

Equilibria, Agendas and All That

Measuring the Effects of Public Financing on Legislative Behavior

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The overriding goal of public financing programs is to encourage government to respond equitably to all citizens by reducing the undue influence of wealth and by opening public office to a broader cross-section of society. Figuring out whether public financing does indeed have these salutary effects, however, is tricky. Some of the difficulties are rather obvious: of course donors and politicians will try to hide any influence - or even appearance of influence - contributors may have, creating the formidable challenge of showing whether something that was hidden has now gone away. Other difficulties are more subtle. In several models discussed below, candidates pro-actively respond to changes in campaign financing by changing the way they represent their districts, which in turn could mean that we observe few changes in election results, even though the policy changed behavior.

The goal of this paper is to generate ideas about the best way to measure the legislative effects of public financing. The major premise underlying it, is that our tests will be most compelling when they are linked to specific theories that lay out how financing affects representation and what the observable implications of changes in will be. I argue that

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equilibrium-base formal models imply that some of easily observable phenomena may not provide critical tests; instead, we have to look at policy preferences and outputs, something that requires very careful attention to the content of legislative agendas over time. I also argue that behavioral models imply that longitudinal studies of change in individual districts or in individual legislators offer the most promise.

This paper proceeds as follows. In Part 1, I discuss the implications of public financing in two classes of formal models. In Part II, I conduct a similar exercise for two classes of behavioral models. I conclude with a list of specific recommendations.

1 Equilibrium Models and Public Financing

There are hundreds of formal models of money in politics, covering a wide variety of assumptions and implications. In these models (which I am also calling “equilibrium models” here), individuals maximize utility given institutional and informational constraints and the strategic choices of other players. Here, I focus on two classes of these models that offer general predictions about public financing and legislative policy outcomes.

1.1 Vote buying models and one dimensional informational models

Some of the most intuitive models of money in politics are vote buying and one dimensional informational models (e.g. Austen-Smith 1987; Grossman and Helpman 2001). They typically share the same general structure: candidates choose some one-dimensional policy position (for example some number between 0 and 100 which represents the degree of “liberalism”) and (in some models) some level of favors to provide contributors, donors then decide on contributions to the candidates which the candidates spend influencing voters.

The typical equilibrium in a system with privately financed campaigns is for candidates to choose policy positions (or favors) that are more favorable to contributors than they would if campaigns were publicly funded.

The key for our purposes is that equilibrium behavior by candidates causes the “action” of the model to occur in the policy choice stage. This means that a switch to public funding can significantly change the manner in which legislators represent their districts without necessarily having an effect on competition. For example, suppose that public financing somehow empowers low and middle class voters; in equilibrium, a switch to public financing will cause candidates of both parties to be more responsive to such voters. If full policy adjustment is possible, there may not necessarily be a change in who wins or how close the race is. On the other hand, one could imagine a scenario in which public funding does not fundamentally change the manner in which legislators represent constituents and interest groups, yet results in more contested races or slightly closer outcomes. While the conventional view is probably that increased competition is associated with more policy responsiveness, these theories provide theoretical reasons to believe we could have either more policy responsiveness without increased competition or more competition without increased policy responsiveness.

These equilibrium models also raise questions about cross-sectional roll call studies. The existence of public funding changes the equilibrium policy choice of all candidates – even those who do not receive the money need to change their behavior due to the chance of running against candidates who can fund their campaigns without appeals to private donors. A cross-sectional analysis would not pick this up – the effect would fall unobtrusively into the constant – and would be likely to pick up the selection process whereby more legislators

of a certain type would be more likely to opt in to the system.

The best indication that public financing mattered in terms of these models would be evidence of policy changes. Such evidence can be of two types. First, if the interests to which legislators respond change, then the legislative output should change. This would manifest itself, for example, in more or less spending and taxing in certain areas, particularly in areas in which donors are known to be particularly interested and to differ from public opinion. This could be assessed quantitatively or with case studies.¹ The challenge for case studies is to be social scientifically valid; I suspect the editorial and popular reception for journalistic investigations is much easier when they attribute policies to money influence.

In some circumstances voting patterns can also reveal changes in policy preferences. The challenge here is that to the extent public financing changes legislative incentives, it may also change agendas. In addition, a myriad of other factors may shift agendas as well. Hence, one cannot simply look for an increase in liberal or conservative votes across time; it is conceivable that public funding could cause the agenda to shift to the left on some issue such that there could be more conservative votes even as the policy has moved to the left.² The best approach is that in Stratmann (2002) who found votes on very similar legislation across time which allowed him to control for the agenda and see (in his case) if interested contributions were associated with changes in behavior (they were, by the way).

An exception to the claim that equilibrium models generally make no claims about competition is if past legislative records loom large in campaigns. If so, then public financing

¹I undertake a similar quantitative exercise in Bailey (2005a) to see if changes in gubernatorial campaign spending is associated with systematic changes in policy. I find very little evidence that increased spending (whatever the source) is associated with policies that favor the wealthy and some evidence that increased spending is associated with increased responsiveness to public opinion.

²Failure to controlling for agenda change can lead conventional preference estimation approaches astray (Bailey 2005b). For example, Poole and Rosenthal's Common Space scores (that "place the members of the House and Senate in the same space... [allowing] members to be compared across Chambers and across Congresses" (Poole 2005)) Senator Hollings has nearly identical preference estimates as the notoriously racist Senator Eastland who chaired the Senate Judiciary Committee from 1956 until 1978. One of the sources of this problem, I argue, is a failure to model and measure agenda change.

could shift the equilibrium such that legislative behavior that had been optimal may now become embarrassing. This could make certain incumbents more vulnerable, although again equilibrium effects would complicate matters as those made very vulnerable would be more likely to retire. Hence, in this case, one would look at retirements and, ideally, at retirements as a function of some identifiably no-longer-equilibrium behavior while controlling for other factors (most importantly term limits) that would affect such decisions. Looking at differences in competitiveness of incumbents who run in the post-public financing regime risks mixing up the causality: if only incumbents who have unobserved characteristics that make them very strong go on to run while the others retire due to public financing, you might see those who run do very well even though the new system did in fact punish incumbents of a certain type.

1.2 Neo-pluralist models

The implications of public funding are different for models that emphasize the diversity of interests in the political environment. These models are neo-pluralist because they focus on the multiplicity of contending forces while explicitly recognizing disparities on resources and organizational capacities across societal interests. Let me stick with what I know and describe Bailey (2004a). In it candidates choose policy positions in multiple dimensions, donors contribute and candidates use the money to campaign. Candidates cannot ignore donors because they need to find some donor to raise money to mobilize and inform their potential voters. However, the influence of donors is constrained by the fact that there are many issues: even if a donor dominates a given issue area, candidates can do what is popular on this issue by finding some other issue on which to raise money and spending the money publicizing their anti-donor positions on the issue at hand.

For example, suppose that voters care intensely about regulating insurance companies and that most of the contributors on that issue oppose such regulations. If the world were one-dimensional, the money-power of donors would skew policy toward their preferred outcome because candidates could only get money from the insurance companies. In a multiple dimensional world, it is less clear that this would happen, as there is now the possibility that a candidate in favor of regulating insurance companies could raise money based on the other issue and use it to mobilize voters on the first issue. This is the crux of “indirect competition”: politics on any given issue is not simply about the money brought to bear by interests directly involved, but it is also influenced by the fact that effective politicians figure out a way to bring resources from other issues to bear on issues on which their positions are publicly popular. For example, President Clinton raised millions, sometimes in eyebrow-raising ways. But he also used the money to fund vigorous ad campaigns on issues presumptively favoring the non-wealthy: he opposed cuts in Medicare, Medicaid, education and environmental protection and defended his approach to balancing the budget (Morris 1997, 145).

In this model, public financing would not necessarily affect the policy positions of legislators on major issues, as the disciplining effects of indirect competition on high profile issues would keep them more or less in line with public preferences. However, it would free legislators from having to serve donors on the less salient issues. In short, public funding would allow candidates to representing non-contributing interests without having to sell off policy on low salience issues.

To test the influence of public financing in light of this theory, one would want to focus on targeted issues favored by donors. Public financing – if effective – would reduce the incentives for legislators to do the bidding of donors on these matters. In some cases in which legislators

vote on similar legislation across time (e.g. vote on similar gambling proposals before and after public financing), one could follow the approach used by Stratmann (2002). Or, one could look conduct cases studies of policy areas that are associated with contributors (for example, developers, insurance commissions, legal reform) and see if the policy outputs change or, at least, the policy process changes in a manner consistent with policy change at some point.

Finally, one could look for changes in particularistic activity such as earmarking or bureaucratic intervention by legislators. Legislators would, of course, continue to have some incentives to pursue such behavior under public financing, but the theory would be they would have fewer incentives, so looking at change would be reasonable. Changes at both an aggregate and individual level would be interesting. At an individual level, one would want not to compare recipients versus non-recipients (because legislators of a certain type may be more likely to select into public financing), but would compare a given individual before and after receiving public funding.

2 Behavioral Models and Public Financing

The electoral constraints placed on state legislators may looser than implied by the above optimizing models, leading to situations in which potentially non-optimal behavior associated with the personal background of candidates or the manner in which they process information could matter. I look at two examples of how such behavioral models could guide investigations of the efficacy of public financing.

2.1 Candidate emergence

If electoral constraints are very stringent, then candidates will be forced to represent their districts in a certain way, no matter their personal characteristics. To the extent there is some slack, however, then attributes of the legislator may affect how he or she does her job. This is a particular concern among some campaign finance activists who worry that expensive campaigns preclude certain types of individuals from running and skewing the legislature toward the personal proclivities of the wealthy and connected individuals who can raise the kind of money required to win.

Showing that public financing has effects in this regard requires two steps. The first is to show that personal background does indeed matter, regardless of campaign financing scheme. If not, then, showing changes in candidate characteristics has no implications for legislative output. I am not familiar with this literature, but the kind of evidence that would be convincing to me would have district-level fixed effects. That is, it would look at changes in behavior when the legislator representing a district switches from working class to non-working class or vice versa. The second step is then to show that the types of candidates who win has actually changed with the advent of publicly financed campaigns. This might involve, for example, showing that the proportion of winning candidates who are not (for example) lawyers or self-financed or from an elite university has changed. Again, controlling for district effects would be crucial, as the type of candidates would systematically vary across urban or professional or rural or impoverished districts.

2.2 Cognitive models

The private funding of campaign contributions may have pernicious effects on the types of information available to political elites and the way they process it. In particular, the quest for contributions forces many legislators to immerse themselves in the lifestyles of the wealthy (or, at least, the relatively wealthy for their districts and states). If this is true, a switch to public financing may mean that “Instead of attending exclusive fundraisers and making telephone calls to wealthy donors, a candidate will have time for more direct communication with average Americans through such activities as neighborhood barbecues and door-to-door canvassing” (Cmar 2004, 47)³

As with the equilibrium models, we would want to look for policy change while being aware of the pitfalls of agenda change and selection. Looking at a cross-sectional roll call analysis would be highly problematic as unobserved/unmeasureable factors associated with the selection into public financing would likely explain substantial portions of any difference found between recipients and non-recipients of public funds. One could look at changes over time for an individual, but (again) one would need to control for the agenda, which may be possible only in exceptional cases. One may be able to look for non-voting behavior such as committee selection and participation which could reasonably be associated with changes in preferences of priorities. And, if one believes that the effects of all that shoulder-rubbing cumulate and do not dissipate, one could compare, conditional on district characteristics, the voting and preferences of members elected post-public financing to members first elected before public financing.

³Of course, having time for these activities and having incentives to do them are often very different things!

3 Conclusions

A major part of the intellectual debate about public financing should be devising a strategy for assessing its effect. While the idea of public financing is attractive in many ways⁴, we must be realistic about the possibility that such policies may be ineffectual, either because the existing system does an adequate job of representing voters of all wealth levels or because any feasible public financing plan will be overwhelmed by other political forces. And, we should also be open to the possibility that public financing can actually exacerbate the problems it is trying to ameliorate. For example, there is good evidence that the (now defunct) federal tax credit and the Ohio tax credit for political contribution disproportionately benefits the wealthy (see Cmar 2004, 16 and Rosenberg 2002, 49) and that the Oregon tax credit benefits mostly special interest groups (the NRA, right-to-lifers and teachers) (see Rosenberg 2002, 29). I would be shocked if many advocates of public financing believe the wealthy and well-organized need help in getting attention from state legislatures.

This paper has explored the empirical implications of several prominent theoretical perspectives on public money in campaigns. Obviously, there are other perspectives and, I am sure, other implications, but with each of these we see how theory closes certain avenues and opens others, with equilibrium effects and agenda change being particularly important drivers of the process.

Based on the above the above discussion, let me conclude with a list of recommendations for efforts to discern the effects of public financing:

1. Look for changes in state policy outputs after implementation of public financing.
2. Look for changes in individual legislator policy preferences after controlling for agenda

⁴My taste runs toward publicly funded voter guides/websites coupled perhaps with Rosenberg's (2002) tax credit proposal or Hasen's (1996) voucher plan

changes.

3. Be wary of cross sectional roll call analyses, especially those which try to capture differences in those who accept and decline public funding.
4. Be cautious about inferring policy changes from changes (or lack thereof) in electoral competition. An exception is to look for changes in retirement associated with a switch to public financing after controlling for term limits and other factors.
5. To show public financing changes legislative output via candidate emergence need to show that candidate background matters and changed.
6. To show public financing changes policy by changing information exposure of candidates need to show changes in preferences after controlling for agenda.

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