# The Effects of Campaign Contribution Sources on the Congressional Elections of 1996

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*Abstract*

The debate over campaign-finance reform includes how different sources of campaign contributions affect the outcomes of political campaigns. Using data from the Congressional races of 1996, I find that PAC contributions had a larger effect on the percentage of votes received and campaign outcomes relative to individual and political party contributions. Incumbency advantage is negated after accounting for contributions to all candidates in a political race.

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Two critical questions arise in the debate over campaign finance reform: Do campaign contributions have an effect on the outcome of general elections? and do campaign contributions affect the behavior of candidates who win elections? These two questions are related to each other, but the question of how contributions affect election outcomes must necessarily be answered first. This paper investigates how campaign contributions from various sources affected the outcomes of the Congressional elections of 1996.

Previous studies have investigated the effect of total campaign spending, or advertising expenditures, on votes received by a candidate and the chances of winning a given election (e.g., Lott and Warner (1975), and Chappell (1994)) and find that spending has a positive and statistically significant effect on the percentage of votes received and the chances of winning a race. However, no study to date has investigated how various types of campaign contributions affect elections. As the sources of funding are at the center of the public debate on reforms, knowledge of how they affect campaigns is paramount to any potential reform. To this end, I use the sources of campaign *contributions* to help explain the percentage of votes received and the chance of winning House and Senate races in 1996.

Here, campaign donations are specifically restricted to one of three possible sources: political party contributions, political action committee (PAC) contributions and individual contributions.[1] The dollar amounts of these sources of donations are, arguably, an important indication of how well a candidate will fare in a general election.

To see why, consider the three sources chosen. Political candidates can raise campaign funds from individuals, legally limited in their contributions to $1000 per candidate, who can legally vote only once for the candidate they support and can only "deliver" a limited number of other votes. Candidates can also raise funds from PAC's, typically single-issue or single-agenda groups with like-minded constituents, which are legally limited to $5000 in contributions to each candidate.[2]

Therefore, PAC's giving financial support to a particular campaign can reasonably be expected to "deliver" a sizable bloc of votes to a particular candidate or issue.[3] In other words, for a given dollar level of contributions one would expect PAC contributions to yield more votes than individual contributions. On the other hand, the remaining source of campaign contributions, political party donations, may signal that a candidate is not successful in fund-raising from other sources of contributions. Thus, the greater the donations from political parties to any one candidate may indicate, *ex ante* an election, that the chances of winning are low.[4] Likewise, the contributions given to the other candidates in a race will affect the success of a candidate. In particular, if votes are measured in percentage points gained, then individual and PAC contributions to other candidates may, in part, offset the gains of contributions made to a candidate.

Thus, it is of interest to test the following two hypotheses. First, do PAC contributions influence political campaigns differently than contributions from other sources? Second, do greater levels of political party contributions signal that a candidate is going to perform poorly in a general election, both in terms of votes received and winning? To test these hypotheses, I propose the following model

$$\begin{aligned} DEP_i &= \beta_0 + \beta_1 PARTY_i + \beta_2 PACS_i + \beta_3 INDIV_i + \beta_4 OTHPARTY_i + \beta_5 OTHPACS_i + \\ &\quad \beta_6 OTHINDIV_i + \beta_7 REP_i + \beta_8 DEM_i + \beta_9 INC_i + \epsilon_i, \end{aligned} \tag{1}$$

where the $\beta_i$'s are parameters to be estimated and $\epsilon$ is a stochastic error term. The model is estimated using two dependent variables ($DEP_i$): the percentage of votes received in the general election ($\%VOTES$) and the dummy variable ($WIN$) which equals one if the candidate won the general election and zero otherwise. The model using $\%VOTES$ is estimated with ordinary least squares, whereas a logit model is used for specification with $WIN$ as the dependent variable. The independent variables, similar to those in other studies, include political party contributions ($PARTY$), PAC contributions ($PAC$), individual contributions ($INDIV$) given to the candidate, the levels of contributions given to the other candidates competing for the office ($OTHPARTY$,

$OTHPACS$, and $OTHINDIV$), party affiliation dummy variables ($REP$ and $DEM$),[5] and a dummy variable indicating incumbency status ($INC$) which equals one if the candidate is an incumbent. The equation is estimated separately for the 1996 Senate and House races using data from the Federal Election Commission for all 204 Senate and 970 House campaigns in 1996.[6] Descriptive statistics of the data are reported in Table 1 and estimation results are reported in Table 2.

The estimation results from the Senate campaigns support the intuition outlined above. Contributions from PACs and individuals both have a positive and statistically significant effect on the percentage of votes received, however the effect of total individual contributions is one order of magnitude smaller than that of PAC contributions. For example, \$100,000 contributed by PACs yields increase in vote share of 3.4 , whereas a similar increase in individual contributions yields an increase in vote share of 0.383. Meanwhile, party contributions do not affect the percentage of votes received in a statistically significant manner. The sources of contributions to other candidates in a given race have the opposite effect on a candidates percentage of votes received. More PAC and individual contributions to other candidates reduces the percentage of votes received by a candidate, whereas more party contributions to other candidates increases the percentage of votes received. The coefficient on Republican party affiliation is positive and statistically significant indicating that *ceteris paribus* Republican candidates could expect 4.21 percentage points of votes received over non-Republican candidates. Unlike other studies (e.g. Chappell (1994), and Scully (1995)), I find that incumbency in Senatorial races did not afford a candidate a statistically significant advantage over other candidates.

The logit regression of Senate campaign victories yields similar results and accurately predicts the outcome of a specific campaign 95% of the time. The logit results indicate that party contributions had a negative impact on the probability of winning a campaign. Contributions by PAC's and individuals both had a positive and statistically significant effect on the chances of winning, with PAC contributions having the greatest effect. Individual contributions did not affect the outcome of elections in support of the intuition that an individual donor can only "deliver" a limited number

of votes to the candidate. On the other hand, PAC contributions indicate support for a candidate, supposedly by the majority of the individuals in the PAC, and is more likely to deliver a greater bloc of votes to a candidate than an individual contributor and can have a much more dramatic impact on the outcome of elections. Only the individual contributions received by other candidates has a statistically significant impact on the outcome of an election from the purview of a candidate. Neither party affiliation nor incumbency status had a statistically significant effect on the outcome of the 1996 Senatorial campaigns.

The results from House elections offer slightly different results. In these elections, party contributions have a positive and statistically significant effect on the percentage of votes that a candidate receives, perhaps reflecting additional state and local party support. The effect of party contributions was greater than both PAC and individual contributions, while PAC contributions had a greater effect than individual contributions. Campaign contributions to other candidates had the opposite effect on percentage of votes for each donation source and all coefficients on these sources are statistically significant. The coefficients on party affiliations are both positive and statistically significant. However, neither party affiliation yielded the majority required to win a two-party race, *ceteris paribus*.

The logit model of House election outcomes support the model with percentage of votes as the dependent variable and correcty predicts the outcome of a House campaign 94% of the time. The major difference from the model using percentage votes as a dependent variable is that party contributions to a candidate actually reduced the probability of winning a House campaign, whereas party contributions to other candidates increased the chances of winning. This implies that the marginal effect of party contributions is rather high, but that the overall effect (in relation to winning a majority of the votes or not) is not. Contributions from PAC's had a greater positive effect on the chances of winning a House race than individual contributions. Again, each source of contributions made to other candidates had the opposite effect on the outcome of a campaign from the purview of a candidate. The effect of party affiliation on a campaign's outcome is almost identical, estimated at 1.72 (1.77) for Democrat (Republican) candidates. As in the Senate races,

incumbency did not statistically effect the chances of a candidate's success, *ceteris paribus*.

These results show that different sources of campaign donations have different effects on the outcomes of political campaigns and are important from a policy perspective, especially in the context of the current public debate on campaign finance reform. Further, when taking into account the level of contributions given to other candidates in the campaign, the incumbency advantage is negligible. Contributions from PAC's have a greater effect on the percentage of votes received by a candidate and the probability of a candidate winning an election when compared to the levels of individual contributions and party contributions, whereas political party contributions has a negative impact on the chances of winning an election. While a normative argument can be made that there is too much money being contributed to political campaigns, public policy should not necessarily limit the total level of contributions that a candidate can receive. Further the question of how campaign contributions affect the behavior of those candidates who won political office in 1996 is still crucial in the debate over campaign finance reform.

## References

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## Notes

[1]There are additional sources of campaign contributions including personal donations by the candidate and loans made to a campaign. However, the variance in the dollar amounts from these sources are very small relative to the three used here.

[2]These limitations are outlined in the Federal Election Campaign Act of 1971 and amendments thereto.

[3]A notable exception was the American Association of Retired Persons' (AARP) support for the Medicare Catastrophic Coverage Act of 1988 which was fiercely protested by its constituency (Longman (1989)).

[4]Political parties may allocate funds to a very close campaign, however the majority of campaigns are decided by more than several percentage votes.

[5]Previous models include one dummy variable for party affiliation to avoid multicollinearity problems. However, in 1996, 8.9% of all candidates running for Congress were not affiliated with the Republican or Democrat parties.

[6]There were a total of 1448 House campaigns in 1996, however because of missing data only 970 were used.

| Variable | Mean | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|
| %VOTES | 26.359 | 27.300 | 0.000 | 96.000 |
| WIN | 0.286 | 0.452 | 0.000 | 1.000 |
| PARTY | 6123.713 | 23119.361 | 0.000 | 769655.000 |
| PACS | 123990.491 | 211428.060 | 0.000 | 1482176.000 |
| INDIV | 268997.358 | 603677.109 | 0.000 | 7843781.000 |
| OTHPARTY | 24699.261 | 57331.032 | 0.000 | 818675.000 |
| OTHPACS | 408383.134 | 494102.609 | 0.000 | 2936008.000 |
| OTHINDIV | 1083755.333 | 1892812.879 | 0.000 | $1.49640 \times 10^7$ |
| DEM | 0.473 | 0.499 | 0.000 | 1.000 |
| REP | 0.438 | 0.496 | 0.000 | 1.000 |
| INC | 0.250 | 0.433 | 0.000 | 1.000 |

Table 1: Descriptive Statistics for all 1996 Congressional Races.

| | Senate Races | | House Races | |
|---|---|---|---|---|
| Coefficient | $\%VOTES$ | $WIN$ | $\%VOTES$ | $WIN$ |
| Intercept | 12.970* | -1.086 | 31.342* | -1.955* |
| | (4.26) | (-0.46) | (7.68) | (-2.08) |
| PARTY$\times 10^{-6}$ | $-2.207$ | $-6.235^{**}$ | 205.311* | $-35.044^{*}$ |
| | $(-0.03)$ | $(-1.36)$ | (3.03) | $(-3.21)$ |
| PACS$\times 10^{-6}$ | 34.022* | 3.968* | 45.618* | 10.926* |
| | (6.75) | (3.66) | (7.01) | (8.17) |
| INDIV$\times 10^{-6}$ | 3.838* | 1.223* | 10.898* | 5.664* |
| | (3.94) | (3.02) | (1.70) | (6.37) |
| OTHPARTY$\times 10^{-6}$ | 1.764 | 3.246 | $-101.410^{*}$ | 26.037* |
| | (0.29) | (0.30) | $(-2.40)$ | (3.43) |
| OTHPACS$\times 10^{-6}$ | $-3.021^{**}$ | $-0.568$ | $-24.250^{*}$ | $-9.437^{*}$ |
| | (1.60) | $(-0.63)$ | (-5.40) | (-7.87) |
| OTHINDIV$\times 10^{-6}$ | $-1.242^{*}$ | $-1.223^{*}$ | $-16.265^{*}$ | $-3.831^{*}$ |
| | $(-4.13)$ | $(-3.08)$ | $(-4.09)$ | $(-6.65)$ |
| DEM | 0.733 | 0.606 | 7.922* | 1.722* |
| | (0.47) | (0.26) | (2.14) | (1.85) |
| REP | 4.213* | 0.237 | 11.733* | 1.770* |
| | (2.24) | (0.10) | (3.17) | (1.91) |
| INC | 3.120 | -3.275 | 1.388 | -0.730 |
| | (0.90) | (-1.25) | (1.10) | (-0.24) |
| $R^2$ | 0.734 | 0.739 | 0.561 | 0.784 |
| $\bar{R}^2$ | 0.721 | – | 0.556 | – |
| $logL$ | -797.67 | -26.08 | -4127.57 | -190.965 |
| % Predicted | – | 95.09 | – | 93.81 |
| $N$ | 204 | 204 | 970 | 970 |

Table 2: Effects of Contribution Sources on Votes Received and Chances of Winning. Heteroskedastic consistent one-tailed t-Statistics are reported in parentheses. * (**) indicates that the coefficient is significant at the 0.05 (0.10) level.