Private Interests Financing Public Elections

Transforming Economic Battles into Partisan Politics

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The Puzzle of PACs

Forty years of Democratic majority rule came to an end with the 1994 House elections. Under the new Republican majority, business interests generally fared well, and often at the expense of labor interests.[1] Indeed, the new majority sought to curb the power of the National Labor Relations Board, abolish wage supports for federal contractors, allow employers to offer compensatory time off instead of overtime pay, and weaken the Occupational Safety and Health Administration.[2] Tort reform and reducing business taxes were also on the Republican agenda.[3]

In response, labor unions embarked upon a campaign designed to reinstate a Democratic House majority with the 1996 election.[4] Union organizations collectively spent almost $75 million in the 1996 election cycle, with more than $40 million given directly to Democratic House candidates through union-sponsored PACs. The rest was spent primarily on advertisements that promoted the election of Democrats.[5]

This goal of reinstating a Democratic majority is at odds with traditional theories of PACs that assume that PACs do not have preferences as to which party holds more seats.[6] Indeed, helping a party's coalition is not only at odds with the standard descriptions of the goals of PACs, but also contradicts a common argument that the funding of candidates by PACs has undermined the strength of the parties.[7]

In this chapter, I illustrate the logic of existing theories of campaign financing and the empirical features of contributor behavior missed by these traditional approaches to studying PACs. I show that labor allocated a significant share of their resources in a manner much like the Democratic party, helping to maximize the number of seats won by Democrats in the 1996 election. Moreover, they were not the only set of PACs allocating their resources according to a partisan strategy. While labor underwrote the Democratic coalition in this election, business PACs did the same for Republicans.

In the remainder of this book, I look beyond the 1996 election cycle, and show that the dominance of these partisan strategies among PACs is not exceptional. Labor unions may have spent more money on politics and made their political goals more explicit in the 1996 election, but the general partisan strategy of business and labor PACs is the same one they used in prior elections, and the same they use today.

3.1 Classical models

I begin by reviewing two sets of classical models that have traditionally been used to explain contributor behavior. First, classical models of party campaign committees predict how a contributor may allocate its resources to help a party's coalition of candidates as a whole. A key feature of these party committee models is that the contributor is assumed to give to candidates of only one party, which is not true for most PACs. I will investigate whether these models also help explain how PACs who may give to both parties choose to allocate money among candidates of their preferred party. Specifically, if labor wanted to reinstate a Democratic majority in the House, then their collective strategy for giving should be much the same as the Democratic party committees, such as the Democratic Congressional Campaign Committee (DCCC). As such, models of party committees provide a useful benchmark against which to compare labor's contribution choices when supporting Democrats.

Second, another common class of models applied to PACs assumes that contributors seek to buy promises of favors from individual candidates in exchange for financial support. These investor or quid pro quo models predict a starkly different, non-partisan pattern of contributor behavior from those of the party committee models.

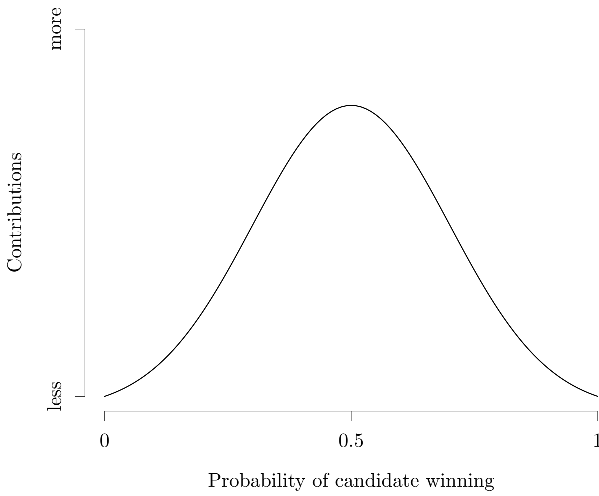
A feature of both of these sets of theoretical models and their empirical tests is that they assume a contributor uses the same single strategy when picking among candidates of both parties. Even in studies where a PAC may choose among multiple strategies or blend multiple strategies (e.g., Levitt, 1998, and Magee, 2007), such studies assume that the same blend of allocation strategies is applied in choosing among candidates of both parties. This is not to say that candidates of both parties are treated equally, but that the same strategy is used in deciding which candidates to support, except possibly for a mean difference in value of candidates of each party. I show that the assumption that candidates of both parties are evaluated by the same criteria has obscured the role of partisan behavior among PACs.

Models of party committees

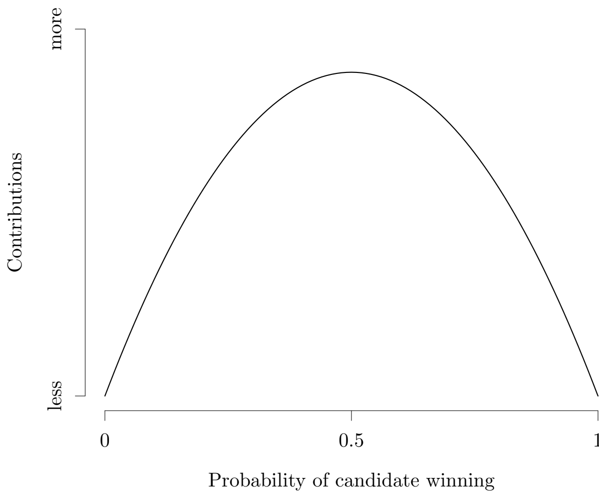
Models of party committees provide predictions for how partisans should spend their money if they want to help a party win more seats in Congress. In pursuit of maximizing the number of elected members, party campaign committees are predicted to concentrate most of their money supporting their own candidates who face the closest elections, and minimize the amount of money wasted on lopsided races (Jacobson, 1985b; Snyder, 1989).[8] In these models, a party shows no preferential treatment among its candidates—each candidate is seen to be of equal potential value—and the only consideration in determining the party's support is the probability of the candidate being elected.[9] Variations on the predicted allocation strategy are illustrated in Figure 3.1. Panel (a) sketches a relationship akin to the hypothetical distribution proposed by Jacobson (1985b), and panel (b) sketches a comparative static from the equilibrium solution to a game between two opposing party committees proposed by Snyder (1989).[10] In addition to the concentration of money in the closest races, a key feature shared by both these variations is the symmetry of contributions around the most competitive races. Party committees are expected to reduce contributions to both those who are expected to win and those who are expected to lose.

Empirical studies have shown that the predictions of these classical models hold for party committees (Jacobson, 1985b; Herrnson, 1989; Ansolabehere and Snyder, 2000b; Glasgow, 2002).[11] Drawing on campaign data from the 1996 election cycle, Figure 3.2 summarizes the behavior of party committees in funding House races. Each panel shows the distribution of total direct contributions and coordinated spending from each party's campaign committees, grouped by the forecasted competitiveness of the recipient's race.[12] The forecasts were made by Congressional Quarterly which places each race into one of seven ordered categories ranging from safe Democrat to safe Republican, with "no clear favorite" as the middle category.[13] Each rectangular box in the Figure depicts the interquartile range of total contributions from party committees received by candidates with a particular election forecast, and the center bar indicates the median amount. The "whiskers" describe the range of the expenditures.

The bulk of party committees' contributions in these races were concentrated among candidates who faced the closest elections, where neither Democrat nor Republican was favored to win. As a party's candidate was considered more likely to win or lose, the candidate received less support from her party's campaign committees. At the extremes, little money was given either to expected winners or expected losers. These patterns of contribution allocations

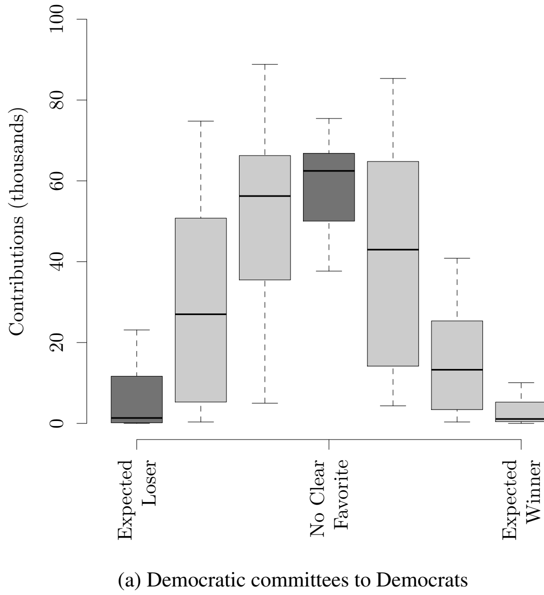


(a) Jacobson (1985)

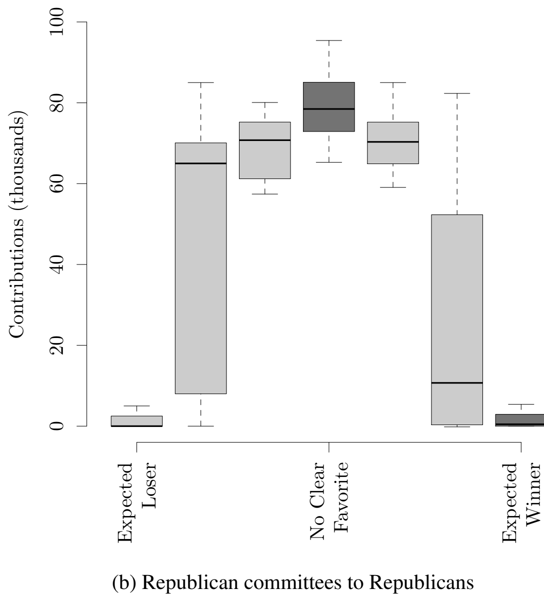


(b) Snyder (1989)

Figure 3.1 Predictions for a party committee allocating resources among candidates



(a) Democratic committees to Democrats



(b) Republican committees to Republicans

Figure 3.2 Distribution of total party committee expenditures in 1996 races, by party and election forecasts

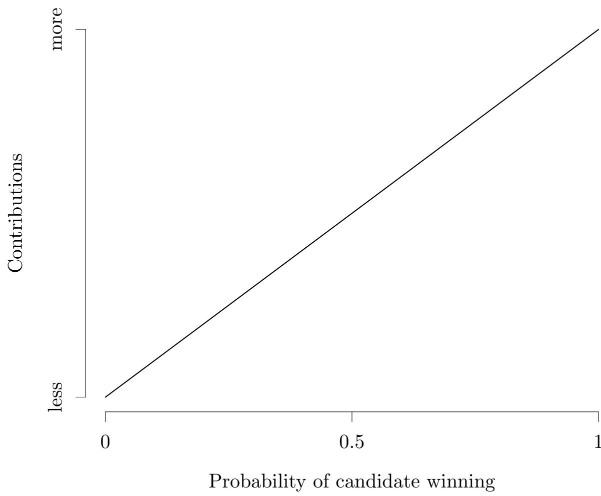
in the 1996 election are consistent with the predictions of the classical theoretical models of parties and prior empirical studies.

Models of PACs as investors and the price of candidates

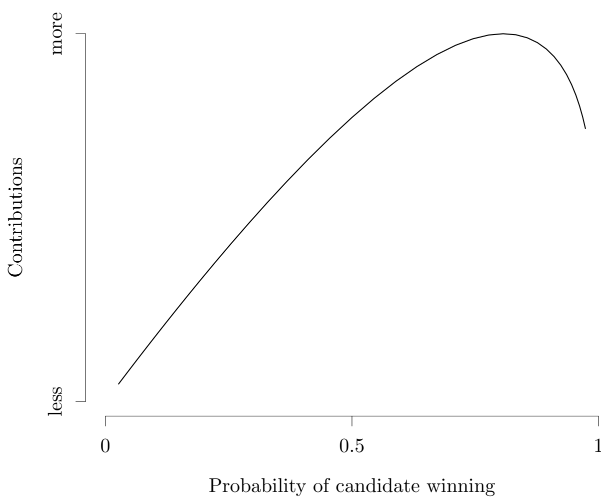
In contrast to the models of party committees seeking to help a party coalition, models of PACs have traditionally focused on the relationship between individual PACs and individual candidates. The most commonly considered explanation for PAC contributions is based on quid pro quo exchanges between candidates and PACs; even a partial list of models using this assumption is extensive.[14] These types of studies assume that individual MCs provide services to the interest groups, and that PACs support those candidates who are most likely to provide future favors in return for contributions. Theories wherein PACs seek to buy favors or to otherwise change a candidate's legislative behavior are referred to as "investor" or "service-induced" theories of PACs.

Since explicit quid pro quo relationships are illegal, it is expected that the influence of contributions on legislative behavior would be subtle and difficult to detect. Scholars have thus formulated models and empirical tests based on how money would be allocated across races if PACs sought private benefits in return for their support of candidates (Welch, 1980; Baron, 1989a; Snyder, 1990; Grier and Munger, 1991).

These investor models of contributor behavior generally predict that PACs will concentrate support among candidates likely to win, rather than among those who are in the closest races. This follows from the theoretical focus on promises of future services, whereby a candidate can provide an ongoing stream of benefits to her supporters only if she is elected. In the simplest form, contributions from an investor PAC will be a monotonic function of the electoral advantage of a candidate if all candidates maximize the amount of money they can raise. In Figure 3.3(a) I illustrate a canonical example of an equilibrium relationship between money spent and the probability of a candidate winning. This model, based on Snyder (1990), assumes contributors supporting each party have the same resources or cost of raising resources and that candidates maximize their contributions.[15] Other variations of the investor behavior model generally make the same prediction: more money will generally go to a candidate who is more likely to win her race (Welch, 1980; Baron, 1989a; Grier and Munger, 1991). For example, in one of Baron's (1989) models, an electorally safe candidate reduces the amount of services she sells and hence the amount of money she receives without significantly harming her probability of election. In this scenario, contributions do not monotonically increase



(a) From Snyder (1990)



(b) From Baron (1989)

Figure 3.3 Predictions for an investor allocating contributions among candidates

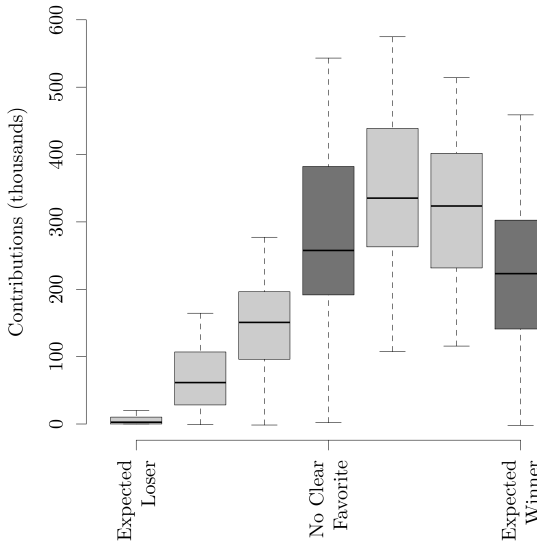


Figure 3.4 Distribution of aggregate contributions from all PACs to 1996 House candidates by election forecast

with electoral advantage, but are nonetheless skewed toward advantaged candidates; Figure 3.3(b) illustrates predictions from this model.

Figure 3.4 summarizes the distribution of total PAC contributions to general election candidates of the major parties was a function of their forecasted election prospects. Electorally safe candidates are found to raise almost as much money from PACs as those candidates in races where neither party is a clear favorite. And slightly more money goes to those who are likely but not expected winners. Empirical patterns of behavior like this have been used as evidence that PACs have different goals than party committees and instead pursue an investor strategy (e.g., Jacobson, 1985b; Ansolabehere and Snyder, 2000b).[16]

Mixing partisan and investor behavior

The traditional assumption that a PAC applies the same basic strategy when choosing how to allocate money among candidates of either party has provided an incomplete picture of the behavior of PACs.[17] By way of a first look at this phenomenon, consider what happens if the contributions from investors and partisans were to be analyzed together, as in the aggregate analysis of Figure 3.4.

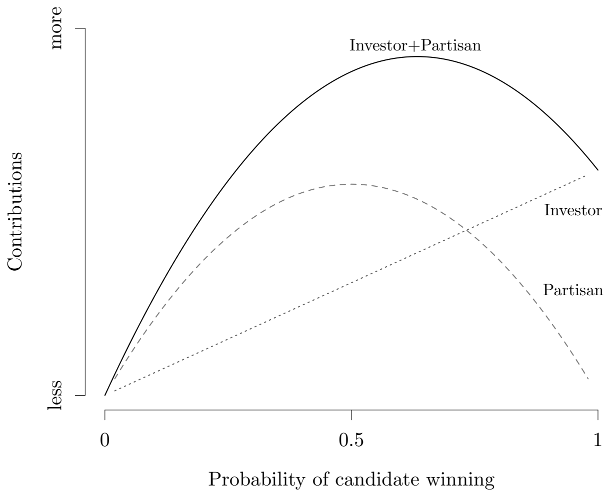
Figure 3.5(a) illustrates the relationship between a candidate's probability of winning and total contributor support from both partisans and investors. The solid curve shows the sum of contributions from the two component dashed lines. If a researcher did not know how to separate contributions into partisan and investor types, and instead only looked at the total contributions, he would likely infer that contributors were overall acting as investors. This follows from the observation that the total contributions (summing partisan and investor money together) are skewed toward likely winners, similar to the comparative static from the Baron (1989) model shown earlier. The total contribution curve is also a fair representation of the pattern of the 1996 PAC contributions shown in Figure 3.4.

A basic lesson of this illustration is that the existence of partisan behavior can be masked obscured in an analysis that combines contributions from both investors and partisans.

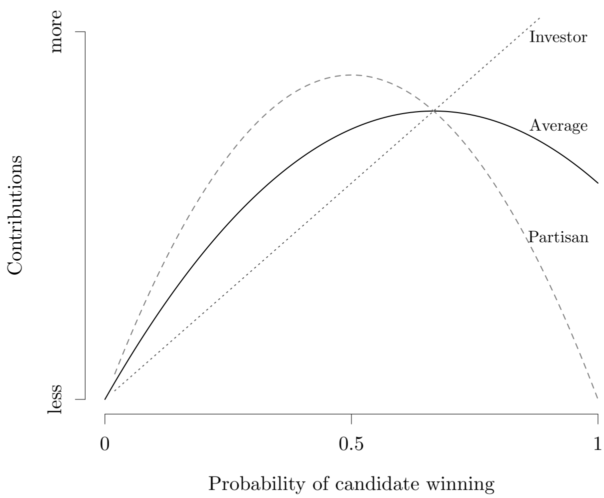
This potential for the masking of partisan behavior is not only a problem in aggregate studies but also in the analysis of individual PACs. If a PAC allocates money among candidates of one party while acting as an investor when giving to candidates of the other party, on average it would also appear that the PAC favors electorally safer candidates. This is illustrated in Figure 3.5(b), where the solid line would be the estimated regression line that summarizes the average support of the PAC as a function of the probability that a candidate wins. As such, a test of the motives of this hypothetical individual PAC would lead to the conclusion that the PAC acts as an investor. It is a common feature of empirical studies of PACs to study the average treatment of candidates of the two parties together.

The usual way that empirical models of PAC behavior allow for differences in the treatment of candidates across parties is to permit the average contribution amount to differ. Beyond a mean difference in contributions, it is assumed that if a PAC acts as an investor when choosing among candidates of one party, the PAC will also act as an investor when choosing among candidates of the other party as well. By its construction, this approach provides no obvious indication to a researcher in cases where a PAC uses different strategies for giving to candidates of each party.[18]

I argue that the assumption that a PAC applies the same basic strategy when choosing how to allocate money among candidates of either party has obscured the variety of behavior PACs practice and made investor behavior appear dominant.



(a) Aggregate Totals



(b) Individual PAC

Figure 3.5 Predictions when mixing contributions from partisans and investors

3.2 Reconsidering PAC spending in the 1996 elections

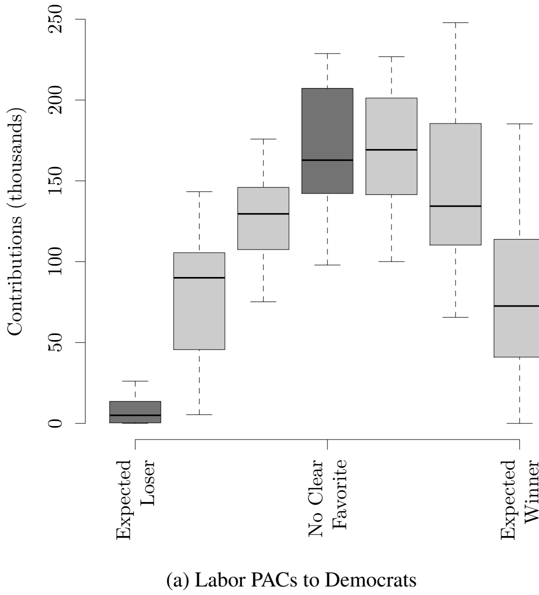
We gain a different view of the behavior of PACs in the 1996 election by separately examining how Labor PACs and business PACs allocate contributions among candidates of each party. Figure 3.6 summarizes contributions from labor and business PACs to candidates of each party. Like Figures 3.2 and 3.4, the distribution of contributions are grouped and summarized by the CQ election forecast for a candidate's race.

Figures 3.6(a) and (b) respectively summarize the distribution of aggregate labor contributions to Democratic and Republican candidates, grouped by electoral prospects. Like the Democratic party committees, labor PACs fund Democratic candidates facing the closest races most generously while allocating less money to their colleagues who were clearly expected to win or lose. In contrast, labor PACs give mainly to expected winners when they give to Republicans. Labor PACs provide relatively little money to Republicans overall, with many Republicans receiving no support from labor PACs; the scale of the vertical axis in panel (b) is 1/10th of panel (a). Nonetheless, the median aggregate amount of contributions given to Republicans has a pattern across electoral forecasts consistent with the theoretical predictions of investor behavior.

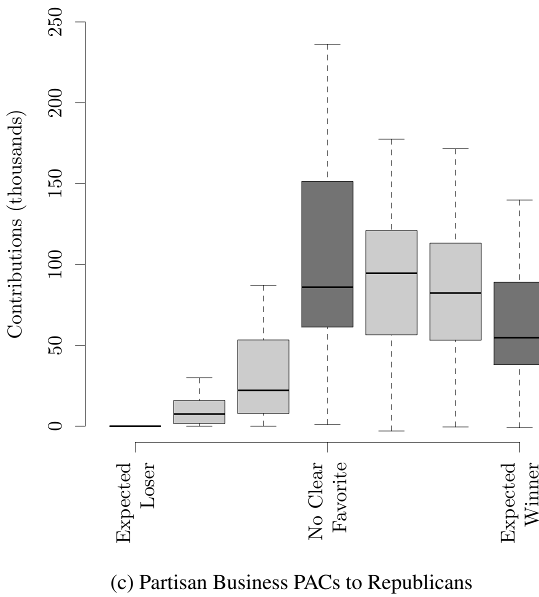
Comparing the amount of money given by labor PACs and by party committees, the value of labor PACs becomes clear. In the closest races, where money is expected to matter most in shaping the election outcome, labor PACs collectively gave over three times more money directly to candidates than the Democratic party committees spent in contributions and coordinated expenditures. In asking which organizations are responsible for the electoral welfare of the Democratic coalition, labor unions deserves significant credit for having the willingness and discipline to fund candidates who have the most uncertain electoral prospects.

Labor was not alone among PACs in their partisan behavior. Some business PACs also pursued a partisan strategy when funding Republicans, mimicking the efforts of the Republican party committees. Figures 3.6(c) and (d) respectively show the distribution of total contributions to Republicans and Democrats from those business PACs I classify as Republican partisans. In Chapter 6, I describe my method of classification of PACs; for now, I simply note that this figure shows contributions from a subset of a business PACs.

These business PACs concentrated the greatest amounts of money in races where there were no clear favorites (the middle category) and where the races leaned toward the Republican (the category immediately the right of center). The drop-off in Republican contributions in races where they were favored

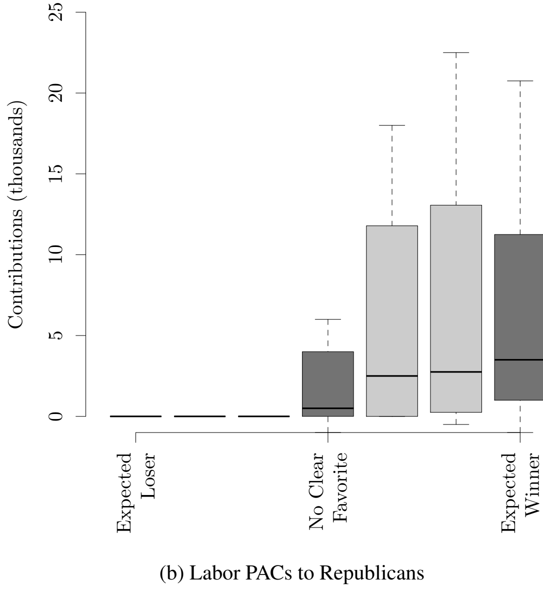


(a) Labor PACs to Democrats

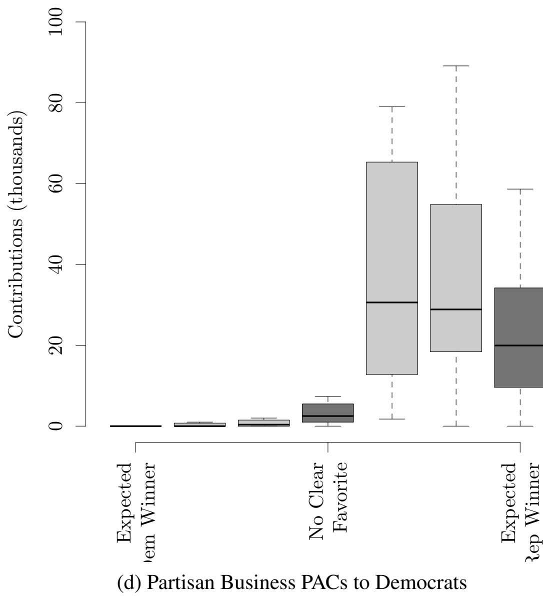


(c) Partisan Business PACs to Republicans

Figure 3.6 Distribution of aggregate labor and business PAC contributions to 1996 House candidates, by party of candidate and election forecasts



(b) Labor PACs to Republicans



(d) Partisan Business PACs to Democrats

Figure 3.6 (Continued)

or likely to win (the two right most categories) was less extreme, with the interquartile regions overlapping with the interquartile region of races with no clear favorite. However, both the mean and median aggregate amounts given to those who were expected winners were less than that of those in races where there was no clear favorite.

Like labor PACs, these business PACs also fund candidates of each party differently. Not only did these PACs give less money to Democrats, they also concentrated the money among those who were likely winners. In Figure 3.6(d) almost no money was given to Democrats who were in the closest races.

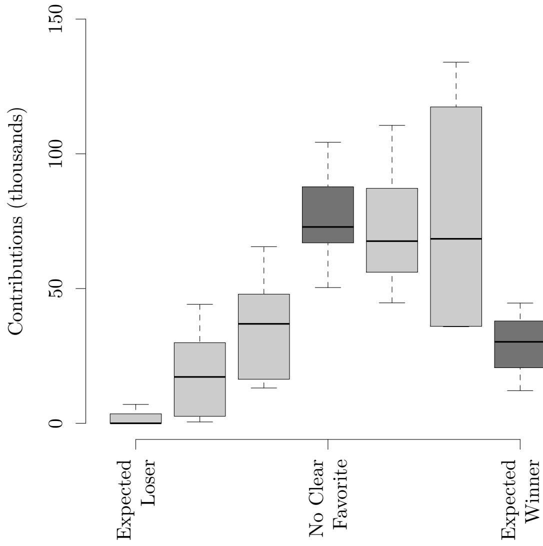
The partisan-like behavior of these business PACs is all the more striking when looking at races where there was no incumbent running for reelection. Figure 3.7 shows the distribution of their contributions for open seat races. Here we see a more distinct drop in support of Republicans who are expected winners relative to those in close races. Similarly, we see a clearer increase in support to Democrats as they increase their likelihood of winning.

Overall, business PACs who act as partisans also provide a greater amount of money to candidates in the closest races than the Republican party committees. The gap is not as large as that between labor PACs and the Democratic party, but nonetheless the role of business PACs is substantial. Business PACs acting as Republican partisans also spent less in close elections than labor PACs. We will later see that business PACs trailed behind labor PACs in funding candidates in the most competitive races despite spending more money overall in elections for much of the 1980s and 1990s. This gap narrowed in more recent elections, and business now business usually leads in the financing of candidates in the closest elections.

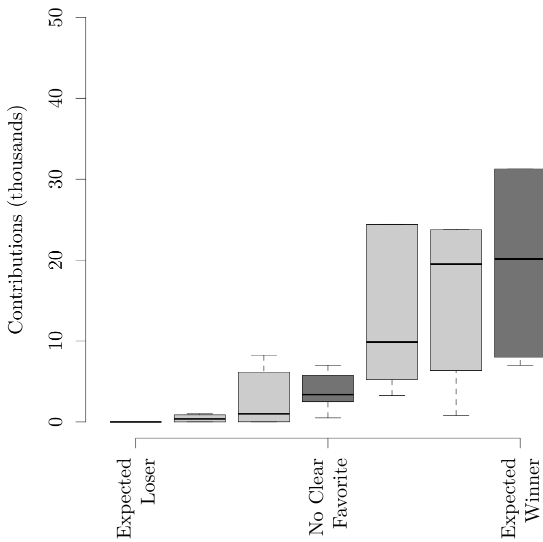
These patterns in the aggregate spending behavior of labor and business PACs in the 1996 election capture the core insights of the partisan theory of PACs. We shall repeatedly see this pattern of PACs funding candidates of their preferred party in a manner that helps one party's coalition of candidates as a whole, as shown in Figures 3.6(a) and (c) and Figure 3.7(a). Conversely, we shall also see PACs allocating money to their less preferred party using a distinctly different strategy, as shown in Figures 3.6(b) and (d) and Figure 3.7(b).

3.3 Conclusion

During the 1980s, a consensus evolved among scholars that created a narrow view of PAC goals and strategies. PACs were seen to have little concern for the electoral welfare of parties, instead seeking benefits from indi-



(a) to Republicans



(b) to Democrats

Figure 3.7 Distribution of contributions to 1996 House candidates in open seat races from business PACs classified as Republican partisans, by party and election forecasts

vidual candidates.[19] This belief followed in large part from empirical analysis of PAC contribution behavior that imposed a key methodological assumption: that PACs impartially apply the same criteria to candidates of both parties when deciding how to allocate their contributions. Relaxing this assumption and allowing for the possibility that PACs have a preference over which party controls Congress leads us to a wealth of new insights into PAC behavior and priorities.

The examination of the 1996 election in this chapter offers an initial empirical look at the logic of the analysis that follows. Observing economic groups advancing the interests of one party over the other rather than impartially supporting safe or friendly candidates of either party suggests that we need to revise how we study campaign finance. To this end, I develop a partisan theory of PACs and examine its empirical value in the remainder of this book. I show that we are better able to understand how and why private interests fund public elections by taking party coalitions seriously in studying the choices of PACs.