The Local Cost of Partisanship

Evidence from U.S. Gubernatorial Elections and Municipal Bonds

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Motivation

- **Partisanship increasingly shapes how individuals form beliefs and make decisions:**
  - **Affective polarization:** growing hostility toward members of the opposing party (Iyengar et al. (2019)).
  - **Expectations:** partisanship shapes how individuals view the economy after elections (Mian et al. (2023)).
  - **Consumption:** partisanship shapes how households spend after elections (Kamdar and Ray (2024)).
  - **Asset prices:** credit ratings (Kempf and Tsoutsoura (2021); Cunha et al. (2022)); equities (Santa-Clara and Valkanov (2003); Brogaard et al. (2020); Pastor and Veronesi (2020)); currencies (Della Corte and Fu (2024)).
- **Question:** do these partisan forces have *real* effects on local economies?

This Paper

Does partisan misalignment between a state's governor and the president affect local economies, and through what mechanism?

- **Measure: municipal bond yields**[1]. Anything that moves the local economy is priced into its bonds.
- **Variation: close gubernatorial elections**, which assign a quasi-random partisan label to the whole state.
- **Misaligned** $\Rightarrow$ governor's party $\neq$ president's party.

[1] Municipal bonds finance about two thirds of U.S. infrastructure investment, with \$4.2tn outstanding and \$513bn issued in 2024.

Research Questions

Does partisan misalignment between a state's governor and the president affect local economies, and through what mechanism?

1. **Does misalignment affect municipal bond yields?**
   ⇒ Yields increase by ∼**12 bps** (≈7% of the mean yield), comparable to a credit-rating change (Adelino et al., 2017) and several times the climate and biodiversity premia (Goldsmith-Pinkham et al., 2023; Rizzi, 2022).
2. **What is the mechanism?**
   ⇒ Bonds' underlying asset is local fiscal health: **tax collection** + **federal transfers**. Taxes are stable; **federal transfers fall sharply**.
3. **Does it reach the real economy?**
   ⇒ Yes. Private employment falls 2.2% and personal income 2.8%; an IV shows yields alone do not drive these effects, so federal transfers are the remaining candidate.

Institutional Background and Identification Strategy

Institutional Background

Gubernatorial Elections

- Elections held every 4 years in most states in midterm or presidential election years by **simple plurality voting system**.

Municipal bonds

- **GO** = backed by general revenues (taxes + transfers).
- **Revenue** = backed by a project's cash flow.
- **Tax-exempt** interest $\Rightarrow$ holders are **local and retail** investors.

Federal–state fiscal relations

- Large transfers fund health, education, transport, and welfare.
- **Formula** grants (insulated) vs. **discretionary** grants (competitive, negotiated).
- Governors negotiate with federal agencies $\Rightarrow$ misalignment can slow discretionary support.

Identification Strategy

The problem: endogeneity

- Economic conditions can drive both **bond yields** and **election outcomes**.
- Misalignment may itself reflect *voter backlash* in struggling states.

The solution: close-election design

- Restrict to gubernatorial races decided by ≤ 6.5 **p.p.** following Babina et al. (2020), Colonnelli et al. (2020), Fisman et al. (2014), Gao et al. (2019).
- Outcome is **quasi-random** w.r.t. the fundamentals that drive yields.

Identification Strategy

- Aligned vs. misaligned states two years after the race $\Rightarrow$ the **causal effect** of misalignment on bond yields.

Data and Specification

Data

Municipal Bond Market Data

- **MSRB (2005–2020):** transaction-level data on primary and secondary markets.
- **Mergent:** bond-level characteristics (purpose, amount issued, state ID).
- **Refinitiv:** links bond CUSIPs to issuing county and coupon type.

Sample Restrictions

- Bonds with **fixed coupons**, **federal tax-exempt status**, and focus on **GO bonds** (Schwert (2017); Goldsmith-Pinkham et al. (2023)). Cleaning Steps
- **Final sample → 2005 to 2019** - exclude post-2019 trades due to COVID-19 and the Fed's Municipal Liquidity Facility.

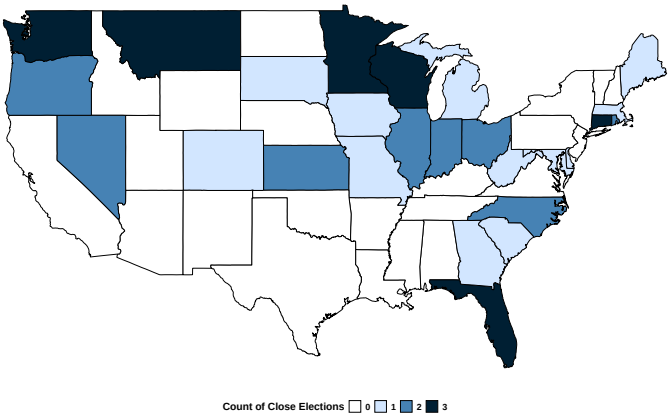
Specification - Average Treatment Effect

$$\text{yield}_{ibsct} = \beta\, \text{Misaligned}_{st} + \theta\, \text{MV}_{st} + \phi\, mat_b + \text{X}_\text{b}\boldsymbol{\gamma} + \lambda_t + \delta_c + \epsilon_{ibsct}$$

- Trade i of bond b, state s, county c, month-year t; the **two years after** each close election (excl. the election year).
- Misaligned_{st}: governor's party $\neq$ president's.
- MV_{st}: gubernatorial margin of victory.
- $\text{X}_\text{b}\boldsymbol{\gamma}$: maturity, use of proceeds, amount issued, trade size; election-year per-capita real GDP & own-source revenue. Controls
- FE: δ_c issuer, λ_t month-year. SE clustered by state$\times$year.
- β = effect of misalignment.

Results

Close Gubernatorial Elections in the U.S.



Notes: The sample includes 46 close gubernatorial elections ($\leq$ 6.5 p.p.) across 26 states over 2004–2018: 24 aligned and 22 misaligned state-elections, with a mean winning margin of $\approx$3 p.p. Sample Composition

Summary Statistics - General Obligation Bonds

Two years post close election	Mean	SD	p10	Median	p90
Yield (%)	1.599	0.762	0.730	1.500	2.560
Time to maturity (yrs)	4.968	2.924	1.002	4.942	8.879
Issuance amount ($m)	13.916	21.940	0.705	5.075	37.175
Par traded ($000)	312.2	1,425.6	10.0	50.0	440.0

Notes: Primary-market GO trades in the two years after a close gubernatorial election. Average issuance yield ≈1.6%; bonds mature in ≈5 years; the median issue is ≈$5m. Complete Table

Balance Test

We run the design in reverse: regress an indicator for *future* misalignment on yields in the **24 months before** the election.

	(1)	(2)	(3)
Yield (pre-election)	−0.078*	0.027*	0.000
	(0.044)	(0.016)	(0.002)
Observations	107,243	107,243	107,243
Issuer FE	No	No	**Yes**
Month-year FE	No	Yes	**Yes**

- **Pre-election borrowing costs cannot predict election outcomes.**

Results - Average Treatment Effect

	Yield
	(1)
Misaligned	0.117***
	(0.031)
Observations	120,248
Issuer FE	Yes
Month-year FE	Yes

- Misaligned states pay ≈**12 bps** more.
- About **7% of the mean yield** (≈1.6%).

Economic Magnitude

The premium is comparable to the largest priced risks in this market:

Priced risk	Yield effect
Political Misalignment	+12 **bps**
Credit-rating change (Adelino et al., 2017)	14 bps
Sea-level-rise premium (Goldsmith-Pinkham et al., 2023)	5 bps
Biodiversity-loss premium (Rizzi, 2022)	2 bps

- **Dollars:** ≈$17k extra interest/year per issue (≈$85k over a 5-year life).
- **No supply response:** the *quantity* of borrowing (number, amount, any-issuance) does not respond. Issuance

Heterogeneity - Issuer Type

Interact misalignment with a state-level-issuer indicator (base = county issuers):

	Yield
	(1)
Misaligned	0.125***
	(0.032)
Misaligned × State-level	−0.002
	(0.037)
Observations	122,826
Issuer FE	Yes
Month-year FE	Yes

Heterogeneity - County vs. State Alignment

Decompose by county-level vs. state-level alignment (baseline: aligned/aligned):

	Yield
Misaligned county, **aligned** state	0.010
	(0.032)
Aligned county, **misaligned** state	0.190***
	(0.050)
Misaligned county, **misaligned** state	0.148**
	(0.062)
Observations	76,680
Issuer FE	Yes
Month-year FE	Yes

Discussion: Possible Mechanisms

Possible Mechanisms

A GO bond is backed by the issuer's **general fiscal capacity**: **own-source taxes** + **federal transfers**. A weakening of *either* source raises the yield, giving two channels:

Tax-collection channel

- Misaligned partisans turn pessimistic $\Rightarrow$ lower consumption $\Rightarrow$ weaker **tax base** (Mian et al., 2023).
- Hits the local economy, so it also moves **revenue bonds** cash flows.
- Predicts: **tax revenue** $\downarrow$ and **revenue-bond yields** $\uparrow$.

Federal-transfer channel

- Partisan frictions reduce state–federal cooperation $\Rightarrow$ cuts to **federal transfers**.
- Hits the general fund only, not the tax base.
- Predicts: **transfers** $\downarrow$ with taxes and revenue bonds **unchanged**.

Evidence on Mechanisms

	Revenue-bond yield (✗)			*Local fiscal outcomes (✓)*		
	Complete	*Primary*	*Secondary*	*Fed. transf.*	*Transf./Rev.*	*Total taxes*
	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	0.034	0.051	0.048	−0.290**	−0.242**	0.011
	(0.039)	(0.052)	(0.036)	(0.110)	(0.109)	(0.039)
Observations	170,561	24,143	146,418	2,889	2,889	2,889
Issuer FE	Yes	Yes	Yes	–	–	–
Month-year FE	Yes	Yes	Yes	–	–	–
Jurisdiction FE	–	–	–	Yes	Yes	Yes
Govt.-type×year FE	–	–	–	Yes	Yes	Yes

Notes: Cols. (4)–(6): $FiscalOutcome_{jgt} = \beta\, Misaligned_{jt} + \theta\, \mathrm{MV}_{jt} + \mathrm{X}'_{jt}\gamma + \lambda_{g,t} + \delta_j + \epsilon_{jgt}$, on the pooled state and county-aggregated balance sheet. X_{jt} election-year baseline log per-capita federal transfers, total expenditure, and GDP. SE clustered by state×year; $^{**}p < 0.05$. Transfer Levels Rev. Bond Stats

Federal Transfers by Census Category

Category	Misaligned
Public welfare	−0.235 (0.237)
Education	0.041 (0.031)
Health/Hospitals	−0.208 (0.200)
Highways	−0.156 (0.115)
Housing/Community dev.	0.070 (0.164)
Transit	−0.034 (0.073)
Sewerage	0.119 (0.119)
Natural resources	−0.149 (0.118)
Air transport	−0.029 (0.129)
Employment security	0.008 (0.006)
General support	−0.602*** (0.143)
Observations	2,889
Jurisdiction FE	Yes
Govt.-type×year FE	Yes

Notes: One regression per category (log per-capita transfers); only **general support** falls (≈**45% less**).

Mapping | By Purpose GO | By Purpose REV | Statutes

Heterogeneity by Federal Transfer Exposure

	Yield - GO Bonds	
	Share of revenue	*Per capita*
	(1)	(2)
Misaligned	0.165***	0.156***
	(0.060)	(0.058)
Misaligned × Above-median	0.114***	0.122***
	(0.032)	(0.037)
Observations	74,102	74,102
Issuer FE	Yes	Yes
Month-year FE	Yes	Yes

Notes: County GO bonds, split at the state-election median of federal-transfer exposure; misalignment × above-median indicator. SE clustered by state×year. Premium ≈**70% larger** for the most transfer-dependent counties. Revenue Bonds

Real-Economy Effects

Effects on County Employment and Income

Panel A. Employment (logs)			
	Total	*Private*	*Public*
Misaligned	-0.015^{**}	-0.022^{***}	0.001
	(0.007)	(0.008)	(0.004)
Observations	4,787	4,787	4,787
Panel B. Personal income (logs)			
	Total	*Per capita*	
Misaligned	-0.028^{***}	-0.022^{***}	—
	(0.005)	(0.005)	—
Observations	4,803	4,803	—
County FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes

Notes: County-year panel, two post-election years. $y_{ct} = \beta\, Misaligned_{st} + \theta\, \mathrm{MV}_{st} + \mathrm{X}'_{ct}\boldsymbol{\gamma} + \delta_c + \gamma_t + \epsilon_{ct}$; X_{ct} = log population and election-year baseline log per-capita real GDP. SE clustered by state×year.

Ratings Recalibration as an Instrument for Yields

Misalignment moves *two* quantities, transfers ↓ and yields ↑, and the reduced form cannot tell which one transmits the real effect.

- **The shock:** Moody's **April 2010 recalibration** mechanically upgraded municipal ratings, with no change in fundamentals (Adelino et al., 2017).
- **The instrument:**

$$\text{Exposure}_c = \frac{\#\{\text{bonds in } c \text{ rescaled up, Mar–Apr 2010}\}}{\#\{\text{bonds in } c \text{ rated, Apr 2006–Apr 2010}\}}, \qquad \text{IV} = \text{Exposure}_c \times \text{Post}_t$$

- **Exclusion:** the recalibration was internal to Moody's and carried no news; non-recalibrated **S&P ratings** serve as a placebo, so any real effect must run through the **yield**.

2SLS - Do Yields Affect Income and Employment?

Panel A. First stage (dep. var.: primary-market yield)					
Exposure × Post	-0.503^{***} (0.149), first-stage $F \approx 11.4$				
Panel B. Second stage					
	Income (1)	*Income p.c.* (2)	*Total emp.* (3)	*Private emp.* (4)	*Public emp.* (5)
$\widehat{\text{Yield}}$	0.037	0.025	0.012	0.015	0.010
	(0.031)	(0.025)	(0.023)	(0.023)	(0.022)
Observations	8,656	8,656	8,656	8,656	8,656
County FE	Yes	Yes	Yes	Yes	Yes
State×year FE	Yes	Yes	Yes	Yes	Yes

- First stage: exposed counties receive a mechanical Moody's upgrade ($+1.388^{***}$) and pay lower yields; the non-recalibrated S&P rating is unaffected ($+0.223$, n.s.).
- **Second stage: an exogenous yield increase does *not* move income or employment**, borrowing-cost channel not driving the real effects.

Specification

Conclusion and Next Steps

- **Partisanship has a measurable local cost:** GO yields rise $\approx$**12 bps**, comparable to a credit-rating change.
- **The mechanism:** discretionary federal transfers fall (-45% general support); taxes and revenue bonds do not move.
- **Real effects:** private employment -2.2%, income -2.8%; the IV shows yields alone do not drive these effects, suggesting federal transfers as the mechanism.

Next steps: causal effect of the transfer cut on income and employment.

Thank you!

Cleaning Steps - General Obligation Bonds

Cleaning step	*Trades left*	*Share trades (%)*	*Bonds left*	*Share bonds (%)*
Full database	45,390,070	100	967,627	100
Non-bonds	44,847,913	98.806	936,422	96.775
Insured bonds	32,954,116	72.602	684,851	70.776
Dealer transactions	13,511,993	29.769	683,952	70.683
Callable bonds	4,792,829	10.559	348,751	36.042
Puttable bonds	4,779,298	10.529	348,470	36.013
State-taxable	4,451,087	9.806	305,195	31.541
Guaranteed	3,227,370	7.11	196,609	20.319
Year before maturity	2,849,958	6.279	189,312	19.565
Non-fixed coupon	1,964,619	4.328	107,941	11.155
Missing trade year	1,964,619	4.328	107,941	11.155
Missing yield	1,956,729	4.311	107,647	11.125
Post-refunding trades	1,956,729	4.311	107,647	11.125
Final sample	1,567,683	3.454	107,556	11.115

Notes: Each row applies one cleaning step sequentially to the General Obligation bond data; shares are relative to the full database.

Back

Cleaning Steps - Revenue Bonds

Cleaning step	*Trades left*	*Share trades (%)*	*Bonds left*	*Share bonds (%)*
Full database	78,791,902	100	682,174	100
Non-bonds	74,544,350	94.609	613,940	89.998
Insured bonds	56,082,078	71.177	484,875	71.078
Dealer transactions	23,580,887	29.928	483,904	70.936
Callable bonds	5,795,529	7.355	229,339	33.619
Puttable bonds	5,683,986	7.214	227,987	33.421
State-taxable	5,532,881	7.022	219,173	32.129
Guaranteed	5,157,635	6.546	190,292	27.895
Year before maturity	4,563,645	5.792	183,747	26.936
Non-fixed coupon	3,232,749	4.103	112,523	16.495
Missing trade year	3,232,749	4.103	112,523	16.495
Missing yield	3,220,668	4.088	112,357	16.47
Post-refunding trades	3,220,668	4.088	112,357	16.47
Final sample	2,539,800	3.223	112,193	16.446

Notes: Revenue-bond counterpart to the General Obligation cleaning table, with the identical cleaning sequence.

Back

Close-Election Sample Composition

Metric	*Value*
State-elections	46
Unique states	26
Election years	8
Misaligned	22
Aligned	24
Mean margin (pp)	3.346

Notes: Every gubernatorial race decided by ≤ 6.5 p.p. over 2004–2018, excluding New Hampshire and Vermont. Back

Control Variables in the Main Specification

Control	*Description*
Use of proceeds	Substantive area funded.
Offering amount	Total dollar size of the bond offering.
Par value traded	Face value of the individual trade.
Margin of victory	Gubernatorial winning margin (pp).
Time to maturity	Months until the bond matures.
Per-capita real GDP	Issuer per-capita real GDP at the election year.
Per-capita own-source revenue	Issuer per-capita own-source general revenue at the election year.

Notes: Bond- and issuer-level controls entering $X_b\gamma$; the issuer is the county or, for state-level bonds, the state. Back

Summary Statistics - GO Bonds (Complete Sample)

Variable	*Mean*	*SD*	*p10*	*p25*	*Median*	*p75*	*p90*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: complete sample, 2005–2019							
Yield (%)	1.704	0.891	0.769	1.100	1.550	2.070	2.886
Time to maturity (years)	5.098	2.925	1.103	2.746	5.032	7.291	8.994
Issuance amount ($m)	15.964	24.366	0.885	2.060	6.370	20.000	42.460
Par traded ($000)	298.607	1,409.924	10.000	25.000	50.000	105.000	400.000
Trades per state-month	182.132	286.837	4.000	14.000	61.000	235.000	526.000
Panel B: two years after close elections							
Yield (%)	1.599	0.762	0.730	1.056	1.500	2.014	2.560
Time to maturity (years)	4.968	2.924	1.002	2.538	4.942	7.113	8.879
Issuance amount ($m)	13.916	21.940	0.705	1.605	5.075	16.295	37.175
Par traded ($000)	312.235	1,425.586	10.000	25.000	50.000	110.000	440.000
Trades per state-month	155.143	191.949	3.000	12.750	62.000	251.250	468.700

Notes: Panel A covers all cleaned primary-market trades, 2005–2019; Panel B keeps bonds issued in the two years after a close gubernatorial election. Issuance amount in millions and par traded in thousands of USD. Back

Summary Statistics - Revenue Bonds

Variable	*Mean*	*SD*	*p10*	*p25*	*Median*	*p75*	*p90*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: complete sample, 2005–2019							
Yield (%)	2.051	1.273	0.870	1.240	1.750	2.499	3.813
Time to maturity (years)	5.522	3.475	1.136	2.886	5.363	7.751	9.498
Issuance amount ($m)	20.446	83.868	1.000	2.160	5.625	15.930	37.680
Par traded ($000)	246.447	1,142.637	10.000	20.000	40.000	100.000	425.000
Trades per state-month	246.940	362.941	9.000	33.000	110.000	311.000	645.400
Panel B: two years after close elections							
Yield (%)	1.909	1.102	0.839	1.210	1.730	2.350	3.180
Time to maturity (years)	5.133	3.030	1.084	2.705	5.128	7.305	9.032
Issuance amount ($m)	11.289	20.704	0.880	1.805	4.220	11.435	28.000
Par traded ($000)	221.611	1,110.067	10.000	20.000	40.000	100.000	400.000
Trades per state-month	231.450	243.418	9.000	36.000	124.500	373.750	614.600

Notes: Revenue-bond counterpart to the General Obligation summary statistics. Issuance amount in millions and par traded in thousands of USD. Back

Bond Issuance

	General Obligation			*Revenue*		
	log(1+N)	log(1+Amt)	Any	log(1+N)	log(1+Amt)	Any
Misaligned	−0.014	−0.563	−0.043	0.122	1.105	0.068
	(0.057)	(0.872)	(0.070)	(0.075)	(1.170)	(0.089)
Observations	2,046	2,046	2,046	1,362	1,362	1,362
Issuer FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes

- Issuer-by-calendar-year panel of *active issuers*: any county or state that issues at least one distinct bond in the two-year window around a close election. A year with no issuance is a genuine zero, not a missing observation.
- Outcomes: log of one plus the number of distinct issues, log of one plus the dollar amount issued, and an indicator for any issuance.
- Controls: margin of victory, governor's party, and election-year per-capita GDP and own-source revenue; SE clustered by state×year.
- None of the six margins is significant: a price effect, not a supply response.

Back

Federal Transfers per Capita (Real 2017 $)

Variable	*Mean*	*SD*	*p10*	*p25*	*Median*	*p75*	*p90*
Panel A: State only							
Total	1,861.266	413.418	1,359.808	1,598.120	1,808.425	2,106.132	2,390.145
Pub.Welf.	1,104.478	301.068	751.291	882.197	1,103.198	1,343.426	1,530.459
Educ.	282.511	65.288	207.380	242.935	267.113	311.391	373.672
Health/Hosp.	115.001	90.778	44.999	52.288	76.870	147.764	209.122
Highways	172.094	89.041	106.811	122.887	147.219	175.597	250.222
Hous./Com.Dev.	32.354	28.538	3.862	11.149	29.496	46.600	60.818
Transit	11.233	17.089	0.000	0.192	4.792	13.383	33.539
Sewerage	6.495	6.471	0.000	2.624	4.847	7.954	13.447
Nat.Res.	21.110	17.098	7.426	9.747	14.668	24.273	44.955
Air Tr.	4.492	7.277	0.000	0.026	2.183	6.415	10.583
Emp.Sec.	20.362	11.935	10.369	13.379	17.641	23.519	35.452
Gen.Supp.	1.052	9.465	0.000	0.000	0.000	0.000	0.000
Other	86.440	56.795	42.850	50.492	71.272	106.614	134.943
Panel B: County only							
Total	87.765	192.061	0.959	11.872	42.333	111.003	203.570
Pub.Welf.	12.492	41.656	0.000	0.000	0.000	1.509	45.798
Educ.	3.117	11.726	0.000	0.000	0.000	0.000	8.567
Health/Hosp.	5.477	26.216	0.000	0.000	0.000	1.549	13.627
Highways	7.579	29.424	0.000	0.000	0.000	2.111	18.553
Hous./Com.Dev.	8.439	20.377	0.000	0.000	0.000	8.387	25.535
Transit	2.320	9.617	0.000	0.000	0.000	0.000	6.452
Sewerage	1.426	19.331	0.000	0.000	0.000	0.000	0.000
Nat.Res.	1.247	18.452	0.000	0.000	0.000	0.000	0.284
Air Tr.	6.705	41.593	0.000	0.000	0.000	0.000	10.708
Emp.Sec.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Gen.Supp.	8.486	34.941	0.000	0.000	0.000	1.101	13.975
Other	29.154	153.905	0.000	0.794	8.959	28.027	62.222

Notes: Close-election mechanism panel; real 2017 $ per capita (Panel A: state; Panel B: county-aggregated).

Back

Federal Transfers as a Share of Revenue (%)

Variable	*Mean*	*SD*	*p10*	*p25*	*Median*	*p75*	*p90*
Panel A: State only							
Total	26.934	5.832	20.547	23.211	26.909	29.803	32.647
Pub.Welf.	15.975	4.274	10.631	13.242	16.345	18.200	21.839
Educ.	4.156	1.184	2.908	3.426	4.091	4.747	5.711
Health/Hosp.	1.687	1.308	0.669	0.741	1.102	2.181	3.823
Highways	2.480	1.176	1.477	1.820	2.160	2.691	3.445
Hous./Com.Dev.	0.464	0.371	0.055	0.143	0.424	0.656	0.862
Transit	0.144	0.201	0.000	0.004	0.066	0.195	0.384
Sewerage	0.090	0.081	0.000	0.050	0.069	0.112	0.205
Nat.Res.	0.297	0.224	0.099	0.152	0.222	0.354	0.625
Air Tr.	0.062	0.102	0.000	0.000	0.034	0.095	0.146
Emp.Sec.	0.292	0.164	0.153	0.211	0.252	0.319	0.438
Gen.Rev.Sh.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Gen.Supp.	0.019	0.169	0.000	0.000	0.000	0.000	0.000
Other	1.217	0.725	0.641	0.779	1.057	1.442	1.790
Panel B: County only							
Total	3.608	4.839	0.053	0.625	2.163	4.793	8.565
Pub.Welf.	0.444	1.509	0.000	0.000	0.000	0.087	1.557
Educ.	0.093	0.354	0.000	0.000	0.000	0.000	0.251
Health/Hosp.	0.252	1.076	0.000	0.000	0.000	0.069	0.605
Highways	0.349	1.324	0.000	0.000	0.000	0.091	0.835
Hous./Com.Dev.	0.347	0.859	0.000	0.000	0.000	0.380	1.054
Transit	0.091	0.326	0.000	0.000	0.000	0.000	0.279
Sewerage	0.060	0.647	0.000	0.000	0.000	0.000	0.000
Nat.Res.	0.046	0.442	0.000	0.000	0.000	0.000	0.012
Air Tr.	0.248	1.104	0.000	0.000	0.000	0.000	0.493
Emp.Sec.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Gen.Rev.Sh.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Gen.Supp.	0.419	1.499	0.000	0.000	0.000	0.051	0.747
Other	1.199	2.601	0.000	0.037	0.440	1.271	2.940

Back

Mapping Transfer Categories to Use of Proceeds

Federal transfer category	*Bond use-of-proceeds purposes (Mergent codes)*
General support	Government/public buildings (GVPB); courts (CFCT); correctional facilities (CORR); fire station/equipment (FISE); police station/equipment (POLE); civic/convention centers (CIVC); libraries/museums (LIMU); general-purpose public improvement (GPPI); pension funding (PFR); veterans (VETS); other public service (OPUB); public power (ELEC); gas (GAS); telephone (TELE); other/multiple utilities (OUTI, CUTI)
Education	Primary/secondary (PSED); higher (HIED); other education (OTED); student loans (STLN)
Health and hospitals	Hospitals (HOSP); hospital equipment (HOEQ); nursing homes (NURS); other healthcare (OHCA); retirement centers (RETR)
Highways	Toll road and highway (TOLL); bridges (BRDG); tunnels (TUNN)
Air transportation	Airports (AIR); airlines (AIL)
Mass transit	Mass/rapid transit (MASS); seaports (SEAP); other transportation (OTRN)
Sewerage	Sanitation (SANI)
Natural resources	Water and sewer (WTR); flood control (FLOD); pollution control (POLL); irrigation (IRRG); solid waste (WAST); agriculture (AGRI); parks/zoos/beaches (PARK); other recreation (OREC); stadiums (SPOR); theaters (THTR)
Housing and community development	Multi-/single-family housing (MFHG, SFHG, SMHG); new public housing (NPHG); CMO-backed (CMOH); other housing (OTHS); redevelopment (REDV); land preservation (PRES); economic/industrial development (EDEV, IDEV, ONDV); malls (MALL); office buildings (OFFB); parking (PKG)
Public welfare; Empl. security; Gen. rev. sharing	— (fund current transfers, not capital projects; no bond counterpart)

Back

Federal Programs and Statutes by Census Category

Census category	*Representative federal program — governing statute — allocation basis*
Public welfare	**Medicaid** — Title XIX, Social Security Act (1965) — open-ended federal match (FMAP) set by state per-capita income, statutory 50–83% bounds; **TANF** cash-assistance block grant (PRWORA, 1996).
Education	**Title I-A**, Elementary & Secondary Education Act (1965; ESSA, 2015) — formula grants to school districts by counts of low-income children; **IDEA Part B** special-education grants (85% child population, 15% poverty).
Health/Hospitals	**Maternal & Child Health Block Grant** — Title V, Social Security Act — allotted by state share of low-income children (≈$4 federal per $3 state). Medicaid/CHIP fall under *Public welfare*.
Highways	**Federal-Aid Highway Program** — Title 23 U.S.C. (IIJA, 2021) — apportioned from the Highway Trust Fund (motor-fuel taxes) on historical state shares; 80–90% federal share.
Housing/Community dev.	**Community Development Block Grant** — Title I, Housing & Community Development Act (1974) — dual need formula (greater of population/poverty/overcrowding vs. poverty/pre-1940 housing/growth lag).
Transit	**Urbanized Area Formula Grants** (FTA §5307) — 49 U.S.C. ch. 53 — population, density and transit ridership; drawn from the Mass Transit Account; 80% capital / 50% operating.
Sewerage	**Clean Water State Revolving Fund** — Title VI, Clean Water Act (1987) — EPA capitalization grants by fixed statutory state shares (20% state match) that seed local wastewater loans.
Natural resources	**Wildlife & Sport Fish Restoration** (Pittman-Robertson, 1937; Dingell-Johnson, 1950) — firearm/fishing excise taxes to state agencies by land area and licence-holders; 75% federal share.
Air transport	**Airport Improvement Program** (FAA) — 49 U.S.C. ch. 471 — from the Airport & Airway Trust Fund (aviation taxes); passenger entitlements by enplanements; 75–90% federal share.
Employment security	**Unemployment-insurance administration** — Title III, Social Security Act, funded by the federal unemployment tax (FUTA); plus **Wagner-Peyser** employment-service grants.
General support	**Unrestricted aid** spendable on any purpose — the only category not earmarked to a function or bound by a statutory formula. **General Revenue Sharing** (1972–1986); **Payments in Lieu of Taxes** (31 U.S.C. §§6901–6907).

Notes: Illustrative, not exhaustive; sources: authorizing statutes, U.S. Code, CRS.

Back

GO Yields by Use of Proceeds

	Yield
Misaligned (gen. support, ref.)	0.191*** (0.054)
Misaligned × Education	−0.033 (0.036)
Misaligned × Health/Hosp.	−0.393*** (0.045)
Misaligned × Highways	0.103 (0.097)
Misaligned × Air transport	−0.023 (0.071)
Misaligned × Transit	−0.148** (0.065)
Misaligned × Sewerage	−2.546*** (0.123)
Misaligned × Natural res.	0.020 (0.054)
Misaligned × Housing/Com.	−0.284** (0.142)
Observations	120,248
Issuer FE, Month-year FE	Yes

Notes: Pooled interaction of misalignment with the bond's use-of-proceeds category; general-support bonds are the omitted reference. Bonds tied to the category that loses federal funding are the ones that reprice. SE clustered by state×year. Back

Liquidity Placebo

	$\log(1+Trades)$ *(no filter)* (1)	$\log(1+Trades)$ (>5) (2)	$\log(1+Amihud_y)$ (3)	*Yield disp. (bp)* (4)
Misaligned	0.052	0.186	0.030	−1.202*
	(0.061)	(0.145)	(0.175)	(0.644)
Observations	24,576	9,538	8,937	23,545
Issuer FE	Yes	Yes	Yes	Yes
Month-year FE	Yes	Yes	Yes	Yes

- Bond-level liquidity outcomes on the GO close sample: trades per bond with and without the >5-trade filter, a yield-based Amihud illiquidity measure, and within-bond yield dispersion in basis points.
- Each column includes the margin of victory, the governor's party, and election-year per-capita GDP and own-source revenue; SE clustered by state$\times$year.
- Amihud measure: the average absolute yield change between successive trades of the same bond, per million dollars of par traded, in logs. A higher value means a larger price impact per dollar traded, that is, a less liquid bond.

Back

USAspending Federal Spending

	Total (1)	*Contracts* (2)	*Grants* (3)	*Direct pay* (4)	*Loans* (5)	*Other* (6)
Misaligned	0.145	−0.037	−0.264***	0.022	−0.722***	0.404*
	(0.089)	(0.069)	(0.087)	(0.017)	(0.161)	(0.221)
Observations	2,908	2,860	2,846	2,908	2,566	2,906
County FE, Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Independent data source: federal spending by place of performance (logs per capita). The reductions are concentrated in the discretionary award types (**grants** and **loans**), consistent with the transfer channel. SE clustered by state×year. Back

Expenditure Decomposition

	Total	*IG*	*Direct*	*Current*	*Cur. oper.*	*Interest*	*Salaries*	*General*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Misaligned	-0.070^{**}	0.099	-0.077^{**}	-0.064^{**}	-0.087^{**}	-0.191^{*}	0.234	-0.063^{**}
	(0.029)	(0.390)	(0.029)	(0.028)	(0.034)	(0.106)	(0.505)	(0.025)

Notes: Log per-capita expenditure components on the pooled balance-sheet panel ($N = 2{,}889$ per column; jurisdiction and government-type×year FE). Budgets contract as federal support recedes: total, direct, current, and general expenditure all fall. SE clustered by state×year. Back

Revenue-Bond Replications

	Yield
Panel A: use of proceeds (pooled interaction, gen. support reference)	
Misaligned (gen. support, ref.)	−0.030 (0.095)
Misaligned × Education	−0.012 (0.125)
Misaligned × Health/Hosp.	0.225 (0.167)
Misaligned × Highways	0.094 (0.107)
Misaligned × Air transport	−0.015 (0.104)
Misaligned × Transit	0.118 (0.121)
Misaligned × Sewerage	0.310** (0.121)
Misaligned × Natural res.	0.005 (0.068)
Misaligned × Housing/Com.	0.015 (0.108)
Panel B: federal-transfer exposure (median split)	
Misaligned (below median)	0.042 (0.073)
Misaligned × Above-median	0.058 (0.064)
Above-median	−0.088 (0.080)
Issuer FE, Month-year FE	Yes

Notes: Revenue-bond counterparts: **no** analogous pattern. Back: Categories Back: Exposure

2SLS Specification

First stage:

$$\text{yield}_{ict} = \pi \left(\text{Exposure}_c \times \text{Post}_t\right) + \mathbf{X}'_{ict}\boldsymbol{\gamma} + \alpha_c + \lambda_{st} + u_{ict}$$

Second stage:

$$y_{ct} = \beta \widehat{\text{yield}}_{ict} + \mathbf{X}'_{ict}\boldsymbol{\delta} + \alpha_c + \lambda_{st} + e_{ict}$$

- Bond issue i, county c, state s, issuance month t; sample: tax-exempt GO bonds with a primary-market yield, 2006–2012.
- y_{ct}: log county personal income (total, per capita) or log employment (total, private, public).
- $\mathbf{X}_{ict}$: use of proceeds, log offering amount, maturity, log population for the level outcomes.
- α_c: county FE; λ_{st}: state-year FE; SE clustered by county.

Back

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