

# Terrorism and Pork-Barrel Spending

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## Abstract:

The horrifying, tragic events of 9/11 made Americans aware of their vulnerability to terrorist attacks and triggered the creation of the Department of Homeland Security along with a substantial increase in federal spending to both thwart terrorist attacks and to increase our ability to respond to such emergencies. Much of this large increase in spending was in the form of direct transfers to states and cities through several grant programs. Homeland Security grants may be used for protection against terrorist activities, thereby enhancing public interests, or as wealth transfers to state and local governments, enhancing the reelection efforts of incumbents, and thus, private interests.

Using 2004 per capita Homeland Security Grant funding to states and their cities, we find that the funding formula used, which allocates 40% of the funds through a minimum percent to each state, means that per capita funding is more related to electoral votes per capita, i.e., the less populous states, and thus, the value of a vote to the reelection of the President, than to the dangers and vulnerabilities faced by states. Some of the variation in per capita grant allocations is also explained by the amount of airport traffic in the state and the state's population density, which are variables closely linked to the state's vulnerability to attack. The closeness of the 2000 presidential race, however, does not seem to be related to per capita Homeland Security grant allocations.

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The usual caveat applies.

## **I. Introduction**

Like other exogenous shocks, the 9/11 attack on U.S. targets opened up the possibilities for wealth transfers as public policy toward terrorism emerged in the aftermath of the horror. Under its newly consolidated domain the Department of Homeland Security (DHS) now parcels out grants and financial support to state and local governmental entities representing the political manifestations of these policies. These grants cover a variety of homeland security fronts, including fire and police expenditures, civil defense, and other related activities. Of course, the threat posed by terrorism is not uniform across political geography so that a fully rationalized homeland security program might simply ignore the issue in Thibodaux, Louisiana or Clemson, South Carolina and focus efforts where the threat is greater. As we learned a long time ago, however, this is not how a geographic-based representative democracy allocates resources (Buchanan and Tullock 1962). That the most highly-valued political uses of resources are not the same as their economic uses is a truism in public choice. Votes must be bought in Louisiana and South Carolina, where terrorism may be a minimal threat, to support funding for New York City, where the danger is readily apparent. This process of political exchange means that Thibodaux and Clemson will get some new fire trucks or communications equipment that they may not need for combating terrorist threats as a way to grease the proverbial pork barrel.<sup>1</sup> This type of public choice analysis is well established in both theoretical (Weingast, Shepsle, and Johnsen 1981) and empirical (Faith, Leavens, and

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<sup>1</sup>Politicians, of course, recognize what is transpiring. Mayor Bloomberg of New York City has complained that small and remote states like Wyoming and American Samoa are receiving homeland security funding out of proportion to any objective “need” for such monies. Responding to such complaints, funds in the 2005 budget (after the presidential election) are apparently being shifted toward the nation’s largest cities (Lipton 2004).

Tollison 1982) literature and for executive and legislative branch behavior (Anderson and Tollison 1991a). In both cases political actors are seen as buying votes with the public purse in the pursuit of reelection. The richness of this approach is apparent in its robust results, especially in explaining the pursuit of electoral votes in presidential politics (Wright 1974).

In addition to the waste due to funds being misdirected to lower priority areas, waste also occurs because wealth transfer programs generate ordinary rent-seeking costs. Veronique de Rugy (2004 p.19) mentions that in 2004 several thousand officials came to Washington to lobby for larger first-responder grants, as well as a multitude of firefighters to lobby congress, and many other officials to protest the size of their grants relative to others.

The fact that the DHS allocates grants across states and reports data on the same allows us to test the pork barrel hypothesis in the political response to terrorism. In short, we examine what drives these allocations – public interest, pork barrel, or both? Our approach is admittedly simple, both theoretically and empirically. We cannot claim to present definitive results. However, the results are in keeping with other work along these lines so that in this respect they are not at all unusual. The homeland security program is just one of a long line of programs which represent the infusion of “marginal” funds into the political process in response to both real and perceived threats. The Clinton administration passed a crime bill to add 100,000 policemen to the streets nationwide. What explains where the money went – some measure of the value of electoral votes or the local crime rate? Homeland security expenditures represent yet

another case. In terms of presidential politics was the program designed to impact the 2004 election or to combat terrorist threats or most likely both?

## **II. The Literature**

The literature on executive branch behavior dates from Wright's (1974) above cited paper. He examined the allocation of New Deal spending across U.S. states as a function of the local severity of the Great Depression and a measure of the value of the state's electoral votes to President Roosevelt. Using a measure of closeness-weighted electoral votes, he found that politics mostly trumped "need" in the allocation of these monies. Anderson and Tollison (1991a) follow up Wright's lead by adding measures of a state's congressional influence to the empirical analysis, finding again that politics outweighed local economic conditions in the process of meting out New Deal funds.<sup>2</sup>

Other similar approaches to explaining executive branch behavior include Anderson and Tollison (1991b) on union casualties in the Civil War, Brams and Davis (1974) on presidential campaigning and electoral votes, Colantoni, Levesque, and Ordeshook (1975) on the same subject, and Grier, McDonald, and Tollison (1975) on executive vetoes.

These studies employ various measures of a state's electoral votes to proxy their political value to a presidential candidate. These include closeness-weighted electoral votes (perhaps weighted by the standard deviation of the vote of the last several presidential elections in a state), aggregate electoral votes, the rank order of electoral votes, and electoral votes per capita. In general, states with more electoral votes (larger states) have more influence in these models.

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<sup>2</sup> Also see Couch and Shughart (1998).

The reader should also keep in mind that the system of electoral votes is a uniquely U.S. institution. It basically operates so that each state has electoral votes equal to its number of representatives plus two senators. In all but two states, a presidential candidate wins all of a state's electoral votes by winning a plurality in the state. The two exceptions are Maine and Nebraska, where the electoral votes associated with the representatives are given to the candidate winning a plurality in that congressional district, while the electoral votes associated with the two senators are given to the candidate who wins a plurality in the state (Kuhn 2004). The College is thus a state jurisdictional winner-take-all system wherein the president is elected by the Electoral College rather than the popular vote. This system clearly makes it advantageous for presidential aspirants to seek electoral votes where the expected payoff is greater.

### **III. Framework of Analysis**

We seek to build on this literature to explain the allocation of DHS grants across U.S. states. The null hypothesis is that these allocations are independent of politics and determined by factors related to the threat of terrorism. To proxy the latter conditions we employ such measures as the number of nuclear power plants by state and state income. To proxy politics we use measures of electoral votes by state.

We seek to discover if the political response to terrorism is simply yet another spending spree prompted by an exogenous shock to the body political (the attack), or whether our democracy is taking care to defend itself in a sensible fashion.<sup>3</sup> In other words, does our system of presidential politics cause terrorism resources to be

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<sup>3</sup> Indeed, are we overreacting to the threat? There appears, after all, to be little interest in terrorism insurance outside of a few major metropolitan areas, so why fund anti-terrorism programs in Boise? The market is saying one thing, and the government is doing another.

excessively allocated to states that are predicted to be important in the next election and not allocated sufficiently where a state is forecast to be unimportant?

Our theoretical framework is also simple. Government expands or contracts in the wake of exogenous shocks, as the case may be. The 9/11 attack surely qualifies as such an event, the Monday morning quarterbacks at the 9/11 Commission to the contrary notwithstanding. We assume a simple theoretical framework. The DHS is a well behaved agent of political actors such as the president. Political actors seek to be reelected. In this regard the president is chosen by the Electoral College wherein, as noted above, there is a winner-take-all rule in most states. How, then, will the president and presidential candidates (and their colleagues) campaign and allocate resources in order to be reelected or elected? Clearly, she will ignore states where she is certain to lose and certain to win. Efforts will be devoted to attract voters in close states and to states with lots of electoral votes per voter. The public-choice hypothesis states that terror funds will go to these states; the public-interest hypothesis says that the funds will go where the threat of future attacks is greatest. The use of formulas for allocating funds, however, limits funding discrimination although the formulas themselves are subject to political influence.

The exogeneous-shock theory of government is not new. It simply says that any time there is a significant change in relative prices, the vote-maximizing regulator (Peltzman 1976 ) will step in to take advantage of the newly available wealth transfer opportunities between winners and losers. The former are cost-effective demanders of transfers; the latter are not (why spend \$1 to save \$0.10?). Exogenous shocks come in all forms and sizes. The Great Depression, OPEC, inventions, natural disasters, the financial

collapse of large companies, and still other cases all beget more government involvement in an effort to mitigate losses and attenuate gains to the affected parties.

Some of the 9/11 effects in this regard have been obvious. The airlines and the victims' families stand out in this regard. Nonetheless, the reaction of the political sector to 9/11 is not so obvious. Has our democracy acted to defend itself rationally, or are we simply using 9/11 as yet another excuse to feed at the public trough? The importance of the answer is clear. If the public choice hypothesis has support in the data, then we might be better off spending our efforts in reforming our politics rather than simply reforming our intelligence-gathering activities.

#### **IV. Empirical Model**

We postulate a simple empirical test of the pork barrel hypothesis. Namely,

$$\text{Homeland Security Spending} = f(\text{Income}, \text{Electoral Votes}, \text{Closeness}, \text{Density}, \text{Emplaned}, \text{Nuke}, \text{Coast and Border}) \quad 1)$$

where:

*Homeland Security Spending* is the natural log of per capita homeland security grants allocated to the states and their cities in 2004;

*Income* is the natural log of per capita state income in 2003;

*Electoral Votes* is the natural log of electoral votes per capita in that that state after the 2000 decennial reapportionment of Congress;

*Closeness* is the natural log of the absolute difference between the Republican candidate's vote percentage in 2000 and 50 percent by state;

*Emplaned* is the natural log of persons emplaned per capita by state in 2000;

*Density* is the natural log of the population density<sup>4</sup> in 2002 by state;

*Nuke* is a binary variable for states that have nuclear generation capacity;

*Coast* is a binary variable for states with ocean or Gulf Coast frontage; and

*Border* is a binary variable for states that share a border with Mexico or Canada.

Note that all variables except for the three binary variables are expressed in per capita terms, as one would naturally expect more spending of any type to be concentrated in states with larger populations.<sup>5</sup> We also transform the six non-binary variables by the natural log.

The dependent variable, *Homeland Security Spending*, is the sum of the federal homeland security spending for the 2004 fiscal year across the fifty states and the District of Columbia through three grant programs: Counter Terrorism Grants (Sum of State Grants, Prevention & Detention Grants, and Citizen Corps), the Urban Area Security Grants, and the Transit Security Grants (Department of Homeland Security (2004a), (2004b), and (2004c)).<sup>6</sup> These grants only account for part of homeland security spending. Homeland security spending is also taken on by private firms, local and state governments and various federal agencies. The DHS itself spends large sums directly for both homeland security activities as well as activities that are not for homeland security purposes (de Rugy 2004). Grants, however, are the most visible funds to which incumbents can point.

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<sup>4</sup> Alternatively, we could use the log of the inverse of population density in order to have all of the population-related variables in per capita terms, but with the log transformation, this merely results in changing the sign of the *DENSITY* variables coefficient, while leaving all other coefficients unchanged.

<sup>5</sup> For those interested, our data set may be downloaded at <http://www.?xls> as an Excel file [the file will be uploaded to a web site and the web site specified before publication].

<sup>6</sup> There were two grant amounts, \$795,280 each, given under the headings, “NY-Port Authority of NY/NJ” and “Phil-NJ-PATCO.” We have allocated these two figures equally between New York and New Jersey and Pennsylvania and New Jersey, respectively. The maximum percentage error in our dependent variable due to our *ad hoc* allocation of these port authority grants is less than 1 percent for each of these three states.

We use the *Income* variable as a control variable. Per capita income by state can be found in the US Department of Commerce (2004b). It has been noted by Wallis (1996) that states with higher per capita incomes often receive more federal grant money. As Wallis (1996) points out, federal grants often go to richer states because these states are more able to provide matching funds for federal grants.

Our two main political variables are *Electoral Votes* and *Closeness*. In previous work by Wright (1974) and Anderson and Tollison (1991a), these two variables were combined into a single measure of closeness-weighted electoral votes, and were not considered separately. We estimate the separate effects of these two variables. These variables account for the importance of the state to the reelection of the president and whether a small change in votes within that state might change the outcome of the presidential race in that state, as all states except Maine and Nebraska allocate their electoral votes with a winner-take-all rule.<sup>7</sup> Electoral votes are allocated based on the sum of senators and congressmen from that state, and the number of congressmen is positively related to the state's population and can be found in the U.S. Federal Election Commission (2003). With each state having only exactly two senators, smaller states will have more electoral votes for per capita. The least populous state, Wyoming, has 3.83 times the number of electoral votes per capita as California, the most populous state. Also note that the number of electoral votes a state has, like the number of congressmen, is an integer, which will also cause variation in electoral votes per million persons. While more populous states, such as California and New York, are expected to get higher

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<sup>7</sup> Maine and Nebraska use allocate their electoral votes by giving one vote to the plurality winner in each congressional district and two votes for the plurality winner statewide.

absolute allocations, smaller states, such as Wyoming and Vermont, are expected to receive more dollars per person.

The funding formula for Homeland Security grants begins with 0.75% being given to each state, with a smaller minimum going to territories, so that 40% of the grants are allocated with the guaranteed minimums, leaving only 60% of the funds to be allocated by the relative threats and vulnerabilities (de Ruyg 2004 p. 14). However, population determines the rest of the funding (de Ruyg 2004 ), not risk.

Closeness, as measured, is actually a negative measure of closeness, since it measures the difference in the vote of the Republican candidate for president from all other candidates. Since we hypothesize a positive relationship between closeness and spending, we should expect a negative relationship between our vote difference measure and spending. The source for our *Closeness* variable is the *U.S. Statistical Abstract 2004-2005* (2004).

The events of 9/11 that launched the Department of Homeland Security utilized commercial airliners as missiles targeted at the Pentagon and the World Trade Center, pointing out the vulnerability of our airports for terrorist attacks. The number of persons emplaned measures the amount of air travel originating in the state, which we find in data provided by the Bureau of Transportation Statistics (2000).<sup>8</sup> With transportation grants mostly going to increase security at airports, which involves more intense passenger and baggage screening, it is expected that the number of persons emplaned will be a major factor in determining homeland security spending.

Population density in 2002 and population in 2002 (US Department of Commerce 2004a; Infoplease.com 2000) were used in the funding formula for Homeland Security

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<sup>8</sup> Delaware's emplaned passenger count includes only nonscheduled passengers.

grants.<sup>9</sup> One reason for including density in the funding formula is that a single terrorist attack is likely to be more costly in terms of lives lost.

Congressman Chris Cox (R-CA) noted “The system is still flawed. It is at the intersection of threat and vulnerability that our money should be directed. But right now we are using seat-of-the-pants analysis.” (Lipton 2004) Our three binary variables are likewise based on vulnerability and threat. Since the nation’s nuclear power plants could release dangerous levels of radioactive toxic materials, protecting such plants is expected to be a high priority. If funds are allocated based on threats and vulnerabilities, we would expect higher per capita spending on homeland security in the 31 states with nuclear facilities than in the 19 states without nuclear power plants. The binary variables, *Border* and *Coast*, are used to show points of potential entry for foreign terrorists other than airports; entry by land and by sea is extremely difficult to protect and should be positively correlated with per capita spending on homeland security.

To recap, pork barrel politics will lead to higher spending per capita in states with more electoral votes per capita and where the vote difference is smaller. Spending on matching grants will be higher in states that are more likely to agree to partially fund them, the states with higher per capita incomes. The grant funding formulas are partially based on population density, and so spending will be greater in states with higher population densities or where *Density* is lower. Productive uses of the grants would suggest that homeland security spending is positively related to *Emplaned*, *Nuke*, *Coast* and *Border*.

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<sup>9</sup> See Page 2 of the grant application package, US Department of Homeland Security (2004d), for a discussion of the formula and information on the years of the US Census data on population and density.

## V. Regression Results

We estimate our model with OLS using SAS. The model estimates are shown in Table 1.

We see that it is important to control for income with high-income states receiving more money per capita. We also see that per capita homeland security spending is higher in states with more passengers emplaned per capita, so that spending is related to human airport traffic. Population density is also important with more densely populated states receiving more money per capita (or states with greater area per capita receiving fewer dollars per capita).

**Table 1. Homeland Security Grant Allocation Regression Estimates**

<b>Variable</b>	<b>Coefficient</b>	<b>t-Value</b>	<b>p-Value</b>
<i>Intercept</i>	13.6504	5.96	<.0001
<i>Income</i>	0.5578	3.15	0.0031
<i>Electoral Votes</i>	1.3055	16.36	<.0001
<i>Closeness</i>	-0.0009	-0.05	0.9601
<i>Emplaned</i>	0.0248	1.76	0.0857
<i>Density</i>	0.0330	1.81	0.0770
<i>Nuke</i>	-0.1052	-2.04	0.0476
<i>Coast</i>	-0.0632	-1.52	0.1361
<i>Border</i>	0.0245	0.54	0.5929
<b>N</b>	51		
<b>Adjusted R<sup>2</sup></b>	0.92		
<b>F</b>	76.21		

On the other hand, the danger posed by nuclear plants in the country does not seem to be a high priority for homeland security dollars, as states with nuclear plants get less spending per person, and this negative relationship is significant.<sup>10</sup> While the national border states do receive more homeland security dollars per capita than those

<sup>10</sup> Foiling planned attacks is likely to be superior to protecting individual targets according to de Ruyg (2004). She also suggests that other government or private sources may be more efficient in protecting individual targets. Still, it is curious that we find a significantly negative effect of the presence of nuclear generating facilities instead of no significant effect of either sign.

that do not have a border with Mexico or Canada, the relationship is insignificant. This could be due to the federal government allocating homeland security border-patrol funds through the DHS's U.S. Border Patrol, rather than enlisting state and local police in helping to perform this function. On the other hand, states with coastlines receive less money per capita than inland states, and this relationship borders on significance.

Though the results do not contradict either hypothesis, they suggest that the pork-barrel or public-choice hypothesis has a significant effect at the margin. Of our two presidential political variables, *Electoral Votes* and *Closeness*, only *Electoral Votes* seems to be related to homeland security spending, and we see that it is very highly related, with an elasticity that is significant in its magnitude as well as being significant statistically. Holding other variables constant, a 1 percent rise in electoral votes per capita seems to increase homeland security spending per capita by 1.3 percent. It thus appears that objective factors, such as state income and persons employed, as well as political factors, play a role in anti-terror funding. The per-capita-electoral-votes variable is very significant because of the large state minimums in the funding formula, but we suggest here that its use in the formula is due to the importance of small states in the determination of electoral votes. The political effect we find appears to operate in terms of aggregate electoral votes per capita but not in closeness. Some variables clearly have the wrong sign (*Nuke*, for example). Overall we are able to explain a large amount of the variation in Department of Homeland Security grants across states. We ran various other specifications, but the overall pattern of results was consistent with those in Table 1.<sup>11</sup>

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<sup>11</sup> Using linear (not transformed by logs) per capita models gave very similar results, but suffered from severe multicollinearity. The model was robust across various specifications.

So we end with a half-filled glass of water. Politics matters to the allocation of anti-terror funding, but there appear to be some public-interest effects revealed in the data as well. Still, even the number of emplaned passengers may suggest that funds to thwart other airline disasters of the 9/11 sort may not be the most efficient way to accomplish this task. For instance, de Rugy (2004) suggests that the large sums spent to check every passenger and all baggage for protecting against 9/11 style attacks may be less efficient than training and arming pilots and the use of fortified doors on cockpits.

## **VI. The Politics of Closeness and Formula for Grant Allocations**

As economists, we normally think of competition as a good thing. Yet in politics, this may not follow. Closeness in elections makes individual votes more important, increasing the value of paying attention to and taking care of marginal voters (Karahan, Coats and Shughart, forthcoming). As elections become closer, electoral competition ramps up the “price” paid for marginal votes, the cost of government spirals, and the range and extent of the political sector increases. As we are learning, this process can be quite expensive, not just in fighting the war on terror, but across the board in terms of government programs.

There are two ways presidential races can be close but only one way is measured here, the *within-state* closeness. Even though *within-state* closeness does not seem to be related to the allocation of homeland security grants, a presidential election can still be close in terms of overall electoral votes across all states. If a presidential race is expected to be close in overall electoral votes, it is more likely that presidential political factors will dominate the allocation process, rather than congressional political factors, such as congressional leadership. If key congressional races, especially those in which the

current majority leadership are participating, are more tenuous than the presidential race, then congressional politics could dominate the allocation process.

As de Rugy (2004 p. 17) points out, the allocation formulas used for Homeland Security grants “disconnect the funding from the risk of being attacked.” Still, formulas are not without purpose and allocate funds in a particular pattern. Grant allocations made through formula funding reduce the ability of the politicians to discriminate finely, leaving them with less perfect forms of political allocation. While allocation formulas limit the ability of politicians to allocate funds in line with definitions of the public interest, they may also limit the rent-seeking waste associated with wealth transfer programs.

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