Private Interests Financing Public Elections

Transforming Economic Battles into Partisan Politics

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Introduction

There are two things that are important in politics. The first is money and I can't remember what the second is. — U.S. Senator Mark Hanna, 1895.

... concern about campaign contributions is greatly exaggerated. Unless businessmen and others are irrationally underinvesting in this area, the amount of influence that can be purchased by this method is small. — Gordon Tullock, 1972

Special interest groups directly contributed more than $400 million to the campaign funds of candidates in the 2010 United States federal elections.[1] This private funding of public elections is not new, nor are worries about its corrosive effects. Since the turn of the 19th century, campaign finance reforms have been driven by concerns that the financing of elections by private interests undermine democratic representation and the formulation of coherent policy. A persistent fear is that interest groups buy preferential treatment and private favors from individual Members of Congress at the public's expense. Private money is believed to speak louder than constituents' preferences. Indeed, popular views suggest that a century of efforts to reform election financing have been in vain, and that money continues to dominate politics in precisely the way that Sen. Mark Hanna observed.

This view is so commonplace that it hardly needs to be repeated. And yet it merits our attention since it runs contrary to leading studies on money and elections. Nearly four decades of systematic research indicates that interest group money has little influence on either elections or the behavior of elected officials.[2] Academic studies overwhelmingly support Gordon Tullock's venerable observation that concern over private money in elections is exaggerated.

This popular money-is-corruption view conflicts with the scholarly money-is-innocuous view. Reconciling the two poses many puzzles. On one hand, if money effectively buys favors, why don't more interest groups form Political Action Committees (PACs), and why do existing ones generally spend less than they are legally allowed? On the other, if money provides little or no benefit to contributors, why do interest groups spend any money at all supporting election campaigns? We thus arrive at a fundamental paradox: the money-is-corruption story suggests that interest groups are irrational for not giving more, while the money-is-innocuous story suggests they are irrational for giving at all. Various aspects of this paradox have long been observed, but our answers are not much better now than they were four decades ago.[3]

This book confronts this paradox, offering a new perspective that yields insights into the strategies used by PACs and what they seek in return. Both those who fear the role of private money in elections and those who dismiss it have missed the bigger picture. By fixating on how money affects the behavior of individual candidates, scholars have overlooked the role of PACs in underwriting the electoral fortunes of party coalitions. Taking the value of party coalitions seriously helps resolve longstanding puzzles in the study of campaign finance.

1.1 A party-centered theory of economic interest groups

This book builds on the simple proposition that PACs discern which party is more likely to advance their policy interests. In my proposed party-centered theory of PACs, a key concern for interest groups is which party holds the majority and, as a result, which types of policies will receive legislative attention or be blocked from legislative consideration. As in traditional studies of PACs, each group is assumed to allocate contributions to maximize expected returns. In contrast to prior studies, it is assumed that the goals of an interest group may not be achievable merely by cultivating relationships with individual politicians. Instead, a group's political fortunes may depend on which party holds the majority of seats in Congress. As a result, a PAC may allocate contributions among its preferred party's coalition of candidates in a manner that maximizes the chance that the party gain majority control in Congress.

At the heart of the partisan battle for majority control of Congress are business and labor PACs. Business and labor groups take opposing sides in support of Republicans and Democrats, respectively, and devote significant resources to funding their candidates in the most hotly contested races. These partisan behaviors have been a reliable feature of American politics, but their scope and importance have been missed.

The proposed partisan theory of PACs differs from traditional studies in the explanation of how and why these interest groups spend money. As such, it offers new insight into where to look for the influence of money in legislative process, and clarifies how interest groups help shape elections.

Campaign finance and legislative action

By considering a different mechanism by which interest groups seek benefits through politics, the party-centered theory expands the scope of issues at stake when private interests fund public elections.

The question at the core of traditional studies of campaign finance is whether or not individual Members of Congress (MCs) provide private favors to the PACs that support them. The logic whereby candidates are corrupted has not significantly varied, and is nicely summarized by Welch: "as long as the benefits are concentrated and the costs are diffused over many sectors of society, a politician may be willing to modify his actions in exchange for the contribution of an economic interest group" (Welch, 1980, 99). Essentially, the literature has focused on the spot market for favors, wherein individual MCs are assumed to be the major suppliers of economic payoffs and individual PACs are the major demanders.

The economic payoffs at stake are generally considered modest in size and scope because rewards to contributors are traditionally thought to be provided by politicians acting individually.[4] As a result, the attention of this literature has been focused on potential influence in small slices of government activity, such as "settling antitrust actions, and favorable regulations" (Ben-Zion and Eytan, 1974); "relocating an interstate highway" (Tullock, 1972); import quotas (Stigler, 1971; Welch, 1980); and "special tax exemptions, contracts to provide goods or services to government, or help dealing with regulatory agencies" (Snyder, 1990). Chappell (1982) considered how contributions affected votes on various issues, including easing requirements for the "detailed reporting of geographic distribution of mortgage loans," rolling back the "maximum truck weights allowed on interstate highways from 80,000 to 73,289 lb," and requiring "9.5% of America's oil imports to be shipped in U.S. built and operated ships."

In contrast, the proposed party-centered theory of PACs takes a broader view of what is at stake, including legislative actions that may hinge on which party controls the majority in Congress. Following the 1994 elections, the new Republican majority in the House made it a priority to pursue pro-business initiatives, such as passing bills limiting lawsuits by shareholders of publicly traded corporations and limiting product liability.[5] They also reduced tax burdens on businesses by increasing deductions and allowing the accelerated depreciation of business assets.[6] When Democrats regained a majority after the 2006 House election, the legislative agenda favored labor union interests. Most notably, Democrats passed *The Employee Free Choice Act*, which included provisions that made it easier to form a union, created new penalties for businesses that interfere with union organizing campaigns, and mandated binding arbitration for businesses that could not reach collective bargaining solutions.[7] Other bills expanded collective bargaining rights among federal employees and limited the ability of the federal administration to replace union jobs with competitive bids from private contractors.[8] The traditional notion of PACs buying influence with individual MCs does not explain policy shifts of such magnitude.

Campaign finance and electoral competition

Previous research has also focused on how PACs give most of their money to safe and established incumbents (e.g., Welch, 1980; Jacobson, 1985b; Ansolabehere and Snyder, 2000b).[9] PACs are also seen to support individual candidates who are most likely to further the group's policy interests (e.g., Poole and Romer, 1985; Wright, 1985; McCarty and Poole, 1998; Bonica, 2013). The support of incumbents is believed to thwart electoral competition and undermine the responsiveness of elected representatives to their constituents. Furthermore, the ability of interest groups to fund the campaigns of candidates who hew to a group's narrow and idiosyncratic policy interests is seen to undermine collective responsibility among a party's members to formulate a coherent policy agenda (Sorauf, 1980; Herndon, 1982; Wattenberg, 1994; Cox and McCubbins, 2006).

I show that traditional approaches to studying campaign finance overlook key aspects of PAC behavior that, when accounted for, provide a new way of understanding the role of PACs in shaping electoral competition. When cultivating candidates of their preferred party, PACs representing labor and business groups frequently support candidates who might not win, have little institutional power, and are unfriendly to the group's general interests. Also, PACs often underwrite the candidates who face the most competitive races, and are not narrowly ideological when contributing to their preferred party. Indeed, PACs fund the closest races with little bias, aiming to maximize the expected number of seats held by their preferred party.[10]

1.2 Understanding the strategies of interest groups

An initial look at aggregate contributions in Congressional races serves to introduce three key features of PAC contribution strategies and their consequences for election financing. First, labor and business PACs respectively spend substantial money funding the Democratic and Republican party coalitions, and more importantly support they concentrate their resources in support of their preferred party's candidates who face the most competitive races. We shall see how this partisan strategy shapes how the groups allocate resources among candidates within each party. Second, the willingness of these groups to act as proxies for their preferred party's campaign committee has been a long-standing feature of Congressional elections, but has become significantly more widespread and vigorous as the balance of power in Congress has become more closely contested. Third, to a more limited extent, these same PACs also cultivate relationships with candidates of their less preferred party. PACs find value in giving to a select set of these candidates, but generally do so in races where the outcome is not likely to change.

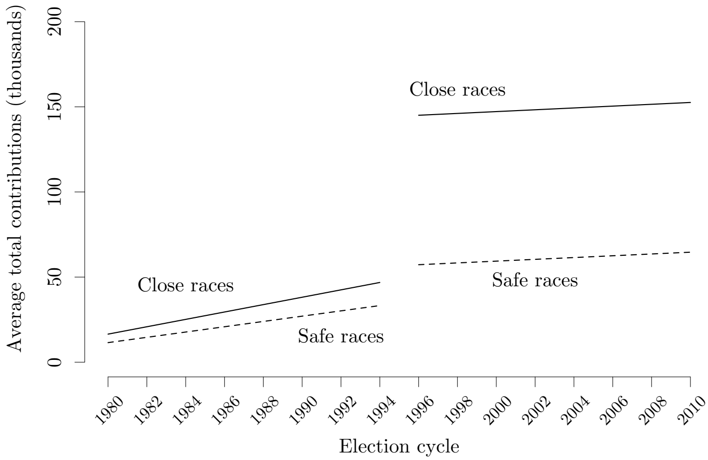
Figure 1.1 summarizes average total PAC contributions to candidates of each party across election cycles.[11] The elections summarized are open seat races, where no incumbent sought reelection, and only include contributions to major party candidates on the general election ballot. The lines depict linear trends of the total contributions to candidates across elections, estimated separately for the periods before and after the 1994 election, as well as by election forecast.[12] Examining this aggregate view of PAC contributions in greater detail yields a number of insights that will be recurring themes in this book.

Dueling partisans: labor and business

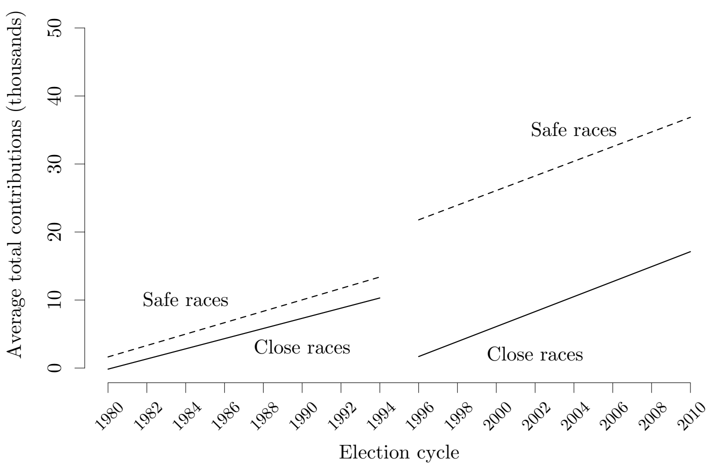
The basic structure of the partisan electoral battles waged by labor and business PACs is illustrated in panels (a) and (b) of Figure 1.1. When funding Republicans, businesses most generously support candidates facing the electorally riskiest elections and spend less on those who are electorally safe. Labor PACs follow a similar strategy in funding Democrats. These patterns contradict predictions from theories wherein PACs buy favors from candidates, but are consistent with a theory of PACs seeking to help a party win more seats.

It is important to note that overall both business and labor PACs fund competitive candidates of their preferred party quite comparably. Despite the greater combined resources of business PACs, labor groups have often approximately matched and sometimes exceeded business spending in close elections by concentrating their resources in the races that have the greatest electoral impact. Indeed, labor has remained a significant source of contributions despite a dramatic decline in union membership rates.[13] These comparable levels of spending offer a counterpoint to the frequent claim that businesses dominate the private financing of elections and politics more generally.[14]

The sums of money that labor and business PACs devote to funding candidates in close races also highlights the importance of these PACs to the electoral welfare of each party. If either labor or business PACs unilaterally stopped

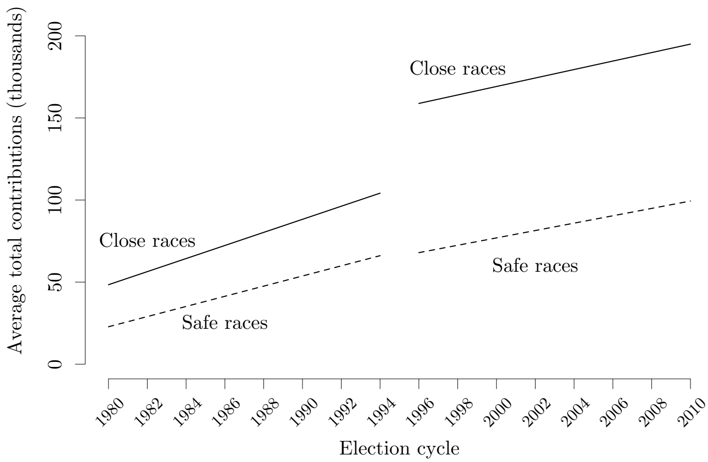


(a) Republican partisan business PACs to Republicans

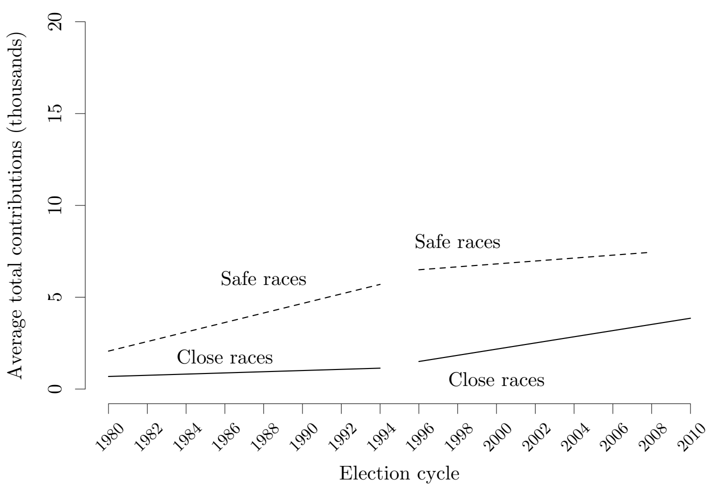


(c) Republican partisan business PACs to Democrats

Figure 1.1 Average total PAC contribution to open seat House candidates of each party, by closeness of race and type of PAC, in thousands of dollars.



(b) Democratic partisan labor PACs to Democrats



(c) Democratic partisan labor PACs to Republicans

Figure 1.1 (Continued)

funding close elections in this generous manner, the resources available to a party's candidates would be substantially diminished.

Multiple goals of partisan PACs

An insight of the proposed partisan theory of PACs is that PACs pursue different goals when giving to candidates of their more and less preferred party, and thus apply different criteria for giving across the two parties. When funding candidates of their less preferred party, they act in a manner consistent with traditional theories of purchasing favors and access from individual politicians, as shown in panels (c) and (d) of Figure 1.1. In these two panels, labor and business PACs concentrate their resources among the safest candidates: where the money is least likely to affect the election outcomes. Throughout this book, I show a variety of ways in which PACs help the coalition of one party as a whole while cultivating more selective relationships with members of the other party.

Strategy selection and national electoral expectations

There are substantial discontinuities in the trend lines summarizing the funding of close races in all panels of Figure 1.1 except (d). These changes reflect a significant increase in partisan behavior among both sets of PACs following the 1994 House elections when Republicans won a majority for the first time in 42 years. This significant increase in partisan behavior is explained by a change in strategy for some PACs and an increased vigor in pursuing partisan preferences for others.

The partisan theory offers insights into how PACs choose among the available political strategies. In particular, the value of pursuing a partisan strategy when funding candidates of their preferred party increases with the expected closeness of the battle for majority control of the House. Examining the discontinuity in national electoral competition that occurred following the 1994 elections is particularly valuable for testing this theory. Prior to 1994, Democrats enjoyed an era of seemingly permanent majority status. They had controlled the House since 1955, and many observers during the 1980s and early 1990s doubted that Republicans could win a majority of seats. The increased competition for majority control after 1994 can be seen by examining how changing the outcomes of close races would change the seat shares of each party.[15] In Figure 1.2, I show the hypothetical bounds on seat shares after each election cycle based on switching the party of the winners in close races, defined as those won by 54 percent or less. The upper dot shows the seat share of Republicans if they had picked up all close races. The lower dot shows the seat share

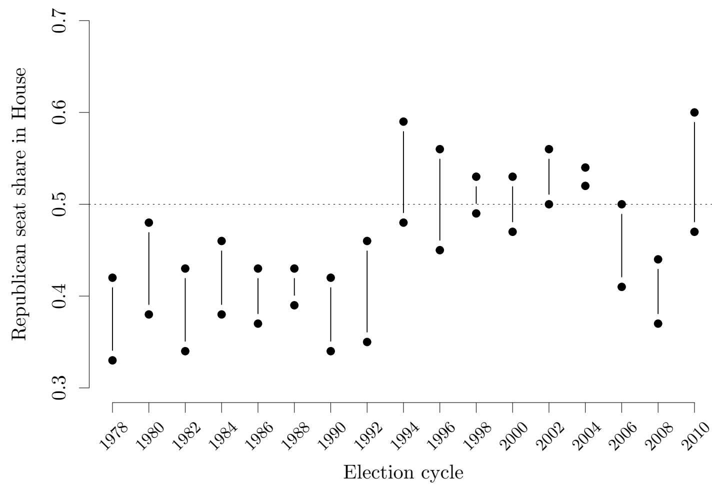


Figure 1.2 Bounds on counterfactual national outcomes for House elections

with Democrats winning all close races. Prior to 1994, these counterfactual swings excluded a Republican majority, while, in contrast, majority control by either party was within the bounds for most elections after 1994.

I take advantage of this discontinuity in national electoral expectations to test predictions of the partisan theory. As the majority becomes more closely contested, the party-centered theory predicts that partisan behavior should increase.

1.3 Lessons and implications

The insights derived from the partisan theory of PACs is a starting place for a new research agenda on the interaction between interest groups and parties, the shaping of legislative agendas, and the rewards given to partisan supporters. While I explore the broader implications of this study at the end of this book, it is useful at the beginning to highlight some of the major issues at stake.

Representation

Understanding how PACs spend their money is intimately related to our judgments about democratic representation, and the ability of voters to hold their elected officials accountable.

The ability of a candidate to wage an effective campaign depends on her ability to raise substantial financial resources. The partisan theory highlights the incentives of PACs to fund candidates facing the closest races rather than throw money at candidates who are already expected to win. In this way, the party-centered theory predicts how interest groups underwrite electoral competition.

The partisan theory also offers a new way of thinking about how the legislative agenda is shaped by money in politics. This party-centered theory suggests researchers look beyond what individual MCs can provide their supporters and consider how the policy priorities of a party's leaders and caucus reward partisan interest group supporters. With business and labor PACs underwriting the elections of their preferred party's coalition, each party has an incentive to ensure the continued political efforts of these groups. The potential rewards range from extra attention from party leaders to the incorporation of a group's interests into the broader policy agenda of the party.

Furthermore, the partisan theory suggests a reconsideration of how voters may limit the influence of money by holding elected representatives accountable for rewards given to financial supporters. In traditional theories of campaign finance, there is little hope that voters can hold MCs accountable for the private favors they sell to interest groups. While few elected officials are expected to contradict the wishes of their constituents on an issue of great interest, this only constrains interest group influence in cases of widely unpopular proposals.[16] A PAC can simply shop around to find MCs whose districts care little about a particular issue.

In contrast, the goals of partisan money are potentially more visible and subject to wider public debate than the back-room deals and narrow payoffs implicit in traditional studies of PACs. Policies that have broad implications for all businesses and workers, such as tort reform, corporate tax levels, the powers of the National Labor Relations Board, and the rules governing union organization, are not hidden within legislation, but rather are often at the center of public policy discussions.

Finding partisan behavior among business and labor groups may lead to mixed feelings among critics of money in politics. On the one hand, the policy stakes fought over by partisan PACs may be much more significant than those considered in classical theories of campaign finance. However because of the scope of these types of policy choices, they are also likely to be subject to greater public scrutiny.

Reconnecting interest groups to the study of politics

The contemporary study of PACs and campaign finance is largely isolated from broader analysis of politics and, most notably, the study of Congress. The main exception has been the wealth of studies which examine the last step in legislative decision making: how PAC contributions to MCs influence roll call votes in plenary sessions. These studies have generally reinforced the idea that campaign contributions do not influence policy formation in Congress.[17]

The rich debates about the operations of Congress point to the broader questions where the study of campaign finance may lend insight, such as how money influences which policies receive consideration in a plenary session. Independent of connections to campaign finance, scholars have extensively examined the internal organization of Congress and who controls the early stages of the legislative process. Major debates in the study of Congress have revolved around the relative importance of parties and the distribution of preferences and supermajoritarian features of policy-making in determining which proposals get to final roll call votes (Rohde, 1991; Aldrich, 1995; Cox and McCubbins, 1993, 2006; Krehbiel, 1998, 1999b, 2000, 2007; Brady and Volden, 1998). How interest groups spend their money speaks to how interest groups believe Congress works. The empirical support of the partisan model of PACs suggests that interest groups believe the majority party wields procedural advantages in setting the legislative agenda.

Studying PACs also offers a unique opportunity to investigate how political participation has changed. In contrast to the short time span and episodic nature of surveys of PAC managers, voters, or politicians, there is a continuous itemized record that now spans nearly four decades of every contribution to candidates, parties, and other political committees. The challenge in making use of this data is in forming a theory of how and why PACs are giving. The partisan theory of PACs is one way of exploring the richness of campaign data, and it is to this investigation that the rest of this book is devoted.

1.4 A road map

This book proceeds in four parts, grouping together different ways of looking at the financing of public elections by private interest groups.

In the remainder of Part I (Chapters 2 and 3), I introduce the main players in this study and examine the classical theories of PAC motives and strategies. In Chapter 2, I consider how much money PACs spend individually and collectively. Most contributions from interest groups are provided by PACs representing economic interests such as businesses and labor unions. Not only are these groups the best funded, but they are also the most reliable source of private money in politics. This book investigates the strategies business and labor groups use when allocating contributions among House candidates.

In Chapter 3, I examine PAC contributions in the 1996 elections through the lens of classical theories of campaign finance. This election serves as a useful case study to introduce the major ideas in the literature on PACs and the gaps in our understanding of how PACs act in practice. These theoretical foundations and empirical observations provide the departure point for the analysis of the partisan theory of PACs.

In Part II (Chapters 4–7), I introduce the partisan theory of PACs by considering a pure version of the model. In order to focus on the trade-off between supporting a party and buying favors, I initially adopt the simplifying assumption that candidates are treated as exchangeable within each party. Specifically, I assume that PACs see no differences in ideology or policy preference among members of each party's coalition, and treat the potential services promised by each candidate as identical. This simplification is not an intrinsic part of the partisan theory, as I later show, but it enables a clear discussion of its core logic.

Chapter 4 examines a simple game that highlights the strategic choices facing opposing PACs if they value having a particular party in the majority. I also discuss the range of benefits that a PAC may gain from having its preferred party in the majority. The potential rewards range in scope from legislative support for policies advocated by the party as a whole to pet projects advanced by individual members. They also vary in the breadth of their beneficiaries, from initiatives that are public goods to narrowly tailored rewards that benefit exclusively a party's supporter.

In Chapter 5, I consider how PACs construct their portfolios of supported candidates by pursuing multiple strategies to obtain dividends through politics and to hedge risks. I show that partisan motives shape both which candidates a PAC supports in individual election cycles and how a PAC may support an elected politician over the course of her Congressional career. Contributions to an incumbent are often provided by PACs who also helped the individual when she was a non-incumbent, underscoring the importance of the analysis of contribution decisions in open seat races.

In Chapter 6, I employ the predictions of the partisan theory, as well as the alternative classical models of PACs, to classify the behavior of PACs based on how they allocate their resources across candidates of each party. I find that most labor and business PACs act in a partisan manner and have been a reliable source of funding for the most contested elections. I also find that partisan behavior among PACs becomes significantly more widespread and vigorous as the balance of power in Congress is more closely contested. In Chapter 7, I provide an alternative test of the partisan theory by generalizing a framework for studying PAC strategies originally proposed by Snyder (1990).

In Part III (Chapters 8–11) I examine the possibility that a PAC has a preference for particular types of candidates within each party, as well as desiring to help the coalition as a whole to win more seats. In Chapter 8 I generalize the partisan theory to accommodate a PACs' preferences for candidates of a particular ideology and institutional position. Incorporating candidate-specific characteristics into how PACs choose to allocate contributions does not change the main theoretical insights or empirical results derived from the pure model of partisan PACs.

In Chapter 9, I reexamine the funding of open seat races using the generalized model and confirm the core findings of the pure model. In Chapter 10, I examine the funding of incumbents and find further asymmetric treatment of the candidates of each party. Beyond the usual predictions of spatial models of PACs, I show that PACs are *stretching for bipartisanship* by applying a different ideological standard to the selection of candidates they support in each party.

In Chapter 11, I consider the role of campaign finance by PACs in the increasing polarization in Congress. Contrary to prior studies, PACs are shown to be far from moderate. I show that the ideological dispositions of economic PACs are at least as extreme as each of the parties and, indeed, often more extreme. As a result, moderates within Congress are in a precarious position. Moderate incumbents derive their support from groups that have stretched for bipartisanship, but would prefer the other party to hold more seats. As such, their support has been tenuous in cases where their elections have become more competitive. PACs may not be the cause of polarization, but they have been complicit in the loss of the middle in American politics.

In Part IV, I consider the broader lessons drawn from the partisan theory of PACs for campaign finance and politics more generally. I consider three open questions in light of the partisan behavior of PACs. First, what is a PAC buying when it gives to candidates? Second, what are the implications of PACs acting as partisans for voters? And finally, how should interest group money be regulated? We will see that these three questions shed light on the more general question of the quality of democratic representation.