefits to  $IG_3$  and  $IG_4$  as it sees fit, but arguably does not need to. In this scenario the ruling party holds absolute control and has no need to buy off the interest groups. Ruling party legislators can, if they want, impose some fiscal restraint.

---- Insert Figure 1 about here ----

In scenario two the situation is reversed. Two strong parties are fighting for control of state government, and the collective policy preferences of the four interest groups are more dispersed and, consequently, they are competing with each other to influence the policy's outcome. Both parties are primarily concerned with gaining and maintaining control of the state, and to do that both want the support of the four groups' members. Both parties offer policy

benefits and money to the interest groups, and not just groups with similar preferences, but also to those further away as both parties try to re-position themselves closer to the groups. Now it is the parties who must make promises, but because the groups are not that close to each other, the parties must spend tremendously to convince all four to change positions to support them over the rival party. An escalation in spending is the result. In other words, in this scenario, interest groups are in the stronger positions and may make more spending demands. Scenario three is similar to two but with one big different, now  $IG_3$  has a membership much larger than the other groups. Not only does this make it vastly more attractive to the two competing parties, who will make enormous spending commitments to attract its voter-members, but even the other interest groups may change their positions to be closer to  $IG_3$  and gain resources from the parties by making themselves more attractive through sheer proximity to the dominant interest group.<sup>1</sup>

These scenarios suggest two things. First, the stronger the position of legislators in one party, the more fiscal responsibility there will be, for when interest groups are in the stronger positions they will always demand more fiscal benefits just for their own members. Second, all of this is driven by three variables: degree of party competition, interest group competition (meaning diversity in policy preferences), and interest group membership size. It is not possible to graph all of the scenarios based on variation in these three factors, but we get some sense as to how they interact with each other in Figure 2. What is suggested by the darker colors, which mean interest groups are having a greater effect on the level of state spending, is that party competition and interest group size have independent effects as well as interactive ones, but the level of interest group competition (defined as more groups overall) only has a conditional effect because it only has an influence when there is party competition.

---- Insert Figure 2 about here ----

Deducing testable hypotheses should make this clearer. Greater party competition means both parties are trying to attract more supporters to their side, and to overcome ideological differences they must promise more and more benefits, perhaps shifting their ideal positions more towards the bulk of the interest groups as they do so (though we do not test for this). Consequently, the level of overall state spending should increase. Also, the more people are organized into interest groups, the more then parties will want their support, even if there is only one meaningful party. Even a secure ruling party should act to secure its future, though less likely to heavily spend to attract groups it does not already ideologically agree with. However, more groups, and therefore more group competition, do not mean more groups will necessarily be served, even if they all have large memberships. Without party competition, the ruling party does not need to make compromises with ideologically distant groups. This means Olson's basic hypothesis may be wrong, that just the presence of more interest groups, or more group competition, does not automatically lead to more spending. It is only true when there is party competition. So three independent hypotheses:

*H1:* The greater the level of competition between the parties, the higher the level of state spending;

*H2:* The larger the memberships of the interest groups, the higher the level of state spending;

*H3:* More interest groups competition does not have a direct effect on state spending.

It is the interactions of these three variables that should exhibit the strongest effect on state government spending levels and debt. As Figure 2 suggests, political competition among parties for control of government and among interest groups to influence government spending through the parties, coupled with the attractiveness of some groups due to their large sizes,

defines the relationships between groups and spending. All of which is grounded in our basic assumptions regarding the motivations of elected officials and interest group lobbyists. Other testable hypotheses are certainly possible in the complex set of scenarios created in Figure 2, but we believe that the follow three hypotheses capture the most important set of interactions.

*H4:* Greater competition among interest groups leads to greater state spending *if* there is also greater party competition.

*H5:* Greater party competition leads to especially high levels of state spending when parties are trying to attract competing interest groups with large memberships.

*H6:* Greater interest group competition does *not* increase state spending just because some interest groups have very large memberships.

### **Research Design**

We test our hypotheses with data on interest group activity and government spending in the fifty states. Our dependent variable is simple annual state spending, or the amount of money the state legislature appropriates each year, or is otherwise spent according to automatic funding formulas, as part of its annual budgeting process. We include states with two-year budgets because interest groups can still affect a state's budget in the second. The data on annual state spending comes from the *Fiscal Survey of the States* and has been adjusted for inflation so that all figures are in 2000 dollars. We use spending data for seven years, 2005 through 2011.<sup>2</sup> Descriptive statistics on this variable, and all of the others, is in Table 1.

---- Insert Table 1 about here ----

Consistent with the argument we made above, straight counts of the number of interest groups in each state for each year is not a variable we use in our statistical analysis. Instead, we need a measure of interest group competition in each state and a measure of the size of the

memberships of these interest groups. Building these measures does, however, begin with raw counts of the number of groups in each state, and this data comes from the Institute for Money in State Politics.<sup>3</sup> The Institute provides a complete count of the number of organized interests registered to lobby the state legislature in a variety of issue areas and group categories. Using their filtering tools, we sort out campaign financing organizations that primarily just contribute money rather than actually lobby as well as political parties and other entities that are not clearly organized interest groups representing segments of the public.<sup>4</sup> The result is a count of entities that are clearly interest groups. Unfortunately, the database only contains complete records for all fifty states back to 2005, though twelve states go back to 2002.

Just examining the data on state annual spending and just the number of interest groups suggests an interesting pattern. In Figure 3a we graph both variables in a scatter plot for just 2005 and through it place a polynomial curve. More interest groups appears to be positively related to higher state spending, with only a hint of the rate of increase in spending leveling off for higher levels of interest groups. However, this leveling off is much more pronounced in 2011, as seen in Figure 3b. Of course the Great Recession occurred between these years, and while state spending in 2011 has more or less rebounded to 2005 levels, it seems that the influence of interest groups on spending has not, at least as measured by sheer number of groups.

---- Insert Figure 3 about here ----

There are a number of different ways to conceptualize interest group competition. Gray and Lowery (1996) conceive of it as struggling to attract members from a fixed pool of potential supporters, with competition fiercer as more interest groups fight for the loyalties of fewer people. Holyoke (2009), on the other hand, defines competition as the difference in policy positions groups lobby for on the same issue. The latter perspective is more consistent with the

arguments we are making in this paper, so we base our measure of competition in differences in policy outcome, though Gray and Lowery's notion of competition actually informs our measure of the size of interest group memberships described in the next paragraph. Since we do not have micro-level measures of the differences between every interest group on every issue in every state for every year, we instead start by assuming that while differences likely exist between groups lobbying on the same issues, like transportation policy and agriculture, differences are likely larger between groups lobbying on different issues since they are all trying to persuade the same legislators and obtain benefits from the same, and often shrinking, state budget. We therefore built our measure by subtracting the number of interest groups in one of the Institute's issue categories, like agriculture, from the number of groups in every other category, like transportation and general business, divided each difference by the total number of groups for a proportion, and then averaged the proportions for each year in each state. Because this gives us a measure where higher values mean less competition, we subtracted each year-state score from 0 so that higher values of the resulting variable now mean greater interest group competition.

Although we do not hypothesize an independent effect of interest group competition on state spending in a multivariate analysis, examining the bivariate relationship between the two variables reveals an interesting result. In Figure 4a we see that in 2005 the level of competition in the fifty states varies a fair amount along the scale, even if there is some clustering on the high end, but more importantly it shows a negative relationship between competition and spending. There is still a negative relationship in 2011, shown in figure 4b, but it is far steeper and there is now a high level of competition among interest groups in all fifty states, perhaps a consequence of the Great Recession and a shrinking of public resources.

---- Insert Figure 4 about here ----

Our group membership size variable is also measured only indirectly since, once again, micro-level data on the exact size of each interest group is unavailable. Instead, we assume that a smaller number of groups representing a potential population with a similar interest, such as everyone working in the communications industry, mean those fewer groups have larger memberships and are therefore found to be more desirable by legislators. Unfortunately, while we have data on the number of groups in each issue area, we were not able to find data on the number of people working in each area for every state and every year. In any case, some of the interest groups in our data set, like ideological and single issue groups, represent memberships that are not defined by occupation. We are therefore forced to create a cruder measure by taking the total state population in each state for each year, which comes from the U.S. Census Bureau, and dividing it by the total number of interest groups. The result gives the proportion of interest groups to the population which we take to be a rough measure of the size of interest group memberships in each state for each year. Higher values mean there are fewer interest groups, which, in turn, means large group memberships for those groups that exist.

---- Insert Figure 5 about here ----

The change in the relationship between interest group membership size and state spending from 2005 to 2011 is striking, and a little confusing. In 2005 there was a strong positive relationship between group membership sizes and state spending, where states hosting fewer groups with larger memberships clearly spending more. By 2011 this appears to have reversed somewhat. The relationship is still positive, but state spending increases at only a slow and diminishing rate as membership sizes grow. Perhaps this is, once again, the Great Recession putting breaks on state spending to attract the support of powerful organized political interests. It is also interesting to note in Figure 6 that while the average number of interest groups in the

states only increased slowly and inconsistently over the seven year period, the average size of group memberships decreased significantly, went back up, and then plunged again. By 2011 we have more interest groups representing much smaller groups of common interests in the states.

---- Insert Figure 6 about here ----

Party competition is the well-known Ranney index, in this case the folded four-year Ranney index so that higher values indicate more party competition in the states, though Nebraska is excluded from the index (and from our analysis) because of its unique unicameral legislature. We have unique scores for each state in each year.<sup>5</sup> This means we now have the independent variables operationalizing hypotheses 1 through 3, though while party competition and larger interest group memberships should have a positive effect on state spending, interest group competition alone should exhibit no independent effect at all. Hypotheses 4 through 6 are just the interactions of these three variables. Hypothesis 4 is interest group competition multiplied by the Ranney party competition score and should have a positive effect on spending. Also exhibiting a positive effect, we hope, is hypothesis 5, which is group membership size multiplied by party competition. Finally, hypothesis 6 is interest group competition multiplied with group membership size, but it should not exhibit any significant effect on spending.

We also have a few additional independent variables we develop as controls in the statistical model. The prevailing political ideology of a state's citizens might also influence the proclivity of lawmakers to spend heavily, even if a party's control of government is at stake. Indeed, in some highly conservative states, excess spending itself could threaten conservative Republican legislators. To control for this we use the state ideology scores developed by William Berry (see Berry et al. 1998).<sup>6</sup> Whether the observed year is actually a year when legislative elections are taking place may also matter, especially if competition for interest group



electoral support is an important factor. Thus we code a dummy variable 1 for each year that each state holds an election.<sup>7</sup> Finally, state indebtedness may influence legislator spending, so we obtain data on state debt from the U.S. Census Bureau and enter that into our statistical model.

### **Multivariate Analysis and Discussion**

Testing our hypotheses, of course, requires a multivariate analysis. Since our data varies over the fifty states and over seven years, making it time-series panel data, we need a statistical model capable of handling such complex analysis. We employ a mixed effects model with standard errors correcting for the passage of time. The model is mixed in that a random effects model is employed to estimate our coefficients, but fixed effects are used to control for other systematic errors because of unobserved characteristics of the fifty states.<sup>8</sup> The results are presented in Table 2, where the likelihood-ratio test compares our results to the results produced using simple ordinary least squares regression, and we reject the null hypothesis that there is no difference between the two, justifying our choice of a more complicated model. The model's overall goodness-of-fit Wald Chi-Square statistic is also significant, meaning these results are different from what we would like produce with random change.

---- Insert Table 2 about here ----

While many of the predictions we laid out in our six hypotheses are not supported in the multivariate analysis, the results are nonetheless very interesting. Greater party competition alone led to less state spending rather than more, the opposite of what we predicted in Hypothesis 1. Rather than compete with each other by spending more money, parties seem to be differentiating themselves from each other by spending less, perhaps a consequence of

constricting state budgets in the years we studied with parties fighting to preserve entitlements and services important to their electoral base by trying to cut other programs. Yet when considered in the context of interest group competition, Hypothesis 4, party competition shows the result we expect. Greater party competition for votes in a context where interest groups are also competing with each other for influence does lead to greater spending. It seems that when the loyalties of interest groups and their members are more likely to be up for grabs, and the two parties are eagerly seeking greater electoral and financial support in campaigns, that lawmakers will make pledges of greater spending, pledges that must be actually fulfilled. So party competition increases spending when considered in context. The same is true of interest group competition as well. As predicted in Hypothesis 3, group competition alone has no impact on spending, but in the context of party competition it leads to greater state spending.

Also surprising is that our prediction of fewer interest groups with larger memberships leading to greater state spending, Hypothesis 2, is also not supported as the result was negative rather than positive. Once again, though, this explanatory variable does conform to our expectation when examined in the context of party competition, the results for Hypothesis 5 being supported with a positive impact on state spending. In other words, by themselves a few large groups may simply mean that there are fewer political organizations making demands on lawmakers for benefits, so the impact on spending is decidedly less, especially in a time of constricting budgets. But when the parties are competing for control of government, the attraction of groups with large memberships is clear - each political party dearly wants the support of the big, powerful interest groups and is willing to have states' taxpayers pay for their loyalty. Party competition appears to be the key to the effect of interest groups on state spending, for even when groups with large memberships are competing the effect on spending is

negative, probably because competition among just a few groups means those groups have less clout and lawmakers can reduce spending without worrying about alienating them (recall that our prediction for Hypothesis 6 was actually that this would have no effect at all).

Overall, these results strongly suggest that political competition matters, whether it is between the two major parties or the organized interest groups in a state, but it is party competition that connects interest group politics to the state budget. It is the struggle amongst the parties, and their lawmakers who hold the keys to access to state political institutions, that makes legislators feel a need to attract interest groups with the promise of benefits. Otherwise interest groups actually weaken themselves by competing with each other so that they exhibit either no effect on state spending or a negative effect. Put another way, the size and number of interest groups, and whether or not they are competing certainly does matter when it comes to state spending, but only in context. They only threaten to blow up state spending when the political parties themselves are competing for control.

### **Conclusion**

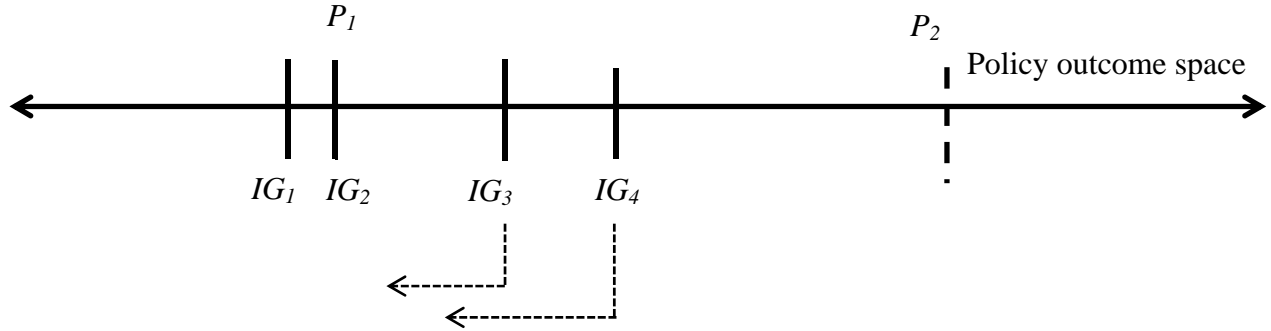
Why state governments grow, especially in terms of how much taxpayer money they spend on an annual basis, and sometimes contract, is a complex problem, and one that is very difficult for any researcher to explain. We certainly do not claim to have done so in this paper, especially since other very important factors external to our model may have had significant impacts on state spending, namely the Great Recession which devastated many state budgets in 2009 and 2010. What we feel that we have done is provide some insight into the role organized political interest groups and political parties may play in spending growth, which itself is an extension of a line of research stimulated by Mancur Olson in the early 1980s.

Olson's great contribution was recognizing the role organized interests almost certainly play in increasing the size of the state, at least in terms of laws and regulations restricting productive growth. What Olson did not do was explain how and why interest groups have this effect on governments. Subsequent research did develop some of this, but not in terms of one of the most important indicators of government size and power, annual spending, and without clearly developing the links between interest group influence and how they might connect to the mechanisms of state government that control spending, namely through the political parties that compete to exercise direct control over government and annual spending.

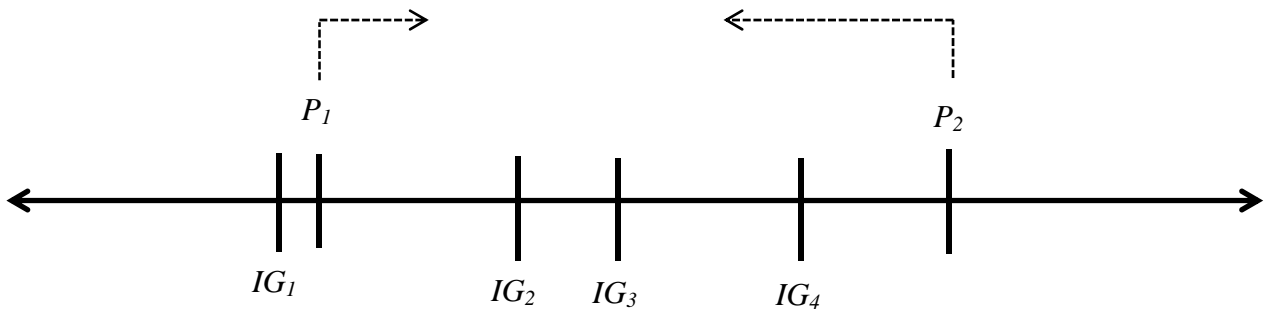
As it turns out, political parties led by the same legislators who devise and pass annual state budgets, or biannual in a few cases, do control interest group influence over these budgets. When parties compete, they try to find new allies in the interest group community, especially organizations with large memberships because that translates into blocs of new votes and campaign financing. When groups themselves compete for influence, their attractiveness to lawmakers grows, because that means the positions advocated by these organizations are also susceptible to change and they can be drawn closer to the positions on issues desired by the parties, but only when the parties themselves are also competing for control and their own positions on issues are fungible. Thus, pulling back a little, it is political competition, both between parties and interest groups, that drives up state spending, which also suggests that stability in a state's political system, and even long term dominance by one party and a few interest groups actually leads to greater control of state spending. This is an important finding, given that many political scientists and activists have argued strongly for the benefits of political competition. It also means that political competition by parties and interest groups remains a fruitful area for a great deal of important future research.

Figure 1  
Three Scenarios of Interest Group and Party Interaction

Scenario 1: All interest groups gravitate towards the dominant party, which determines who gets spending benefits



Scenario 2: Highly competitive parties competing to attract a dispersed set of interest groups by changing their positions and promising lots of spending benefits



Scenario 3: Competitive parties and dispersed interest groups, but one groups with a very large membership attracts everybody and parties offer that groups spending benefits

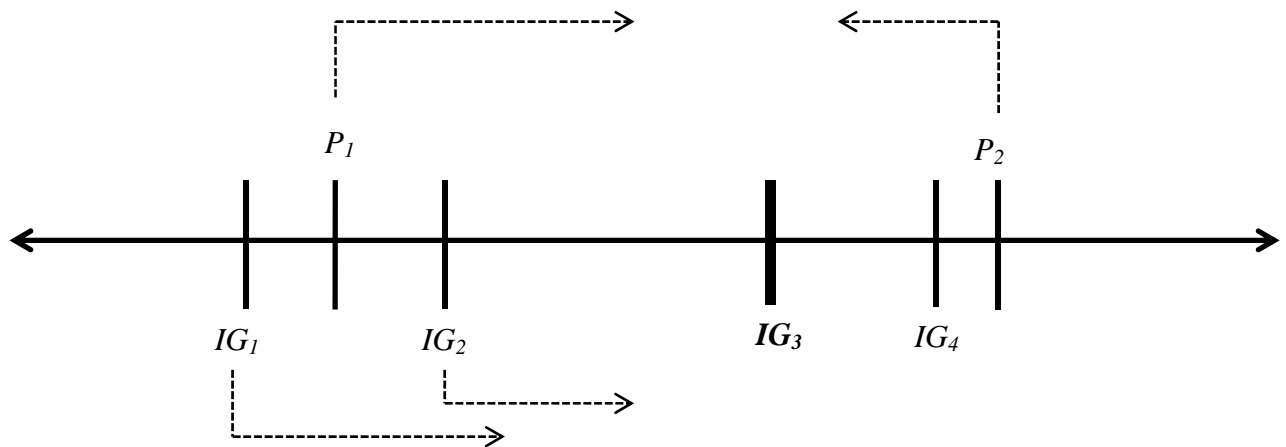


Figure 2

Interaction of interest group competition, group membership size, and party competition

(darker gray areas mean more state government spending)

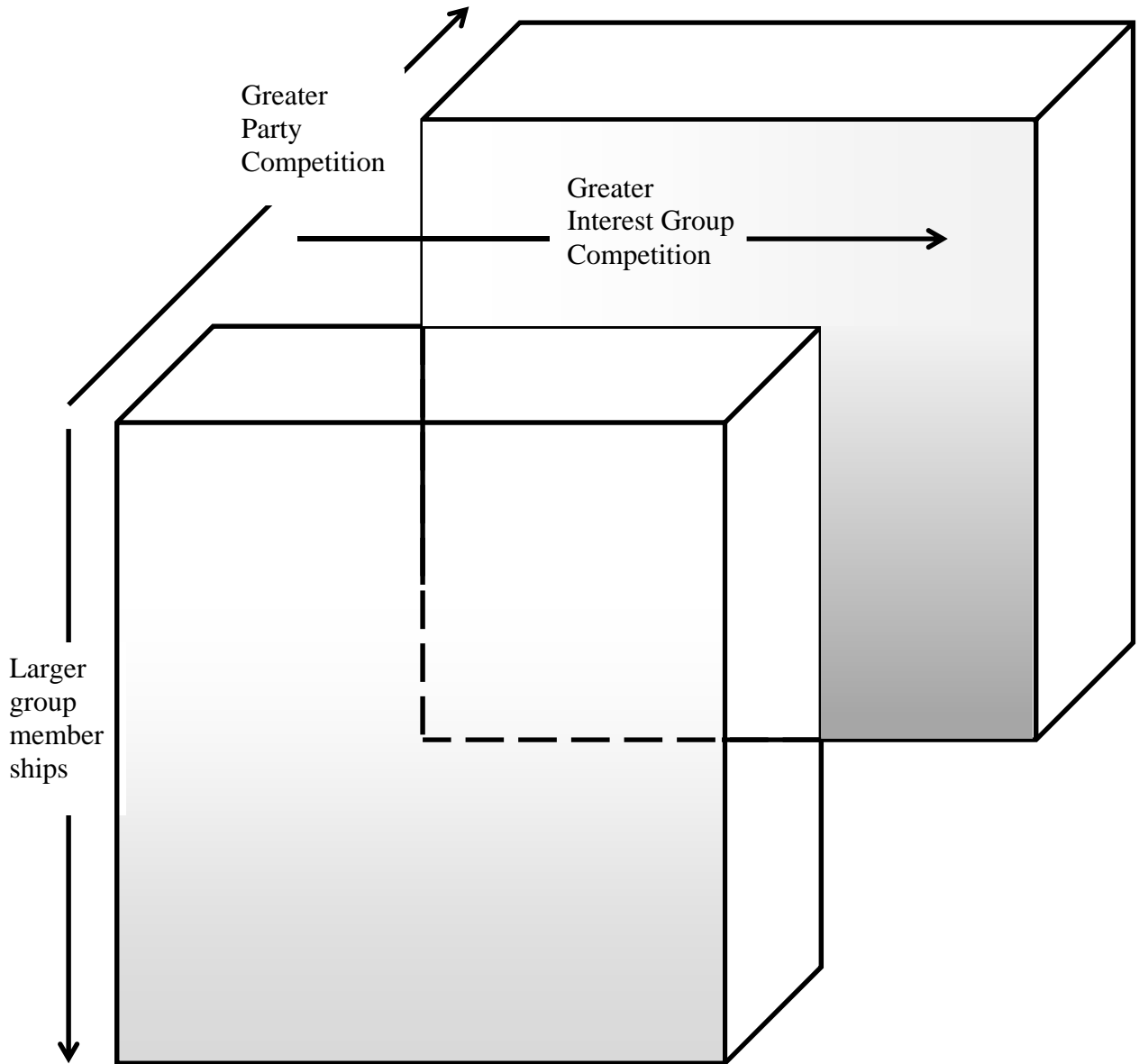


Figure 3a: Number of Interest Groups and State Spending in 2005

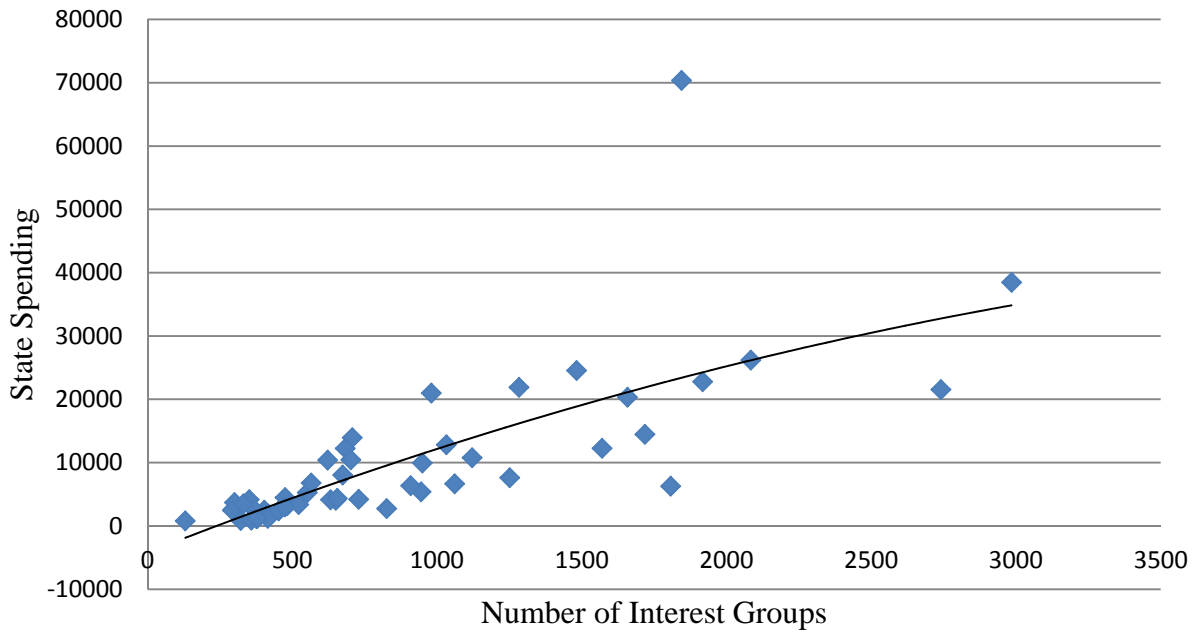


Figure 3b: Number of Interest Groups and State Spending in 2011

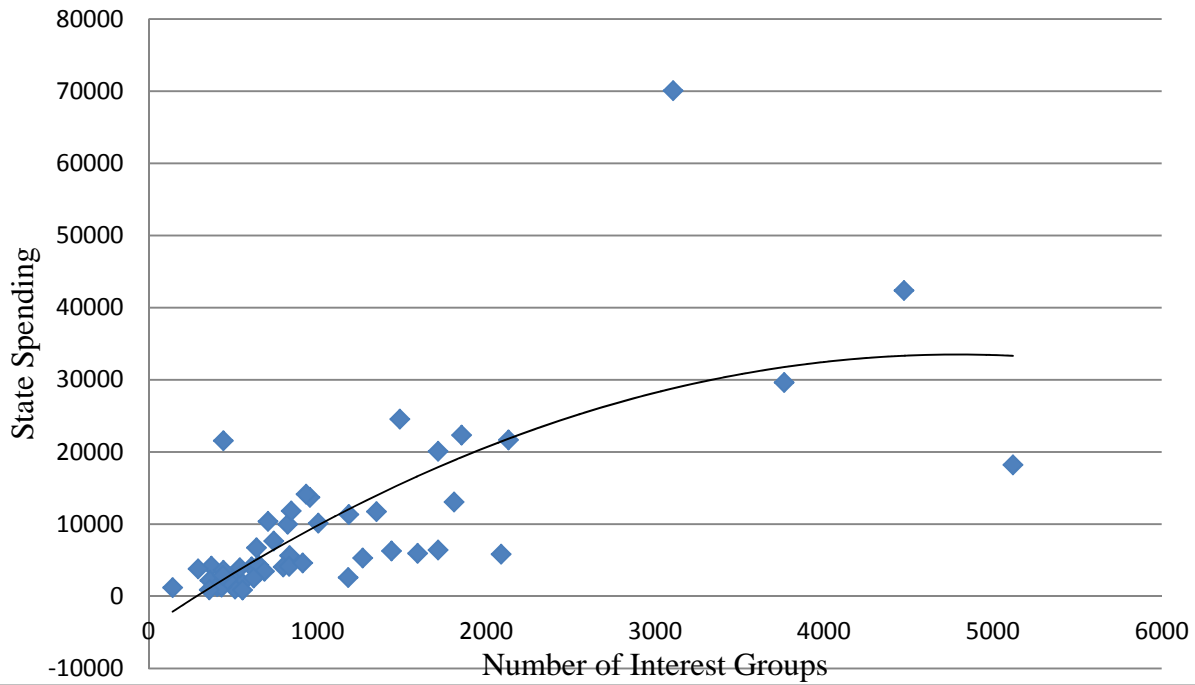


Figure 4a: Interest Group Competition and State Spending in 2005

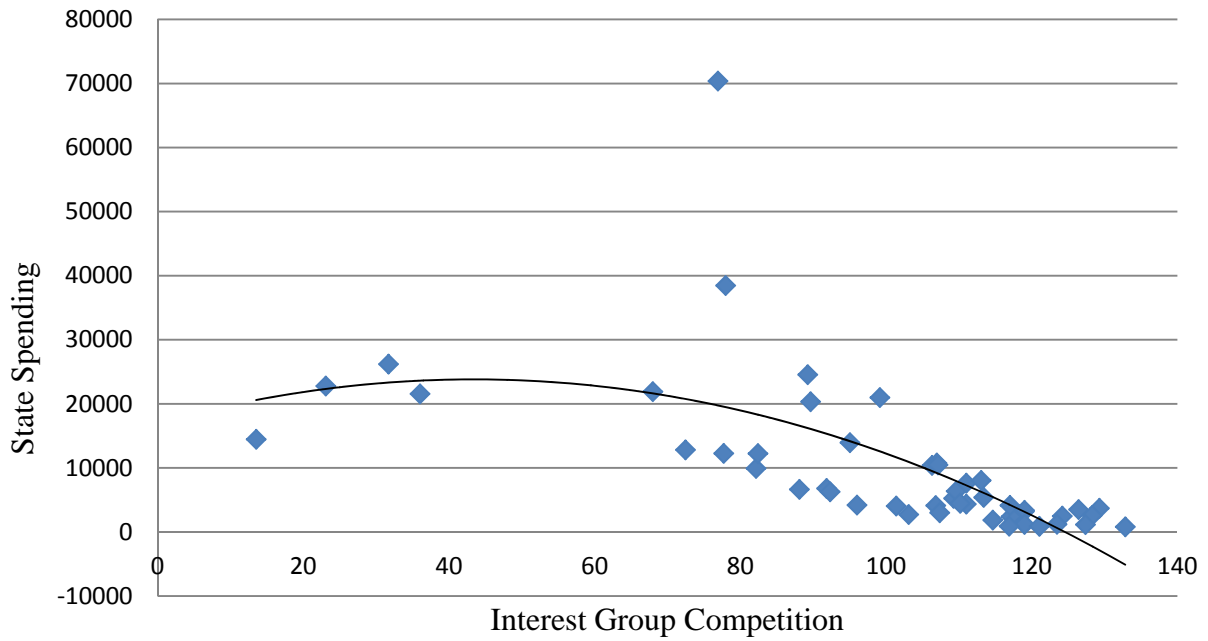


Figure 4b: Interest Group Competition and State Spending in 2011

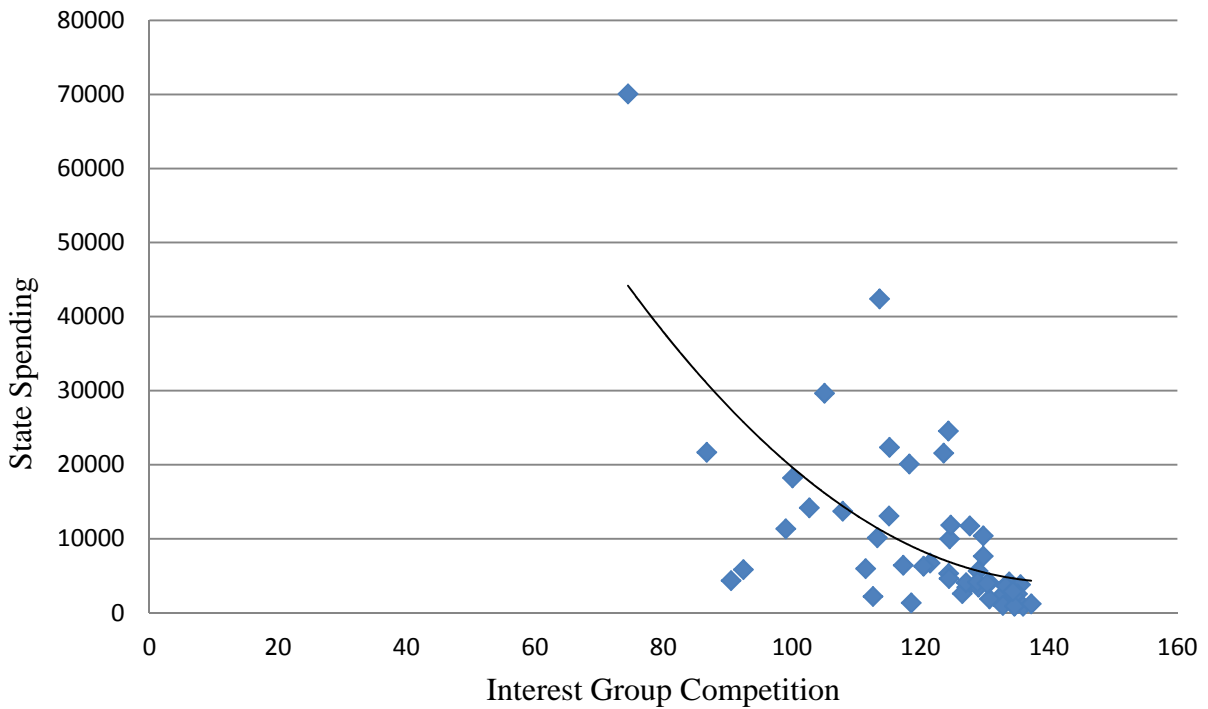




Figure 5a: Interest Group Membership Size and State Spending in 2005

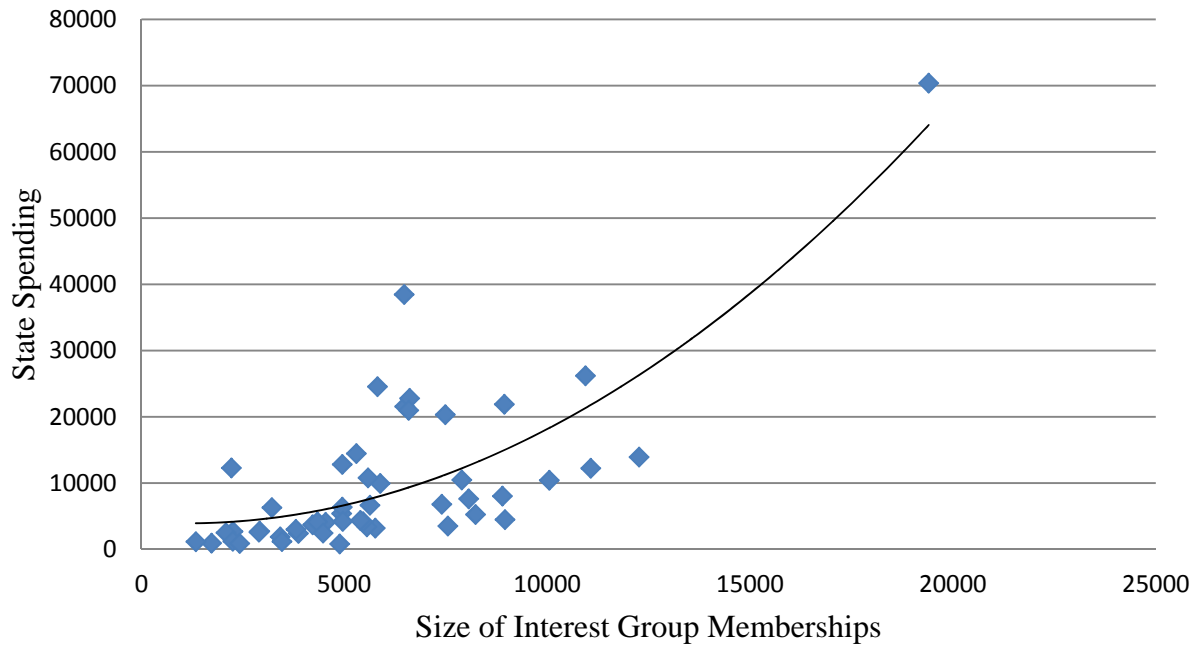


Figure 5b: Size of Interest Group Memberships and State Spending in 2011

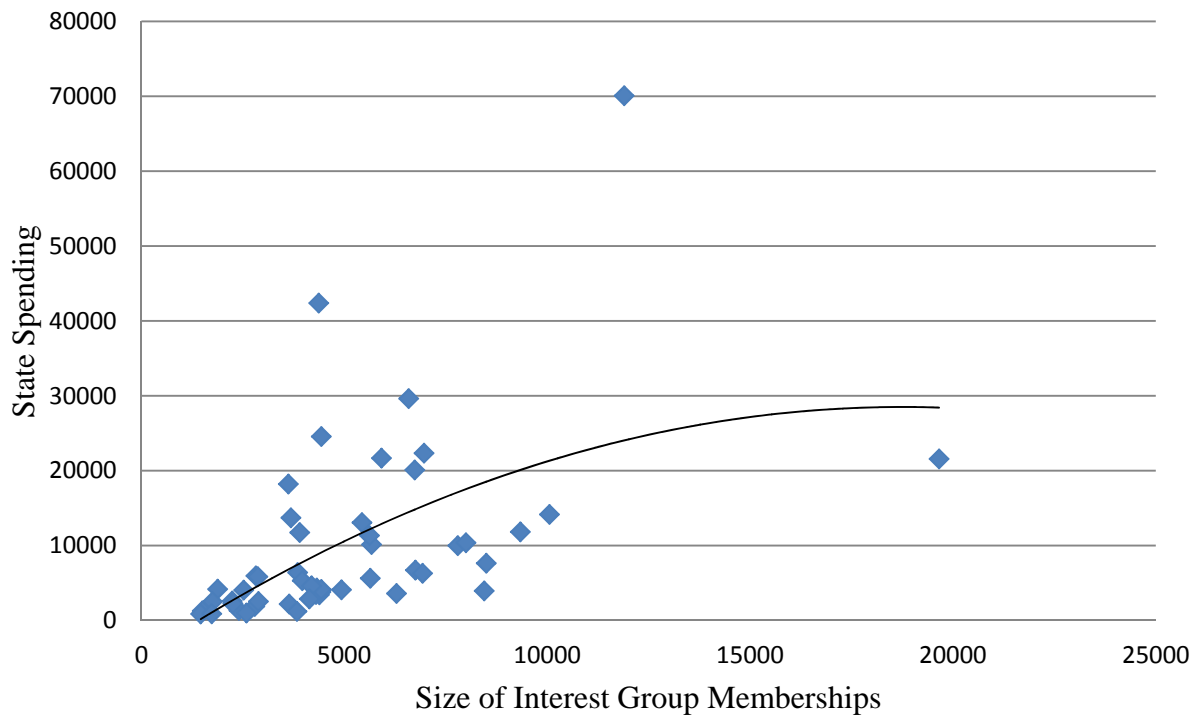


Figure 6: Change in Average Group Size and Average Number of Interest Groups, 2005-2011

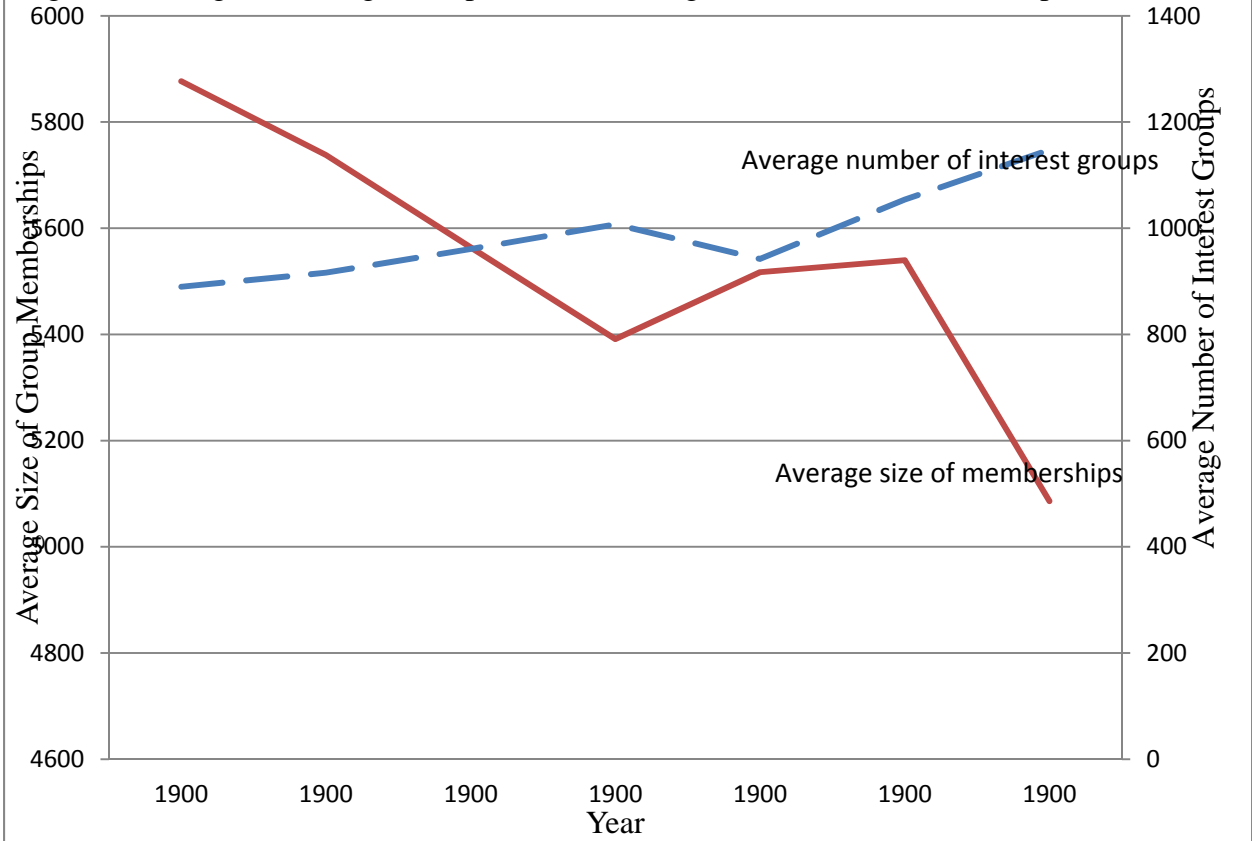


Table 1  
Dependent and Independent Variable Descriptions

Variable Name	Mean	Standard Deviation	Minimum Value	Maximum Value
Annual State Spending	9008.96	11133.76	413	84223
Size of Interest Group Memberships	5616.30	3256.97	1214.38	19700.77
Ranney Index of State Party Competition	0.88	0.09	0.64	0.99
Index of State Interest Group Competition	108.23	24.18	0.32	138.12
State Political Ideology	50.18	15.09	8.45	95.97
Legislative Election Year	0.46	0.50	0	1
Debt Incurred by the State	137.00	1980.00	48.57	1496.7

Table 2  
Results of the Mixed Effects Model

Explanatory Variable	ML Estimate (Standard Error)
Size of Interest Group Memberships (H2)	-0.88* (0.47)
Ranney Index of State Party Competition (H1)	-18671.09*** (6784.90)
State Interest Group Competition Index (H3)	-52.62 (44.90)
Competition Index X Ranney Index (H4)	88.41* (51.49)
Ranney Index X Membership Size (H5)	2.00*** (0.51)
Competition Index X Membership Size (H6)	-0.01*** (0.01)
State Political Ideology	33.33*** (10.78)
Legislative Election Year	-13.94 (120.47)
Debt Incurred by the State	0.01*** (0.01)
Constant	20077.07*** (6192.26)
Wald Chi-Square goodness-of-fit statistic	113.05***
Likelihood-ratio test statistic	512.63***
<i>N</i>	379

\*  $p < 0.10$   
\*\*  $p < 0.05$   
\*\*\*  $p < 0.01$

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<sup>1</sup> Both Hojnacki (1997) and Holyoke (2009) show how interest groups with large resources attract other interest groups into forming lobbying coalitions.

<sup>2</sup> This annual publication is produced by the National Association of State Budget Officers. All of the state spending data is in millions of dollars.

<sup>3</sup> An-online database at <http://www.followthemoney.org/>.

<sup>4</sup> Specifically, on the Institute's webpage we go to the "Lobbyist Link" and use the "Search" function there. There we search for "Lobbyist Clients," which are interest groups, with the filter giving us the total number of organizations registered to lobby in the areas of "Agriculture," "Communications & Electronics," "Construction," "Energy & Natural Resources," "Finance, Insurance, and Real Estate," "General Business," "Health," "Ideology / Single Issue," "Labor,"

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“Lawyers & Lobbyists,” “Transportation,” and “Uncoded.” The interest group variable here just sums all groups in these categories.

<sup>5</sup> We retrieved the Ranney four-year folded index from the database created by Carl Klarner at Indiana State University at <http://www.indstate.edu/polisci/klarnerpolitics.htm>.

<sup>6</sup> The data itself is available at <http://garnet.acns.fsu.edu/~wberry/a.html>.

<sup>7</sup> This data comes from various editions of the *Book of the States*.

<sup>8</sup> We use STATA software, and in this case our estimation command is “xtmixed.”