Money in Politics

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Abstract

There is a disconnect between the popular understanding of the role of money in American politics and the lessons from social science research. The foundational research in this field finds that campaign spending has at best negligible impacts on election outcomes. Similarly, decades of research reveal very little evidence that campaign contributions or even lobbying has significant effects on the content of public policy. These findings are corroborated by cutting edge research on the effects of campaign finance reforms both at the federal level and in the states.

INTRODUCTION

The role of money in American politics has been an area of intense scholarly investigation by both economists and political scientists. The most striking aspect of this research is the extent to which it contradicts popular beliefs (Sorauf, 1992). Among the general public and in the press, there is little doubt that money is a dominant and deleterious force in politics. Indeed, most readers likely share the popular concern that election outcomes are largely determined by campaign spending and that the content of public policy is strongly influenced by campaign contributions. Conventional wisdom also holds that this state of affairs is responsible for declining trust in government and increased alienation among voters. However, across the board, the foundational social science literature does not support the popular view of money in politics.

Social science research notwithstanding, there has been a tendency toward more restrictive campaign finance regulations in federal and state elections, although the pace of reform is no doubt frustrating for many advocates. The most common regulations take the form of limits on the source and size of contributions to candidates, although some jurisdictions also provide public funding for candidates. However, the Supreme Court has consistently viewed such laws as restrictions on freedom of speech and association; thus in the eyes of the Court, campaign finance regulations are permissible only

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to the extent that they prevent political corruption or the appearance of corruption. Recent and cutting edge research takes on the question of whether reforms done indeed achieve this end. Given the findings of the more foundational science, it should be no surprise that there is little evidence that campaign finance reforms have any impact on either political corruption or public trust in the integrity of government.

FOUNDATIONAL RESEARCH IN POLITICAL ECONOMICS

Social Choice Theory

Objections to the presumed influence of money in politics are based on the belief that money distorts policy or election outcomes away from some desirable end to a less desirable end. However, this presupposes that democratic processes in the absence of the distorting influence of money yield some predictable outcome with desirable properties (e.g., justice, efficiency, or fairness). However, decades of social choice theory suggest otherwise.

Arrow (1963) shows that in general no collective choice process can satisfy a minimal set of rationality conditions; put another way, there is no objective way to aggregate individual preferences into a General Will for the group. Majority rule is particularly troublesome. In general, unconstrained majority rule outcomes are unpredictable and susceptible to extreme manipulation by agenda-setters (McKelvey, 1976; Plott, 1967). Consequently, democratic processes cannot be expected to produce policies that are rational or just, nor does it make sense to ascribe any moral authority to the outcomes of democratic processes. As if these results were not troubling enough, in large representative democracies, citizens have little reason to cast informed votes (Brennan & Lomasky, 1993).

Taken together, it is by no means apparent that the influence of money in politics results in less desirable outcomes than may have occurred otherwise. Rather, the question of how money influences politics (and to what end) is an empirical one.

Campaign Spending

Most studies of the effectiveness of campaign spending analyze US House elections; of these, Levitt (1994) is the seminal study. It is well known that high-spending candidates often win elections; of course, popular candidates also have the ability to raise and spend large sums of money. For this reason, the correlation between campaign spending and electoral success overstates the causal effect of campaign spending on election outcomes. In order to identify the treatment effect of campaign spending on election outcomes, it is necessary to control for the popularity and fundraising skills of candidates.

Levitt (1994) accomplishes this by examining repeat meetings of the same two candidates over time. This permits the estimation of the effects of *change*s in campaign spending on *changes* in vote shares, controlling for time-invariant attributes of candidates (such as popularity or fundraising acumen). Levitt (1994) finds that the effect of candidate spending on vote shares in House races is statistically indistinguishable from zero.

This surprising result has been corroborated by several subsequent studies. For example, Milyo (2001) examines a change in campaign finance law that produces a large shock to incumbent spending but no change in incumbent vote shares. Gerber (1998) finds statistically significant but small effects of candidate spending in US Senate elections. Nor do wealthy candidates or those with large campaign war chests appear to enjoy any electoral advantage (Goodliffe, 2001; Milyo and Groseclose, 1999).

Campaign Contributions

Again, most studies of the effects of campaign contributions on public policy examine contributions of members of the US House. It is well known that incumbent legislators vote in a manner consistent with the preferences of their campaign contributors; however, it is also well understood that this correlation also overstates the causal impact of contributions on legislative behavior. This is because legislators also vote in accordance with their constituents' preferences, which are in turn highly correlated with the sources of campaign contributions. Ansolabehere, de Figueiredo, and Snyder (2003) review several prominent studies that examine the impact of special interest contributions on legislator's roll call votes; overall, most studies find no causal impact of contributions on votes of legislators after controlling for constituent preferences.

The findings reviewed by Ansolabehere *et al.* (2003) are corroborated by the fact that corporate political expenditures (including lobbying) are in an order of magnitude smaller than corporate philanthropic expenditures (Milyo, Primo, & Groseclose, 2000). If campaign contributions really were the functional equivalent of bribes, then one would expect corporations to devote far more resources toward influencing political actors.

While Ansolabehere *et al.* (2003) argue that campaign contributions are best viewed as consumption rather than investments, Hall and Wayman (1990) suggest that contributions instead buy access to legislators and facilitate lobbying. However, corporate lobbying is highly correlated with contributions from corporate political action committees, so the dearth of evidence that contributions influence legislators also weighs against the notion that lobbying is highly influential (Ansolabehere, Snyder, & Tripathi, 2002; Milyo, 2002).

CUTTING EDGE RESEARCH

EVENT STUDIES

Financial markets provide a unique take on the importance of campaign contributions on the content of public policy. Event studies examine the movement of stock prices in order to discern whether and to what extent external events impact the bottom-line of affected firms (Wells, 2004). For example, a US Supreme Court decision upholding or striking a major campaign finance regulation should provide new information to investors and cause a sharp response in the share prices of firms that successfully exert political influence.

Ansolabehere, Snyder, and Ueda (2004) conduct just such an event study around the Supreme Court's review of the 2002 Bipartisan Campaign Finance Reform Act (BCRA). Before 2002, corporations had the ability to make unlimited contributions to political parties. These unlimited "soft money" contributions were assumed by many to permit firms to effectively buy political favors (e.g., tax breaks, subsidies, or federal contracts). If true, investors should recognize this and bid up the shares of politically active firms. BCRA ended the practice of corporate soft money contributions, but the law was challenged in the courts. It was by no means apparent that the Supreme Court would eventually uphold BCRA, but when it did so, any uncertainty about the ability of firms to influence legislation via soft money contributions was resolved. However, Ansolabehere *et al.* (2004) show that share prices of politically active firms did not react negatively to the announcement of the Supreme Court decision upholding BCRA.

In 2010, the Supreme Court struck down federal prohibitions on independent expenditures by corporations. Independent expenditures are not considered in-kind contributions to candidates under current law, provided they are not coordinated with any candidate's campaign. Again, many observers assume that the ability of firms to make unlimited independent expenditures confers a means to greatly influence public policy. If true, investors should respond by bidding up the shares of corporations, especially those that are heavily involved in federal contracting or are heavily taxed or regulated. Werner (2010) examines this event and likewise finds no impact of the Court's decision on share prices of those corporations likely to be most affected.

EVALUATION STUDIES

There is a great deal of variation across states and over time in state campaign finance regulations. This variation provides a natural experiment for identifying the effects of specific reforms on outcomes of interest. However, to date only a few studies have taken advantage of this natural experiment. For example, La Raj and Schafner (2012) examine the effects of changes in state campaign finance regulations in the states on partisan control of state government, incumbent reelection rates, and corporate taxes. Consistent with the literature reviewed to this point, the authors find little effect of state reforms on any of these outcomes.

As noted in the Section titled "Introduction," the legal justification for regulations limiting political activity is that such laws prevent corruption or the appearance of corruption. The study of Cordis and Milyo (2013) is the first systematic test of whether state campaign finance reforms impact political corruption convictions among public officials. Cordis and Milyo (2013) examine 25 years of data from all 50 states, but find no significant effect of contribution limits or public financing on corruption convictions. Milyo (2012) conducts the first systematic test study of whether state campaign finance laws influence citizen's trust and confidence in state government. Once again, Milyo (2012) finds no significant relationship between state contribution limits or public financing on trust and confidence in state government.

Field Experiments

In recent years, political scientists have made great headway in conducting true controlled field experiments on voter turnout (Green, McGrath, & Aronow, 2013). Field experiments also hold great promise for identifying treatment effects of campaign spending on political competition, although to date much of the relevant research has been done on low salience local elections. For example, Gerber (2004) analyzes the effects of partisan mailers in several different types of political races. In general, mailers yield a positive effect on turnout. However, in the one experiment involving a general election for the US House, there were no significant effects of mailers on voting or vote shares. These results are consistent with diminishing marginal returns to campaign spending for higher offices and/or races with more campaign spending.

KEY ISSUES FOR FUTURE RESEARCH

The extant literature tends to focus on campaign spending and contributions in federal elections. More effort needs to be directed at understanding the role of money in state and local elections. For example, recent field experiments suggest that turnout is more responsive to ads in low salience local elections, so it stands to reason that campaign spending may well have important effects in local elections. Further, federal office holders are subject to greater scrutiny from the press and interest groups than state or local office holders. Consequently, contributions to state and local office holders may be more influential than otherwise suggested by existing studies of contributions to federal legislators.

The rapid rise of the so-called super PACs that make unlimited independent expenditures in federal elections has dramatically changed the political landscape. While previous research would suggest that these independent expenditures have only a modest treatment effect on election outcomes, these activities nevertheless merit systematic study.

The apparent impotence of existing campaign reform efforts points to the need for more entrepreneurial research in the service of informing future reforms. For example, past reform efforts have focused on limiting campaign spending and contributions, but there is little evidence that such efforts have had any beneficial effects. Further, regulations aimed at limiting political activity sometimes run afoul of judicial review. Instead, a new paradigm for reform may be to subsidize small contributions by ordinary citizens. This could be accomplished via a refundable tax credit. Such a reform might energize casual voters and increase voter turnout. To this end, future research should examine whether the mix of small and large contributions or greater equality in the propensity to make political contributions has any discernible impact on the appearance or actuality of political corruption.

Finally, the public debate over campaign finance reform has been ill-informed. Scholars have an obligation to communicate research findings to the public. A more realistic understanding of the role of money in American politics may itself go a long way to improving public trust in government and participation in politics.

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