Campaign Finances: An Introductory Essay

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In 1903 Lenin along with Julius Martov founded the newspaper Iskra, which was later to become Pravda. At the time, Lenin was a ferocious advocate of a free press and free political discourse. After coming to power we find Lenin addressing a Moscow crowd in 1920 with the words "Why should any man be allowed to buy a printing press and disseminate pernicious opinions calculated to embarrass the government?" Lenin is not alone in the frenzied attention he paid to controlling speech. In 1971 and 1974 the US Congress passed limits on campaign spending by candidates to the House and Senate and outlawed spending by private citizens wishing to express their private views during elections. In its 1976 Buckley v. Valeo ruling the Supreme Court ruled that campaign spending limits violated the First Amendment's protection of free speech, but ever since some congressmen and senators, and activist groups such as Common Cause, have sought to amend the constitution to limit campaign spending and replace private funding of elections by state funding.

The huge attention campaign finances have won from the media and politicians is due to the fear that money can buy elections and that money can buy political favours. Research on campaign spending and contributions has as a result focused on the effect of spending on votes, and on asking what determines how much money a candidate has to spend.

Effect of Campaign Spending on Votes

As in almost any field of social and physical sciences, empirical work precedes theory. The question on the lips of early researchers was how to estimate the effect of campaign spending on political success. The natural approach was to run a regression of campaign of voteshare on spending and other control variables such as whether a candidate was an incumbent or a challenger on the candidate's share of votes in an election. The first to exploit datasets on campaign spending made available by campaign spending laws was Kristian Palda (1973) who used simple OLS to show that for Quebec provincial elections campaign spending was more powerful at the margin for challengers than for incumbents

and that incumbents seem to start their races with a committed bloc of voters. Using US House of Representatives data from the 1974 elections Gary Jacobson (1978) found the seemingly extreme result that incumbent spending had almost no effect at all at the margin. This result has provoked disbelief among political scientists, but it is not a mystery if we take it that incumbents have low to zero marginal costs of raising extra dollars, as Coates (1998) has pointed out. In such a case they will spend money until the marginal return, as measured by votes, falls to zero.

A string of papers throughout the 1980's from different countries (summarized in Palda 2000) seemed to confirm the Jacobson findings. These papers are cross-sectional, focus mainly on district level data and are almost completely divorced from time-series regressions that seek to explain votes by cycles in government spending (such as those in the tradition of Kramer 1971). These findings became the most investigated and contested "stylized facts" about campaign spending. At issue were the claims of politicians that campaign spending limits were in the public interest and the doubts raised by public choice scholars that these limits served as artificial barriers to entry in the political market. As Abrams and Settle (1978) write

> Rational, self-interested individuals, groups, or industries seek regulation as a means of serving their own private interests… When regulation has the potential for directly affecting the legislators themselves (e.g. political campaign regulations), the economic approach [to regulation] suggests that the regulation would be designed to serve the legislators' interest rather than some vaguely defined 'public interest'.

Jacobson and others (Palda and Palda 1985) wove a story to explain why, if true, these results could help understand incumbents' universal eagerness to pass a spending limit. An incumbent during his or her tenure in office uses the government frank and paid research and support staff to run a continuous election campaign. Come election time the incumbent may have exhausted the potential of money to enlighten voters on his or her performance and policy views. Challengers are usually less well known, and a long

tradition of empirical studies summarized in Jacobson (1990) suggests that challenger spending at the margin is more potent than incumbent spending in getting votes. The reason is that voters, even though they may not wish to elect the challenger, demand to know their alternatives to the incumbent, and may give some support to the challenger, provided the challenger is not too unacceptable, in order to discipline the incumbent. A spending limit thus may not harm the incumbent, but may prevent the challenger from dispelling basic doubts in voter minds about his or her integrity and policy positions.

The lack of any study that could tie the political profits from campaign spending limits to how legislators vote on those limits does not allow public choice scholars to make conclusive pronouncements on the motives for such limits. We must depend on an unproved model to mediate between data on marginal productivity of spending and conclusions about candidate motives for passing spending limits. In this tradition Bender (1988) showed that candidates who voted for the 1974 spending limits in Congress were also those with the lowest marginal products of campaign spending. In countries that impose spending limits it is hard to find any sudden rise in the votes of incumbents. The problem with this conclusion, as I explained in Palda (1996), is that spending limits may give incumbents a potential advantage in votes which they choose to "spend" by giving favours to special interest groups. They will give such favours until their voteshares fall back to where they were before the limits. In other words, spending limits may influence policy more than they influence votes. Palda's theory suggests that spending limits will have an effect on policy. In what is perhaps the first empirical study that seeks to find how spending limits influence policy Crain et al. (1990) concluded that US states which have spending limits in state elections are more likely to pass regulations (off budget spending) than are states without spending limits. These latter states are likelier than spending limit states to have higher on-budget spending.

The dispute over whether incumbent or challenger marginal products are greater and whether money has any effect on electoral outcomes has put money into the pockets of some scholars preoccupied with this question. Dozens of court cases challenging or seeking to enforce spending limits have called on these scholars as experts. There is

perhaps no area of public choice which feels a greater demand for its expert services than the campaign spending area. What guarantees employment for the experts is that few can agree on what is the effect of spending on votes. As early as the 1970's researchers felt that OLS was not an appropriate way of estimate vote production functions. Money may get votes, but anticipated votes get money from contributors. Research on the simultaneity between campaign spending and votes has gone through two phases. The first phase, launched by Palda (1975) and carries on by the work of Jacobson (1980, 1985, 1990) and Green and Krasno (1988) has sought different instruments for campaign spending that would allow identification of the voters equation. Depending on the use of instrument one could find, as Jacobson has that challenger spending is roughly twice as powerful at the margin as incumbent spending. Green and Krasno (1988) used past expenditures as an instrument for current expenditures and found that in general incumbent and challenger spending have equal marginal productivity. The second phase of research as exemplified by Levitt (1994) and Milyo (1998) warns that instrumental variables used in the first-phase studies of simultaneity are likely to be correlated with omitted variables and provide what is perhaps the best critique of empirical work in the field to date. The omission of forces correlated with instrumented variable may exaggerate the importance of those variables.

The magnitude of campaign spending may not be the only factor that influences votes. The diversity and concentration of the campaign contributions that give rise to campaign spending may also influence votes. Theoretical support for this idea goes back to Madison and Montesquieu, but has more recently been elaborated by Potters et al. (1997) and Dharmapalla and Palda (2002). Palda and Palda (1998) found that in French parliamentary elections candidates who relied on their own funds to finance their campaigns tended to receive fewer votes. Dharmapalla and Palda found that the greater was the concentration of contributions to challengers or open seat candidates in US House elections, the fewer votes those candidates tended to receive. The significance of this research is that it contradicts the 1976 US Supreme Court Buckley v. Valeo ruling that contributions are not a form of speech and therefore may be limited by law.

The Sources of Spending

Campaign spending is not possible without a contributor. In the US, private contributors dominate government contributions to campaigns. A booming branch of public choice is to show the link between contributions to candidates and the types of votes they make in Congress. US data is perhaps the most suited to finding whether contributions buy political favours. In most European countries (Gunlicks 1993) governments subsidies dominate elections. In those countries where private contributions are tolerated, party discipline prevails and it is difficult to hold that the individual representative has much say of his own in the legislature. In the US Congress, representatives have great independence from their party and it is reasonable to seek a link between how they vote on legislation and the contributions they receive.

In a study representative of many in the field, Snyder (1990) has found that an interest group has to give money over many years before it can influence policy. The meaning though of this influence is not clear. If environmentalists support a candidate through several elections in return for his support in the legislature, does this mean the candidate has been corrupted? Or has he perhaps been won over by the arguments and the persistence of the lobby group? No one can really answer this question with authority. As David Adamany writes, "much less attention is given money to as a form of functional representation than to the very infrequent instances in which campaign gifts are made for the purpose of procuring action by public officials which would not have been forthcoming in the absence of contributions." Public Choice scholars have perhaps focused too much on the potentially harmful effects of campaign finances and the manner in which government regulations can restrain these harmful effects.

Studies that try to relate roll-call voting to contributions by particular groups have recently been joined by more macro studies such as those of Palda (1992) and later of Lott (2000). Both using statewide data sought to tie the size of campaign spending to the size of government. The idea behind these researches is that a large government is a prize over which interest groups will fight. Part of the resources spent in this fight are

campaign advertising dollars. These studies suggest that campaign spending grows with the size of government.

The Value of Campaign Spending

Not all research into campaign spending is concerned purely with the links between spending and voters. A less well known branch of research into campaign spending has sought to determine whether campaign spending is simply rent-seeking expense or whether it contributes to educated debate on issues of public interest. Complicated theoretical models exist to support either position. Campaign spending may be harmful if politicians can consistently mislead voters, and if one believes that election campaigns are battles over a fixed pie of government resources rather than debates from which useful suggestions and ideas emerge for reforming government. In summarizing a large literature of laboratory studies and surveys, Crête (1991) concluded that

1. Election advertising increases voters' knowledge of issues and candidates.
2. Message repetition (frequency) is an important factor in familiarizing voters with candidates and issues.
3. There is a connection between the issues candidates propose in their advertising and the issues the electorate cares about.
4. Candidates who take a position on the issues in their advertising rate higher with the electorate than those who do not.

Coleman and Manna (2000) round out Crête's summary in their study of 1994 and 1996 House elections. Using survey data they find that "Campaign spending increases knowledge of and affect toward candidates, improves the public's ability to place candidates on ideology and issue scales, and encourages certainty about those placements…Spending neither enhances nor erodes trust and efficacy in politics or attention and interest in campaigns."

If public choice scholars with to conclusively pronounce themselves on the need for regulation of campaign finances they should understand that by closing one avenue to

power such regulations will force electoral contestants to shift their efforts at influencing government to other avenues, such as back-room lobbying. The advantage may then go to those who are good at back-room lobbying rather than to those who are good at making a case directly to the public. This shift in regulated funds to less regulated uses is what Issacharoff and Karlan (1999) have called a "hydraulic effect" which could exacerbate the pathologies it was intended to correct.

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