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## Public Policy Brief Highlights

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### **Campaign Contributions, Policy Decisions, and Election Outcomes: A Study of the Effects of Campaign Finance Reform**

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The goal of most proposed reforms of the campaign finance system is the reduction of legislators' dependence on interest groups. As Levitt (1995) points out, these reforms have three focal issues: limits on candidate spending, limits on contributions, and public funding for campaigns. The effects of these proposals depend critically on the following questions: How effective is campaign money spent by challengers and incumbents in deciding elections? And do campaign contributions influence legislators' activities in office?

While the literature on each of these questions is extensive, clear answers have not yet emerged, and indeed, the results to date have left something of a puzzle. Many papers, such as Jacobsen (1978, 1985), Welch (1981), and Abramowitz (1988), find that contributions to incumbents have little effect on the outcome of the election. The influence of contributions on legislators' voting behavior is often found to be minimal as well, particularly on issues that are ideological (Potters and Sloof, 1996; Bronars and Lott, 1997).

Despite these conclusions, political action committees (PACs) have steadily raised their contributions to House and Senate incumbents in the past 15 years while the real value of their contributions to challengers and open-seat candidates has fallen. If contributions only affect elections when given to challengers or open-seat candidates and do not affect incumbents' policy actions or election outcomes, as much of the traditional literature has argued, this behavior is puzzling.

Empirical evidence is presented here of the ways in which campaign contributions and expenditures affect candidates' policy choices and election outcomes, and the implications of the results for campaign finance reform proposals are discussed. In studying the link between contributions and policy choices, this research examines five major policy issues: the North American Free Trade Agreement (NAFTA), the Family and Medical Leave Act (FMLA), a ban on partial-birth abortions, cuts in the B-2 bomber program, and gun control. The results support previous researchers' conclusions that contributions affect policy decisions only for a limited set of issues—primarily those in which the costs or benefits are concentrated on an interest group and the issue is less publicly visible (Potters and Sloof, 1996). The empirical results also suggest that campaign expenditures by incumbents do not have large effects on election outcomes. One explanation for interest group behavior that is consistent with the evidence is that PAC money to incumbents buys unobservable services, such as rewriting of legislation and rallying support or opposition to bills among other representatives. The data in this study show that contributions flow more readily to incumbents who, because they are congressional leaders or members of important committees, are able to provide these agenda-development services to the interest group. This conclusion is consistent with results in Hall and Wayman (1990), which find that campaign money encouraged House committee members to expend more time and effort on policy issues that were important to the contributing PACs.

The data used in this research include information on both incumbents' and challengers' policy positions. Most previous research examines the impact of contributions on policy choices made by legislators in office, ignoring the selection issue of including in the data set only candidates who win election. Because the data contain both candidates' policy positions, they allow an investigation of whether interest groups target their contributions to races in which the candidates have opposing policy stances. Such a strategy would be rational if the PAC were attempting to influence the election in favor of the candidate who supports its preferred position.

This research project develops a multiple-equation empirical model to estimate the probability that a candidate wins the election, the contributions candidates receive, and the policy choices they make. The election outcome is assumed to be a function of the personal characteristics of the two candidates and the total campaign contributions that each has available. Since donors give campaign funds to candidates who are more likely to win, and candidates seek more money if they are involved in a close race, contributions are treated as endogenous.

The second stage of the model examines the effect that campaign contributions have on the policy decisions candidates make. Candidates are assumed to adopt policy stances based on personal traits, characteristics of their congressional district, and campaign contributions given by groups who support or oppose each bill. The PAC contributions are endogenous because interest groups want to help elect candidates who are predisposed to support their preferred position.

## Results of the Research

The empirical estimates indicate that contributions received by incumbents do not affect election outcomes. Democratic and Republican incumbents' contributions have statistically and economically insignificant effects on the fraction of the vote received by the Democrat, with the point estimate indicating that \$100,000 of extra spending by a Republican incumbent would lower the Democratic challenger's share of the vote by only 0.06 percentage point.

Unlike contributions to incumbents, campaign contributions received by challengers and open-seat candidates did significantly affect the 1996 House election outcomes. An extra \$100,000 in contributions received by Republican challengers and open-seat candidates lowered the Democrat's vote share by 1.1 and 0.8 percentage points, respectively. The same increase in contributions to Democratic challengers and open-seat candidates raised their vote share by 1 and 0.6 percentage points.

The estimates of candidate policy decisions presented here suggest that interest groups respond to candidates' policy stances on most issues rather than donating funds to influence those stances. Contributions had a statistically significant impact on the position adopted by incumbents in the expected manner for only one out of five policies and never significantly influenced the positions of challengers. For four issues, however, the candidates' policy positions significantly affected the pattern of contributions that they received. Two of the policies, gun control and abortion, might reasonably be considered ideological issues, and thus the result that contributions from interested PACs do not affect voting patterns is consistent with earlier studies' conclusions that ideological PACs reward legislators who support their positions rather than influencing legislators' behavior. Only for a proposal to cut B-2 bomber spending, on which contributions are clearly an investment for the defense industry, did campaign donations influence policy positions rather than respond to them. The B-2 bomber issue may also be reasonably described by the conditions that Morton and Cameron (1992) suggest are favorable for contributions to influence votes: benefits are concentrated on a narrow group, and public visibility is reduced.

Except for the defense industry, these results are generally consistent with the attempt by PACs to influence elections and aid those candidates whose positions are similar to theirs. This strategy makes sense for PAC contributions to challengers, which can have a large impact on the outcome of an election. It also makes sense if a PAC is trying to mobilize efforts on the part of like-minded incumbents, as Hall and Wayman suggest.

The regressions from this research can be used to estimate how large a role campaign money played in shaping the House of Representatives in 1997-1998. The model predicts that if neither incumbents nor challengers had received any campaign funds, the number of challengers who gained seats in the House of Representatives would have fallen from 30 to 7. Thus, despite the large fund-raising advantage that incumbents enjoy, campaign contributions appear to help challengers more than they do incumbents because money received by the former has a large effect on the election outcome while money received by the latter does not.

The research also estimates, at different levels, the impact of forcing all candidates to use only public funding in all House campaigns. The larger the level of public funding provided to each candidate, the greater the number of challengers that can be expected to win election. Providing each candidate with only the average amount of campaign financing received by challengers in 1996 resulted in a predicted decline of 16 challengers winning election. Even providing public funding of \$550,000 to each candidate—almost the average of all general election candidate receipts and more than twice the average receipts for challengers—would increase the number of seats won by challengers by only one. Providing a very high level of public funding for House races (\$1 million per candidate) is estimated to increase the number of challengers winning election by 49.

These simulations suggest that because of the importance of campaign contributions to challengers' election outcomes, public funding of elections would need to be at a relatively high level (about \$500,000 per candidate) in order to maintain even the current level of electoral challenge to incumbents. If the goal were to increase the likelihood of challengers successfully unseating incumbents, then public funding would need to be provided at a very high level.

These results can be stated in a different way by answering the question of how much extra money challengers would need in order to have one more challenger elected to office. If the goal were to raise challenger representation in Congress, what would be the cost of one more seat for challengers? It is estimated that if each of the 364 challengers in the 1996 House election had been given an extra \$18,621, one more challenger would have won election. These extra funds would have cost a total of \$6,778,044. The price of an extra seat for an incumbent Republican in 1996, however, is estimated at \$98,532,000, or \$483,000 each in extra campaign contributions for the 204 Republican incumbents.

The empirical estimates can also be used to observe the predicted effect of a ban on PAC contributions on expected support for each of the five policy issues in the 105th Congress. Table 1 shows the actual contributions made by interest groups that had a

stake in one of the five issues studied and the predicted support and opposition for each of the five bills with and without campaign contributions. The table shows that without any campaign contributions from interest groups, all five bills were expected to have more supporters than opponents in the 105th Congress. With the campaign contributions, however, NAFTA, cuts in B-2 bomber spending, and gun control were expected to have more opponents than supporters.

Thus, for three of the policy issues examined (NAFTA, B-2 bomber spending cuts, and gun control), PAC contributions were decisive in turning a bill's expected support by a House of Representatives majority into a bill's predicted defeat. These results suggest that PACs can have a large impact on the types of policies that emerge from Congress.

<b>Table 1</b>					
<b>A. Contributions and Expected Support for Five Bills in the 105<sup>th</sup> House of Representatives</b>					
	NAFTA	Family Leave Act	Abortion	B-2 Bombers	Brady Bill
Total contributions in support	\$48,125,528	\$37,610,881	\$1,034,617	\$48,876	\$37,177
Total contributions in opposition	\$38,130,687	\$47,944,878	\$582,060	\$2,190,068	\$2,458,769
<b>B. Predicted Outcomes without Campaign Contributions</b>					
Predicted supporters	215	218	254	227	220
Predicted opponents	199	193	157	174	181
<b>C. Predicted Outcomes with Campaign Contributions</b>					
Predicted supporters	203	235	250	186	198
Predicted opponents	211	176	161	215	203

## Conclusion

Contributions received by challengers and open-seat candidates appear to have a much larger effect on election outcomes than do contributions received by incumbents. The policy implication of this result is that any attempt to limit spending during election campaigns to some specified amount of public funding would likely favor incumbents and hurt challengers, unless the spending limit were set at a very high level—more than \$500,000 per candidate, in order to maintain the current expected number of challengers winning election.

The empirical results here do not explain why PACs give the predominant share of their money to incumbents rather than challengers, when contributions to challengers have a larger impact on elections and on policy decisions for all five of the policy issues examined here, while contributions to incumbents have a negligible impact on election outcomes and on policy decisions for all of the five issues except defense spending. PACs continue to give to incumbents, even though their money does not influence either policy choices or election outcomes, possibly to buy unobservable services that benefit the interest group. Evidence consistent with that hypothesis is that business groups gave more money to members of the Ways and Means and Commerce Committees, labor groups targeted contributions to members of the Education and Labor Committee, and defense PACs heavily supported members of the National Security Committee.

Since most PAC support goes to incumbents, campaign funding reform that eliminated PAC contributions without replacing them with public funds would have little impact on election outcomes. Such a reform might have important effects on the policies emerging from Congress, however. The simulations in the paper indicate that without PAC contributions, a majority in the House would have supported NAFTA, cuts in defense spending, and gun control. After receiving PAC contributions, however, a majority of representatives were expected to oppose all three of these bills. Thus, PAC money appeared to be decisive on these issues.

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