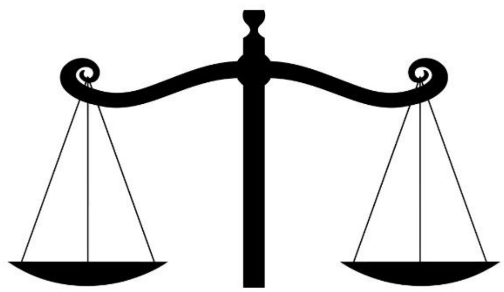
The Effects of Citizens United v. FEC on State Legislative Outcomes



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Chapter 1: Introduction

Political campaigns are lengthy and require an immense amount of financial capital that candidates oftentimes appeal to interested donors to acquire. During the 2012 and 2016 presidential election cycles, presidential campaign contributions from donors totaled $1.33 and $1.46 billion respectively.[1] These monetary donations are one way in which citizens can exercise their democratic right and select the candidates they wish to see elected and support that candidate's campaign. Given this dynamic in political campaigns, it naturally occurs that citizens with superior financial capabilities have a greater ability than their less wealthy counterparts to assist campaigns. This disproportionate balance of power has the potential to lead to tangible consequences that threaten the very pillars of equality of opportunity upon which the American democracy rests.

It is difficult to establish the effects of political contributions. Issues arise amid debate on which variables to measure and through what variation would provide the clearest picture of the effects of campaign contribution on democratic processes. There have been numerous attempts to show the systemic effects of campaign contribution bans but each have shortcomings in determining the exact relationship.[2] Obstacles include the fact that systemic changes to the legislature are relatively minor and thus difficulties in quantifying and measuring the effects with specificity prevent concrete relationships from being established. Thus, I chose to circumvent the complications of measuring systemic changes. Instead, I observed overall shifts in three areas of state legislature to gauge the effects of campaign finance regulatory changes in order to determine

[1] These figures were as reported by the Federal Election Commission, available at: http://www.fec.gov/disclosurep/pnational.do [accessed on March 2, 2017]
[2] Full details of the past studies are in the following Literature Review section.

whether or not certain groups benefitted disproportionately from a deregulation in corporate campaign finance laws.

I seek to estimate the effects of changes in campaign finance regulations on legislative outcomes at the state level using a difference-in-difference model. For my independent variable, I used the Supreme Court case, Citizens United vs. Federal Election Commission (2010), which ruled that the federal government "may not keep corporations or unions from spending money to support or denounce individual candidates in elections".[3] For my dependent legislative outcomes, I chose two tax policies and one spending: individual and corporate income tax rate at the highest bracket and state Medicaid spending per enrollee. The Citizens United v. FEC ruling subsequently changed campaign contribution laws in 14 states and I analyzed the differences in legislative outcomes between states that were affected by Citizens United v. FEC and those that were not. The states that did not undergo any campaign finance reform due to Citizens United will serve as my control group to which I can compare the affected states that were forced to change campaign finance laws. For a wholesome analysis of the effects of my independent variable, I used data on my legislative outcomes that dates from 2005-2016.

I predicted that with the abolishment of federal corporate campaign finance regulations, corporations will have a greater influence in the outcomes of political elections and those interests will then be reflected in shifts in states' legislations. I have selected legislative areas that distinguish interests of corporations from non-corporate ones: individual and corporate income tax rate at the highest bracket and Medicaid spending per enrollee. I anticipated that my data would

[3] The verdict of Citizens United v. FEC as described by SCOTUSblog, available at: http://www.scotusblog.com/case-files/cases/citizens-united-v-federal-election-commission/

show a decrease in income and corporate tax rate along with Medicaid spending per enrollee in states that were affected by Citizens United v. FEC after the ruling in 2010.

Legislative Outcome	Coefficient	P-value
Corporate Income Tax Rate	- 0.000447 *(. 001284)*	0.728
Individual Income Tax Rate	0.001004 *(. 001191)*	0.4
Medicaid Spending per Enrollee	- 41.68108 *(130.4372)*	0.749

Table 1: Coefficients from regressions for every dependent variable, with robust standard errors.

My regression coefficients indicate the direction of my hypothesis was correct for corporate income tax rates and Medicaid expenditure per enrollee but mistaken for individual income tax rates. However, my results are insignificant as it yielded large P-values and thus there is insufficient evidence to reject my alternative hypothesis. The regression results for each of my dependent variables are shown in Table 1. The corporate income tax rate decreased by .04 percentage points while the individual income tax rate increased by .10 percentage points in states that were affected by Citizens United after 2010. Additionally, there was a decrease of $41.68 in Medicaid spending per enrollee in the same states. To put this amount into context, $41.68 is about the difference in Medicaid spending per enrollee between Iowa and Kansas in 2014. There are a few limitations to my results that will be addressed, but the downward trend on corporate income tax rates after 2010 is apparent after running regressions on my data for robust standard errors. As one could expect, the corporate income tax provides the strongest support for my hypothesis while the individual income tax and Medicaid spending yield more inconsistent results.

The remainder of the paper will be structured as follows. I will first explain how my paper will contribute to the existing literature on the topic of campaign finance and its effects. Second, I will describe the theory behind my argument and elaborate on the causal mechanism that drives legislative changes with respect to variation in corporate campaign finance regulations. Then, I will detail my research design and justify my choices in variables and scope. Finally, I will present and interpret my findings followed by a conclusion that will detail the implications of my study and propose subjects for future research.

Chapter 2: Literature Review

There have been numerous efforts to determine the effects of campaign contributions on the American political process. Different studies have approached this longstanding puzzle of whether or not campaign contributions lead to disproportionate benefits for any particular party or interest group. I have identified three approaches that have been employed to study the effects of campaign finance regulatory changes.

Effect of Campaign Contribution Bans on Changes in Electoral Outcomes

The approach taken by Andrew B. Hall (2015) was to observe how state-level corporate campaign contributions alter electoral outcomes at the legislative level.[4] Hall used legislative changes that banned corporate campaign contributions and observed its effect on share of seats in state legislature by party. By using the variation across states over time, Hall used a difference-in-difference model to show that the implementation of a ban on corporate contributions causes a large increase in the Democratic party's share of the legislature. Furthermore, Hall estimated that a "1 percentage-point increase in the Democratic Party's share of all campaign contributions in an electoral cycle causes an almost 0.5 percentage-point increase in its share of the legislature" (Hall 2015) and concluded that there are large and significant systemic effects of campaign spending.

My paper takes a different direction than Hall's study but utilizes the same difference-in-difference model. Hall sought to use corporate campaign contribution bans as exogenous shocks but he states his results "do not provide valid causal estimates if the states that implement or remove corporate bans are trending in a different partisan direction than other states" (Hall

[4] Hall, Andrew B. "Systemic Effects of Campaign Spending: Evidence from Corporate Contribution Bans in US State Legislatures." *The European Political Science Association* (2015): n. pag. Web. 24 Sept. 2016.

2015). I chose to rather use the lifting of corporate contribution bans as my exogenous shock and because my independent variable is a Supreme Court decision, it does not suffer the threats of bias that Hall's model does. Additionally, Hall measured the impact of corporate contribution bans on composition of state legislature but I wanted to observe the policy outcomes that resulted from shifts in legislature. Hall has established that there are systemic impacts of campaign finance reform and I wished to measure these impacts instead in the form of tangible legislation passed that directly affects citizens. I also focus more on how changes in state legislation can cater to corporate interests and lead to a disproportionate political playing field in terms of donor capabilities.

Effect of Campaign Finance Regulatory Decisions on Stock Price of Affected Firms

Stephen Ansolabehere, James M. Snyder, Jr., and Michiko Ueda chose to observe the effect of changes in campaign finance regulations through the market valuation of the long-term profitability of firms, as reflected in changes in its stock price.[5] Through this model, Snyder et al. (2004) found no positive relationship between the stock price of firms affected by campaign finance regulatory decisions and suggested, "the fundamental critique of campaign finance in America – that donations come with a quid pro quo and extract very high returns for donors – is almost surely wrong" (Snyder et al. 2004). This conclusion disputes the long-held assumption that firms who would be able to donate more due to a deregulation in corporate campaign finance have the ability to increase their market value by lobbying for legislation that benefits them.

The null relationship between stock price and campaign finance regulatory decisions illuminates only that the market value doesn't reflect possible benefit or harm to firms who are

[5] Ansolabehere, Stephen, James M. Snyder, Jr., and Michiko Ueda. "Campaign Finance Regulation and The Return on Investment from Campaign Contributions." *Massachusetts Institute of Technology*. August, 2004.

now allowed to donate more or less. This conclusion is contingent on the stock market being perfect and investors having all the information. If this is not the case, then the stock price of a firm may be understated not representative of its actual long-term profitability. In addition, this method does not identify the actual legislative outcomes that change due to variation in campaign finance regulation. The firm's market value could remain unchanged but this approach does not discuss the possible threats to democracy I wish to illuminate. Just because a firm may not benefit in the form of rising market value under variations of campaign finance regulation does not mean subsequent legislative changes from this increased lobbying ability will not disproportionately benefit certain groups over others. I choose to go beyond observing firms' increases in market value and identify policy changes that affect the entire population to gain a more wholesome picture of the effects of campaign finance deregulation.

Effects of Campaign Contribution Bans on Macro Political Outcomes

Raymond J. La Raja and Brian F. Schaffner used campaign contribution regulations in 49 states between 1935 and 2009 to test for the effects of campaign contribution bans on three outcomes: partisan control of government, incumbent reelection rates and corporate tax burdens.[6] In this model, La Raja and Schaffner compared state electoral systems with corporate contribution bans to those without and observed if the bans generated differences in the three specified areas. La Raja and Schaffner concluded that campaign contribution bans have limited to no effect in those areas.

La Raja and Schaffner observed contribution bans as a whole while I chose to explore specifically corporate contribution bans. I seek to analyze the dynamics of corporate interests in

[6] Raja, Raymond J. La and Brian F. Schaffner. "The (Non-)Effects of Campaign Finance Spending Bans on Macro Political Outcomes: Evidence From the States". *University of Massachusetts, Amherst.* 20 Feb. 2012.

the democratic process and how a deregulation in corporate campaign finance leads to the proliferation of these interests as reflected by state legislative changes. Although La Raja and Schaffner used different variations to induce change, their model is similar to mine as I also identify states affected and unaffected by the campaign finance regulatory change. However, I explore the aspect of corporate interest more thoroughly and exclude discussions of legislative composition and incumbent reelection rates. Rather, I choose to focus on trends in enacted state legislation in states affected by the lifting of a corporate contribution ban.

Chapter 3: Theory and Argument

Between 1998-2014, the total amount in real 2014 dollars that victorious candidates spent in the House of Representatives and Senate races increased by 49% and 30% (Table 2) respectively. In that same time span, total campaign expenditures by the House of Representatives and Senate increased by 52% and 55% (Table 3) respectively. Since 1998, United States political elections have seen a dramatic increase in the demand for political campaign funding as the cost to run and win an election has nearly doubled in the House. To keep up with the monetary demands of running a campaign, political candidates must be able to either fund their own political campaigns or attain the necessary funding from donors who have the disposable income to donate.

There is an important aspect of Citizens United v. FEC that speaks greatly to this rising demand for campaign funding. The Citizens United ruling allowed corporate campaign contributions to be made for the purposes of advocating or denouncing a candidate but

	House Winners		Senate Winners	
Year	Nominal Dollars	2014 Dollars	Nominal Dollars	2014 Dollars
2014	$1,466,533	$1,466,533	$9,655,660	$9,655,660
2012	$1,596,953	$1,646,631	$10,351,556	$10,673,574
2010	$1,434,760	$1,557,675	$8,993,945	$9,764,450
2008	$1,362,239	$1,497,869	$7,500,052	$7,808,037
2006	$1,259,791	$1,479,356	$8,835,416	$10,375,310
2004	$1,038,391	$1,301,348	$7,183,825	$9,003,024
2002	$911,644	$1,199,662	$3,728,644	$4,906,642
2000	$845,907	$1,162,932	$7,198,423[a]	$9,896,208[a]
1998	$677,807	$984,426	$4,655,806	$6,761,949

Table 2: The Cost of Winning an Election, 1998-2014.
Source: Campaign Finance Institute analysis of Federal Election Commission data.
Note: Inflation adjustment based on average 2014 CPI. http://www.bls.gov/cpi/tables.htm

a) Jon Corzine (D-N.J.) spent $63,209,506. Hillary Rodham Clinton (D-N.Y.) spent $29,941,194. The remaining Senate winners in 200 spent an average of $4,737,365.

corporations are still not permitted to directly donate funds from business accounts to candidates.[7] Thus, corporations must seek alternative methods to assist the candidate they wish to win. Corporations would only be willing to support candidates they wish to see succeed and it is likely these candidates are the individuals that donors believe will best cater to the donors' interests. Issues of equality arise from this phenomenon as circumstances in political campaigning today allow for certain groups to potentially have disproportionate abilities in influencing election outcomes relative to others.

	Total Expenditures	
Year	Senate	House
2014	$555,720,686	$821,147,478
2012	$587,532,049	$923;555,204
2010	$568,193,547	$929,421,775
2008	$389,348,721	$808,001,712
2006	$514,937,502	$751,730,068
2004	$367,514,648	$581,483,185
2002	$281,529,788	$525,986,157
2000	$384,591,165	$514,793,499
1998	$249,184,622	$397,221,879

Table 3: Senate and House of Representatives Expenditures: Major Party General Election Candidates, 1998-2014 (full cycle, net dollars adjusted for inflation based on average 2014 CPI).
Source: Campaign Finance Institute analysis of Federal Election Commission data.

One way corporations can support a candidate indirectly is by donating unlimited funds to super PACs (political action committees). Traditional political action committees are governed by a different set of rules than super PACs are. A tradition political action committee has a limit of $5,000 per individual donor and cannot accept donations from corporations or unions but can contribute directly to candidates. In addition, political action committees are required to disclose their donors, which could dissuade certain donors to abstain out of fear of backlash.[8] In contrast, a super PAC can independently raise and spend an unlimited amount of money from corporations, unions, or wealthy individuals, to support or attack a candidate but cannot directly

[7] Conclusion of Citizens United v. FEC as described in Oyez, IIT Chicago-Kent College of Law, available at: https://www.oyez.org/cases/2008/08-205
[8] PAC contribution limits as defined by the Federal Election Commission, available at: http://www.fec.gov/pages/brochures/contrib.shtml

be involved with a campaign, without disclosing the source of donations. Super PACs are often referred to as "independent expenditure-only committees" which is defined by the FEC[9]:

"Independent expenditures represent spending by individuals, groups, political committees, corporations or unions expressly advocating the election or defeat of clearly identified federal candidates. These expenditures may not be made in concert or cooperation with, or at the request or suggestion of, a candidate, the candidate's campaign or a political party."

Year	Number of Super PACs	Total Spent
2010	83	$62,641,448
2012	1310	$609,417,654
2014	1360	$345,163,595
2016	2389	$1,104,481,088

Table 4: Outside Spending by Super PACs per Election Cycle (2010 – 2016).
Source: Center for Responsive Politics.
Note: 2010 and 2014 were midterm elections.

Super PACs have become increasingly prominent in the recent election cycles along with the increase in outside spending by political campaigns. Super PAC spending has increased 1663% since the Citizens United ruling in 2010 (Table 4) while total outside spending in the presidential and midterm election cycles have increased 641% and 1,932% respectively, since 2002 (Table 5). Super PACs have the ability to fund positive and negative ads in addition to other mediums through which to influence voters' choices. This rise in outside spending and prevalence of super PACs create a viable method through which corporations can donate without limit to affect electoral outcomes.

[9] Official definition of independent expenditure-only committees by the Federal Election Commission, available at: http://www.fec.gov/press/press2011/ieoc_alpha.shtml

Year	Total Outside Spending
Presidential Election Cycles	
2004	$193,129,472
2008	$338,441,092
2012	$1,038,736,997
2016	$1,431,117,135
Midterm Election Cycles	
2002	$27,686,417
2006	$69,534,653
2010	$309,834,180
2014	$562,720,738

Table 5: Total Outside Spending by Election Cycle, Excluding Party Committees.
Source: Center for Responsive Politics.
Note: Total spending includes spending by outside groups in three categories: independent expenditures, electioneering communications, and communication costs.

Empirical literature provides two possible mechanisms that motivate political campaign contributors: favor-induced contributors and ideology-induced contributors.[10] Favor induced contributors are donors who donate in exchange for promises of favorable policies and ideology induced contributors donate to ideologically sympathetic candidates. The existing literature fails to provide a verdict on the relative significance of the two contributors.[11] I choose to focus on the favor-induced contributors for the purpose of determining whether there is evidence to suggest that corporations contribute to candidates in return for policy outcomes that favor corporate interests.

There exist significant incentives for political candidates to obtain monetary funding or outside support. If donors are only willing to support the candidates they wish to hold office,

[10] *See* Ashworth, Scott. "Campaign Finance and Voter Welfare with Entrenched Incumbents". Available at: http://home.uchicago.edu/~sashwort/campaign.pdf
[11] Ashworth cites Figueiedo and Snyder (2003), Hall (2013), Hall and Wayman (1990) to illustrate the inconclusiveness of existing literature. Details available at: http://home.uchicago.edu/~sashwort/campaign.pdf

then political candidates are encouraged to shape their policy platforms to cater to big donor interests to outcompete their opponents for funding, which has become an increasingly critical factor in election outcomes. In theory, those candidates that manage to fundraise the most effectively by appeasing the richest, but not necessarily the most number, of donors will have the greatest chances of winning. As a result, it can occur that elected political candidates, and their subsequent policies enacted, reflect the interests of the richest donors who had the most money at hand to donate to campaigns. I base my hypothesis on this logic.

Chapter 4: Hypothesis

My hypothesis is that the Citizens United v. FEC ruling will result in legislative shifts towards corporate interests in states that were forced to change corporate campaign contribution laws. The Supreme Court ruled in Citizens United v. FEC that, “under the First Amendment corporate funding of independent political broadcasts in candidate elections cannot be limited”.[12] Although the court upheld that corporations still may not contribute directly to candidates, corporations may freely support a candidate via other outlets, such as super PACs, that can provide the same effects as direct contributions. The shift in policy outcomes should be reflected in the three legislative areas I’ve chosen to observe in the following ways: lower individual and corporate state income taxes at the highest bracket, and a decrease in state Medicaid expenditure per enrollee.

I predicted lower state corporate income tax rates at the highest bracket in affected states because this directly benefits corporations who, as a result of Citizens United, now can make unlimited indirect political contributions as protected by the First Amendment. According to S&P Capital IQ, the combined market value of the ten most valuable companies in the Fortune 500 is approximately $3.5 trillion (Table 6). With this immense source of funding now available to be spent advocating or attacking a particular candidate, it occurs that candidates who have expressed intent to provide a business-friendly landscape, including lowering state corporate tax rates, will likely receive greater corporate support than a candidate running on being stringent with business regulations. I cede that corporations are unlikely to spend their entire market value on political donations but their net worth nonetheless speaks to their ability to spend significant

[12] Conclusion of Citizens United v. FEC as described in Oyez, IIT Chicago-Kent College of Law, available at: https://www.oyez.org/cases/2008/08-205

sums of money. Thus, this significant source of indirect funding from corporations grants pro-business candidates an advantage when campaigning solely because they promise benefits to businesses. Thus, I predict that candidates elected after 2010 in states affected by Citizens United will promote the interests of corporations and this will be reflected in legislative changes that lower state corporate tax rates.

Company	Market Value ($Billions)
Apple	534
Alphabet	507
Microsoft	413
Exxon Mobil	326
Facebook	321
Berkshire Hathaway	312
Johnson & Johnson	288
General Electric	271
Amazon.com	250
Wells Fargo	242
TOTAL	3,464

Table 6: Most Valuable Companies in the Fortune 500 (as of February 4, 2016)
Source: S&P Capital IQ

I predicted lower state individual tax rates at the highest bracket in states affected by Citizens United on general knowledge of political principle. It could occur that those states willing to decrease corporate taxes for corporate interests are more inclined to do the same for individual income tax rates at the highest bracket. Whether or not to cut taxes of any sort is usually consistent along party and ideological lines.[13] Thus, states willing to curb tax income from corporations could also be just as willing to cut individual income tax rates based on ideological principle.

[13] See: http://www.ontheissues.org/Celeb/Republican_Party_Tax_Reform.htm

An alternative mechanism could be the rise of super PACs. The Citizens United case facilitated the proliferation of super PACs, which are unregulated mediums through which donors can indirectly contribute unlimited amounts to political campaigns. Consequently, any wealthy individual donor can now donate in any amount to the super PAC of his or her choice. In contrast, an individual only allowed to directly contribute $2,700 per election to a Federal candidate.[14] Based upon the same self-interested assumptions I previously made, a wealthy donor who earns an income over $1 million would donate to super PACs that are favorable to candidates who intend to lower the individual tax rate at that bracket. Those donors who favor reducing the individual income tax rate for incomes over $1 million would have a higher chance of winning and this would be reflected in state legislation in the form of reduced individual tax rates.

My last prediction is that state Medicaid expenditure per enrollee will fall in states affected by Citizens United after 2010. Medicaid is a welfare program that is jointly funded by the federal and state governments dedicated to helping low-income and needy people acquire health insurance. The Affordable Care Act (2014) "…expanded Medicaid eligibility to adults with incomes at or below 138 percent of the poverty line, which is just over $16,000 per year for an individual today".[15] This eligibility limit grants Medicaid benefits only to those close to or below the poverty line, which excludes most Americans.

Due to the predicted corporate and individual income tax cuts, there would be a shortage of income for the state. If this decrease in state funding is not subsidized elsewhere, the state

[14] Direct individual campaign contribution limit as defined by the Federal Election Commission, available at: http://www.fec.gov/pages/brochures/citizens.shtml#how_much

[15] The Affordable Care Act expanded Medicaid services to include previously excluded low-income adult groups. To date, 27 state including D.C., are implementing the expansion and additional states may expand in the future. Available at: http://kff.org/medicaid/issue-brief/how-is-the-aca-impacting-medicaid-enrollment/

would be forced to reduce funding to certain programs, including welfare. Since Medicaid is a welfare program meant for low-income households and individuals, it is entirely separate from corporate interests. A deregulation of campaign finance for corporations should lead to a decrease in Medicaid expenditure as those now able to donate unlimited amounts as a result of Citizens United, have no vested interest in increasing or maintaining Medicaid expenditure. In the perspective of corporate interest donors, state Medicaid funding would be viewed as a fruitless welfare program whose funds can be better allotted to provide other public services that corporate-interest donors can enjoy.

My argument rests upon several assumptions. The first assumption is that those who have the fiscal ability to take advantage of the deregulation in campaign finance laws will actually do so. It could occur that those who can now donate much more than they could before choose not to. In addition, I assumed that the wealthy are self-interested actors and wish for lower tax rates and a decrease in welfare programs such as Medicaid. The justification for my reasoning is that a decrease in individual and corporate income tax rate brings in more profits for wealthy business owners and those of the top tax bracket alike, and a decrease in Medicaid expenditure in the state allows those funds to be used for other programs that those who are not of low-income can benefit. However, if the wealthy are not self-interested, my causal mechanisms are nullified. Finally, I am assuming those politicians who have managed to gain support from big business donors by promising favorable policy changes will follow through on promises made on the campaign trail.

If these conditions hold, then we should see changes in policy in states whose corporate contribution rules were changed by the Citizens United ruling. Specifically, relative to states in which corporate contribution rules were not changed, affected states should have lower corporate and income tax rates along with lower expenditures on state welfare programs such as Medicaid.

Chapter 5: Research Design

I seek to observe the effects of a deregulation of corporate campaign finance on legislative outcomes at the state level. I use the Citizens United v. FEC (2010) Supreme Court decision as my independent variable to represent a change in federal campaign finance regulation. This ruling acknowledged political spending as protected by the First Amendment and thus the government "may not keep corporations or unions from spending money to support or denounce individual candidates in elections".[16] The Supreme Court decision forced a total of 14 states to change their campaign finance laws to adhere to the new federal mandate.[17] I chose to isolate Citizen United's effect through a difference-in-difference model in which changes over time in states that were affected by Citizens United are compared with the same changes in states that were not affected by Citizens United. This variation in affected states is imperative to my design. Those states that were not affected by the Citizens United decision will serve as my control group and those that were affected will be my experimental group in which I can isolate the effects of corporate campaign contributions on legislative outcomes at the state level. The control and experimental groups may inherently vary prior to the ruling but the difference-in-difference design will account for this pre-existing differences.

The reason I selected the Citizens United v. FEC case as my independent variable is it serves as an independent exogenous shock to federal campaign finance regulations. The Supreme Court of the United States is intended to be free of all political influences and its decisions meant to only reflect the constitutional interpretations of the appointed Supreme Court Justices. In

[16] The verdict of Citizens United v. FEC as described by SCOTUSblog, available at: http://www.scotusblog.com/case-files/cases/citizens-united-v-federal-election-commission/

[17] A full list of the 14 states affected by Citizens United and details of their subsequent legislative actions available at: http://www.ncsl.org/research/elections-and-campaigns/citizens-united-and-the-states.aspx

contrast to politicians who must appeal to a voter base for reelection, Supreme Court Justices are appointed for life. The insulation of the verdict from confounding factors helps lessen concern about endogeneity between state fiscal and welfare policies and rules concerning corporate campaign contributions.

I chose two tax policies and one spending as the state legislative outcomes to observe. The first tax policy is the state corporate income tax for incomes at the highest tax bracket (over $1 million). For corporations under this tax bracket, there is an incentive to lobby legislators who would lower the bracket's tax rate. This tax policy is one that directly affects corporate profits thus those who do not share corporate interests would not be inclined to want the same lower tax rates. Thus, if there was indeed a reduction in corporate income tax rates in those states affected by Citizens United, it would show that a deregulation in campaign finance can be associated with shifts in legislation that cater to those able to afford making significant campaign contributions, big corporations.

The second state tax policy I selected to observe was the individual income tax rate for incomes at the highest tax bracket (over $1 million). I selected this policy to determine if the proliferation of corporate interests in state legislature is associated with income benefits for the wealthy at the individual level. The purpose of this study is to determine if certain factions of the population benefit disproportionately from corporate campaign finance regulation changes. It is important to consider outcomes that benefit the wealthy along with corporations when addressing issues concerning campaign finance under the context of inequality on the political playing field. It is through this wholesome approach that we can perhaps gain a better understanding of the true consequences of campaign finance laws.

The last area of state legislature and third dependent variable I sought to observe was state Medicaid expenditure per enrollee. This expenditure policy is an area of legislature that is meant to separate corporate and non-corporate interests. As explained previously, those who hold corporate interests are mutually exclusive of those who benefit from welfare programs. Thus, I expect that a deregulation in corporate campaign contributions would lead to a decrease in welfare programs such as Medicaid.

As stated before, all three areas of legislation essentially pit the corporate interests against non-corporate interests. The magnitudes and directions of these shifts in legislation after Citizens United v. FEC would provide a clearer picture of whether a deregulation in corporate campaign contributions can lead to changes in legislation that benefit corporations and those who share corporate interests.

I compiled my dataset of corporate tax rates from all 50 states and Washington, D.C. through data from the Tax Foundation. I used state tax rates in each state, and Washington, D.C., from five years before Citizens United to six years after, giving me a total of 612 observations. I created a similar dataset with individual income tax rates but instead in years 2005-2015 due to availability of data, yielding a total of 561 observations. Each reported tax rate was the existing tax rate on January 1st, from years 2005-2015 for individual income tax and 2005-2016 for corporate income tax.

For the third dependent variable, I found state Medicaid expenditure per enrollee (full and half benefit) in every state, and Washington, D.C. under the same general timeframe except I used Fiscal Years 2005-2015 for variation over time. The value of Medicaid expenditure per enrollee in FY2005 is the amount spent per enrollee by the state as of June 01, 2005. Medicaid expenditure per enrollee data from FY2005-FY2010 is from Pew Research Center through CM-

64 Quarterly Expense reports found on Centers for Medicare and Medicaid Services website. For the remaining years, I calculated the state Medicaid expenditure per enrollee for FY2011-FY2015 by dividing state Medicaid enrollment totals by total state Medicaid expenditure measured in billions. I gathered state Medicaid enrollment totals through The Henry J. Kaiser Family Foundation and total state Medicaid expenditure from Medicaid Budget & Expenditure System (MBES). All dollar amounts are adjusted for inflation according to average 2014 CPI.

For illustrative purposes, the tables and graphs represented in the following section include observations from the year 2010. However, when running the regressions, I've chosen to omit the year 2010 along with its corresponding observations for all three dependent variables. Citizens United was ruled on January 21st, 2010 and thus 2010 serves as my treatment year in which the exogenous shock occurred. It took some affected states longer than others to make the necessary legislative changes to conform to the new federal mandate. For example, West Virginia passed a law that overturned corporate contribution bans on February 24, 2010 while Alabama didn't enact a similar change until January 1, 2011.[18] Thus, I eliminated 2010 from my dataset to account for this inconsistency among the various affected states' timelines in conforming to Citizens United. I delayed observing Citizens United's effects on my dependent variables until 2011 to accommodate for this discrepancy among affected states. This yields 510 observations for the state individual income tax rate and Medicaid expenditure per enrollee and 560 observations for state corporate income tax when running the regressions.

[18] Complete details on subsequent legislative changes in affected states found on the National Conference of State Legislatures website: http://www.ncsl.org/research/elections-and-campaigns/citizens-united-and-the-states.aspx

Chapter 6: Empirical Evidence

The purpose of this study is to observe the effects that a deregulation of campaign law has on three subsequent state legislative outcomes. I use variation between states and over time to analyze this effect. Table 7 shows the data obtained through regressions.

Dependent Variable	Coefficient	Std. Error	P>|t|	n
corporate income tax rate	-0.000447	0.001284	0.728	560
individual income tax rate	0.001004	0.001191	0.4	510
Medicaid Expenditure per Enrollee	-41.68108	130.4372	0.749	510

Table 7: Regression Values

Note: Corporate income tax rate and individual income tax rate measured in percentage points. Medicaid Expenditure per Enrollee measured in dollars.

Corporate Income Tax Rate

The first variable I sought to observe was the state corporate tax rate. I collected the state corporate tax rate on corporate incomes over $1,000,000 in every state and Washington, D.C. for each year from 2005-2016, giving me a total of 612 observations. I then separated the states into two groups: the 14 states that were affected by Citizens United and those that were not, and listed the average corporate tax rate for each group in each year (Table 8). I further represent this data graphically to see the trend in yearly state corporate tax rates in affected and non-affected states before and after the Citizens United ruling in 2010 (Figure 1).

Using my full dataset with the corporate tax rates of each state in each year from 2005-2016 except for 2010, I ran a regression with the model:

$$CorporateIncomeTaxRate_{it} = \alpha + \beta\ CitizensUnited_{it} + \gamma_i + \delta_t + \varepsilon_{it}$$

where $CitizensUnited_{it}$ indicates whether or not Citizens United had an effect in state i at time t (0 or 1), and $CorporateIncomeTaxRate_{it}$ is the reported corporate tax rate in state i at time t. Finally, γ_i represents state-specific fixed effects and δ_t represents year-specific fixed effects.

These intercepts account for pre-existing differences between states and years. The quantity of interest is β, the coefficient on the treatment variable.

I ran the regression with robust standard errors and it yielded a coefficient of -.000447, which translates into a .04 percentage point decrease in the corporate income tax. Regression analysis also yielded a p-value of 0.728, which indicates a lot of uncertainty around my results if $p < .05$ is statistical significance. The negative coefficient from my regression is supported graphically in Figure 1. It is evident that affected states' (blue line) corporate tax rates decrease more than non-affected states' after 2010. Although the coefficient matches the direction of my hypothesis, the relationship is not significant. There is insufficient evidence to reject my alternative hypothesis and I cannot demonstrate that a strong relationship exists between state corporate income tax rates and Citizens United.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Affected	6.59%	6.82%	6.57%	6.48%	6.46%	6.46%	6.46%	6.51%	6.50%	6.33%	6.22%	6.15%
Non Affected	6.74%	6.74%	6.81%	6.89%	6.67%	6.65%	6.55%	6.67%	6.65%	6.61%	6.49%	6.43%

Table 8: Average Corporate Income Tax Rates of Affected and Non-Affected States (2005-2016)
Source: Tax Foundation
Note: Affected states are the states that repealed or struck down existing state limitations on corporate contributions after the Citizens United v. FEC ruling. Each reported corporate income tax rate was the rate on January 1st of the corresponding year.

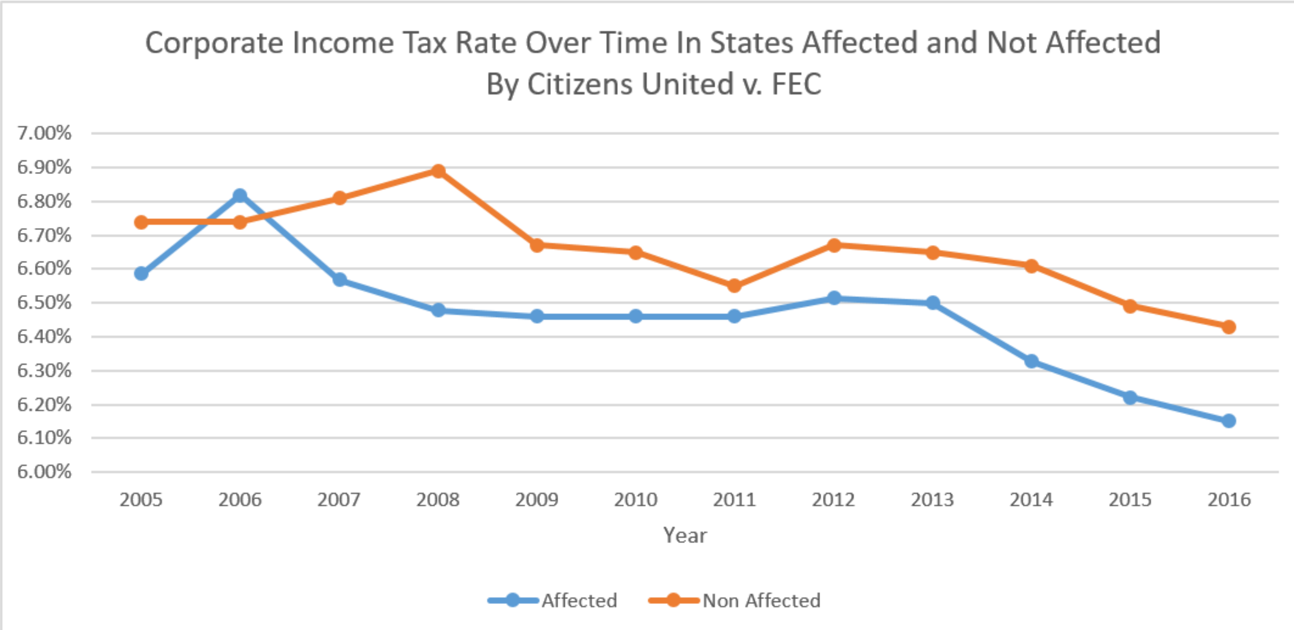

Figure 1: Corporate Income Tax Rate Over Time In States Affected and Not Affected by Citizens United v. FEC
Source: Tax Foundation
Note: The x-axis lists each year in which a state corporate tax rate was observed. Each dot indicates the corporate income tax rate in the corresponding year. The y-axis displays the range of state corporate income tax rates.

Individual Income Tax Rate

The second variable I observed was the state corporate tax rate. I collected the state individual income tax rate on incomes over $1,000,000 in every state and Washington, D.C. for each year from 2005-2015, giving me a total of 561 observations. Again, I separated the states into two groups: the 14 states that were affected by Citizens United and those that were not, and listed out the average individual income tax rate for each group in each year (Table 9). I further represented this data graphically to see the trend in yearly individual income tax rates in affected and non-affected states before and after the Citizens United ruling in 2010 (Figure 2).

I used a similar dataset for this regression as the one I used for the corporate income tax rate regression. The only difference is that I was only able to acquire the individual income tax rate data for years 2005-2015, and so I was forced to alter my time period slightly. I employed the following model to run my regression:

$$IndividualIncomeTaxRate_{it} = \alpha + \beta\ CitizensUnited_{it} + \gamma_i + \delta_t + \varepsilon_{it}$$

where $CitizensUnited_{it}$ indicates its whether or not Citizens United had an effect in state *i* at time *t* (0 or 1), and $IndividualIncomeTaxRate_{it}$ is the reported income tax rate in state *i* at time *t* for incomes over $1,000,000. Finally, γ_i represents state-specific fixed effects and δ_t represents year-specific fixed effects. These intercepts account for pre-existing differences between states and the different years. The quantity of interest is β, the coefficient on the treatment variable.

I ran the regressions for robust standard errors and it generated the coefficient .001004, which translates into a .1 percentage point increase in the individual income tax rates in states affected by Citizens United. The regression also yielded a P-value of .4 which renders my results statistically insignificant when holding $P < .05$ as the standard. The coefficient does not match the direction of my hypothesis and this relationship is not significant. There is insufficient evidence to reject my alternative hypothesis and I cannot exemplify that a strong relationship exists between state individual income tax rates and Citizens United.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Affected	5.79%	5.49%	5.48%	5.44%	5.60%	5.60%	5.60%	5.61%	5.61%	5.61%	5.63%
Non Affected	5.86%	5.74%	5.68%	5.63%	5.86%	5.87%	5.79%	5.72%	5.75%	5.70%	5.49%

Table 9: Average Individual Income Tax Rates of Affected and Non-Affected States (2005-2015)
Source: Tax Foundation
Note: Affected states are the states that repealed or struck down existing state limitations on corporate contributions after the Citizens United v. FEC ruling. Each reported individual income tax rate was the rate on January 1st of the corresponding year.

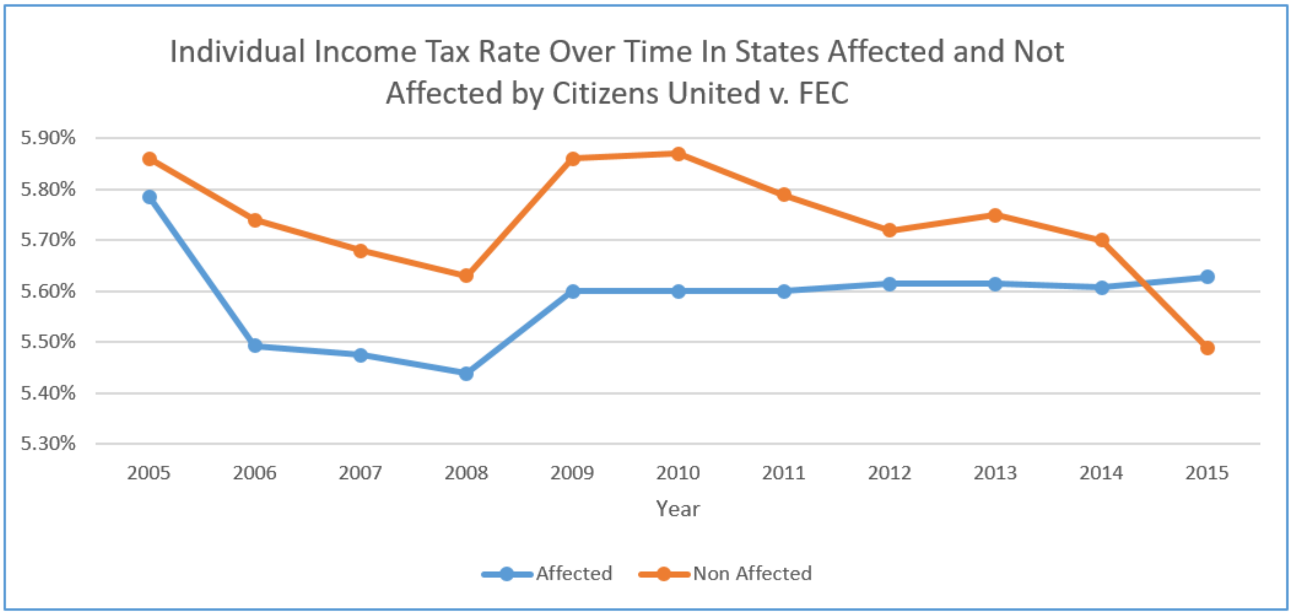

Figure 2: Individual Income Tax Rate Over Time In States Affected and Not Affected by Citizens United v. FEC
Source: Tax Foundation
Note: The x-axis lists each year in which an individual state income tax rate was observed. Each dot indicates the individual income tax rate in the corresponding year. The y-axis displays the range of state individual income tax rates.

Medicaid Expenditure per Enrollee

The last legislative outcome I observed was state Medicaid expenditure per enrollee. I calculated the Medicaid expenditure per enrollee of every state and Washington, D.C. for each year from 2005-2015, creating a total of 561 observations. I then divided the states into 2 groups in congruence with the previous two dependent variables and detailed the average Medicaid expenditure per enrollee for each group of states in each year (Table 10). Afterwards, I represent this data graphically to see the trend in yearly Medicaid expenditure per enrollee in affected and non-affected states before and after the Citizens United ruling in 2010 (Figure 3).

I constructed another similar dataset for this regression as the one I used for the previous regression, using the time period 2005-2015. I employed the following model to run my regression:

$$MedicaidExpenditurePerEnrollee_{it} = \alpha + \beta\ CitizensUnited_{it} + \gamma_{i} + \delta_{t} + \varepsilon_{it}$$

where *Citizens United*$_{it}$ indicates its whether or not Citizens United had an effect in state *i* at time *t* (0 or 1), and *MedicaidExpenditurePerEnrollee*$_{it}$ is the reported Medicaid expenditure per enrollee in state *i* at time *t*. Finally, γ_i represents state-specific fixed effects and δ_t represents year-specific fixed effects. Again, these intercepts account for pre-existing differences between states and the different years and the quantity of interest is β, the coefficient on the treatment variable.

I ran the regressions for robust standard errors and it generated the coefficient -41.68108, which translates into a $41.68 decrease in Medicaid expenditure per enrollee in states affected by Citizens United. The regression also yielded a P-value of .749 which renders my results statistically insignificant if we are using $P < .05$ as the standard. Although the coefficient matches the direction of my hypothesis, the relationship is insignificant. There is again insufficient evidence to reject my alternative hypothesis and I cannot demonstrate that a strong relationship exists between Medicaid expenditure per enrollee and Citizens United.

Although the regression value was consistent with my hypothesis, there is an alternative factor that could have affected my results. Originally, when formulating my hypothesis, I asserted that Medicaid expenditure per enrollee was isolated from corporate interests and thus I had predicted it would fall. Though, upon reevaluation it occurred to me that my hypothesis did not consider the prevalence of hospital corporation that would benefit from Medicaid expansion.

To illustrate the benefits of state Medicaid expenditure to hospital corporations, I use the Medicaid expansion that occurred in 2014. Since 2014, for-profit health systems have reported significantly better financial returns in states that have expanded Medicaid while in states that have not adopted Medicaid expansion, hospitals continued to experience static admission rates and little change in number of treated uninsured patients.[19] By providing health insurance to a greater number of people, Medicaid expansion has reduced the number of uninsured patients that hospitals treat every year that results in financial loss. In a study done by Center on Budget and Policy Priorities, two of the largest hospital corporations in the nation, Community Health Systems and LifePoint experienced a 72% and 67% drop in uninsured admissions at its hospitals in Medicaid expansion states, which was a large factor in improving financial success.[20] For-profit hospitals thus have an incentive to lobby for more Medicaid spending in contrast to the theory behind my initial hypothesis. Therefore, a deregulation in corporate campaign finance laws may have allowed hospital corporations to lobby more heavily than before, which would have affected my results. Further research is necessary to isolate the effects of hospital corporate lobbying.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Affected	$6,823	$6,147	$6,328	$6,396	$6,745	$6,609	$8,202	$8,161	$5,973	$7,081	$7,422
Non Affected	$6,877	$6,595	$6,748	$6,921	$6,999	$6,811	$8,627	$8,421	$6,552	$7,445	$7,700

Table 10: Medicaid Expenditure per Enrollee In Affected and Non-Affected States (2005-2015)
Source: CM-64 Quarterly Expense Reports from Centers for Medicare and Medicaid Services
Note: Affected states are the states that repealed or struck down existing state limitations on corporate contributions after the Citizens United v. FEC ruling. Each reported dollar amount was the amount calculated at the beginning of each Fiscal Year. In order words, for 2005, the expenditure amount was the amount spent per enrollee on June 01, 2005.

[19] PricewaterhouseCoopers reviewed earnings and patient volume data of healthcare providers following the 2014 Medicaid expansion. Full report available at: http://www.pwc.com/us/en/health-industries/health-research-institute/assets/pwc-hri-medicaid-report-final.pdf
[20] Full study found at: http://www.cbpp.org/sites/default/files/atoms/files/4-28-15health.pdf

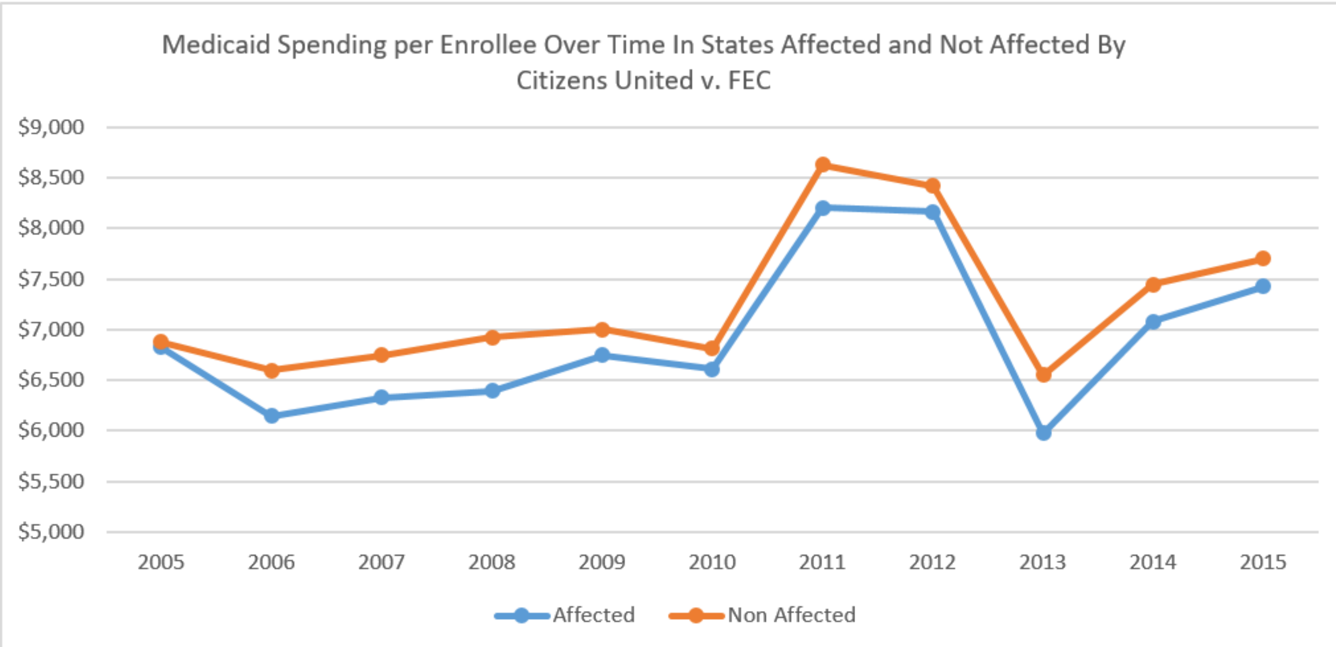

Figure 3: Medicaid Spending per Enrollee Over Time In States Affected and Not Affected by Citizens United v. FEC
Source: CMS-64 Quarterly Expense Reports from Centers for Medicare and Medicaid Services
Note: The x-axis lists each year in which Medicaid expenditure per enrollee was observed. Each dot indicates the dollar amount of Medicaid expenditure per enrollee in the corresponding year. The y-axis displays the range of Medicaid spending amounts.

Chapter 7: Conclusion

I began this study with the intention of determining the effects that a corporate campaign finance deregulation had on specific legislative changes at the state level: individual income tax rate, corporate income tax rate, and Medicaid expenditure per enrollee. Specifically, I sought to illuminate how a deregulation in corporate finance laws could result in state legislative changes that disproportionately benefit certain parts of the population over others. I aimed to build upon existing literature on the consequences of campaign finance laws that have failed to provide an empirical explanation of the exact consequences of campaign finance regulations. Unfortunately, my results do not lend much clarity to the issue. My results show an increase in individual income tax rate and a decrease in corporate income tax rate and Medicaid expenditure per enrollee but are associated with large standard errors. Thus, my results may indicate that Citizens United is associated with a slight corporate tax cut for big businesses and a reduction in Medicaid welfare spending. However, the degree of uncertainty is too high to make strong empirical conclusions.

There were also a few limitations to my study that I would like to address. One limitation to my research was the limited areas of state legislature I chose to observe. My research design only analyzed three variables: individual and corporate income tax rate, and Medicaid expenditure per enrollee, but there exists a myriad of legislative areas that could illuminate how a deregulation of campaign finance disproportionately benefits some over others. Regressions with my dependent variables yielded uncertain results but perhaps observing subsequent corporate-friendly trade policies enacted or a drawback in corporate labor regulations would better address my topic. Further research could be conducted under the same difference-in-difference model but instead with other areas of legislation to gain a deeper understanding of legislative consequences of Citizens United.

A second limitation to my research is the length of time required for states to change their legislation. Even if we assume Citizens United facilitated widespread corporate lobbying that led to corporate-friendly legislators being elected, it could take longer than five to six years to effectively change legislation to reflect these interests. Citizens United occurred in 2010 and thus it could occur that states are in the process of changing their legislation to reflect corporate interests but due to the time-consuming nature of passing a piece of legislation, that change is yet to come and excluded from our dataset which only extends to 2016. If this is the case, my results could understate the effect of Citizens United on the dependent variables as these changes are in still in process. This study could be repeated in five years with an adjusted time frame and yield stronger results for my hypothesis because it allowed more time for legislation to shift following Citizens United.

A third limitation to my design is that I focused on state legislation and omitted federal legislation entirely. This is so that I can have the variation I need for the difference-in-difference model. However, the state-level effects of changes in campaign finance regulations may not be identical to those at the federal level. Given the dynamics of national policymaking, there could be a greater incentive for corporations to lobby federal elections than state elections. State legislative outcomes would then not provide the best evidence of corporate lobbying. A deregulation in corporate campaign finance restrictions may only show weak effects on state-level legislature but could be far more influential on the federal level. My study omits analyses of the changes in federal statutes. I leave this topic for future research.

Despite these limitations and statistically insignificant results, the potential consequences of changes in campaign finance laws should continue to be explored. A fundamental principle of American democracy is that every citizen is entitled to a single vote on election days and every vote is valued equally with respect to electoral outcome. If the role of money in political campaigns is significant enough so that those who have the ability to donate the most can influence which candidate wins through superior funding, then the political system favors those who have more money. A political system in which one faction has an inherent advantage in dictating which legislators take office violates the pillar of equality upon which the United States government rests upon. The United States electoral process prohibits the discrimination of a given group based on certain characteristics such as wealth. A society in which wealth can lead to greater political leverage is contradictory to democratic ideals.

The lack of empirical results concerning the effects of campaign finance regulations should not deter researchers from continuing the literature. The growing financial incentives of politicians with every election and as conscientious citizens we must be wary of the threats to democracy that election results based on wealth could bring. Although there is little empirical evidence found so far that political lobbying has practical consequences, it must be revisited repeatedly to ensure that the empirical evidence continues to show null relationships. For once it does not, the pillars upon which American democracy once proudly rested will threaten to collapse.

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