

# Money in Politics

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LSE

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## Quick thoughts on applications

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- ▶ **Key terms:** Define them.
- ▶ **Coordination and organization:** If possible, make it seem like a single vision. Don’t include something just because someone worked on it.



## Introduction

Survey of several systems

Factors affecting amount of spending

- Demand factors: value of office

- Demand factors: productivity of spending

- Supply factors: permissible fundraising techniques

Determinants of regulations

- Politician preferences

- Constitutional constraints

Conclusion

# Plan

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- ▶ Are approaches used in other countries applicable to mine?
- ▶ What regulations would be feasible?

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## United Kingdom

**In brief:** **Spending** regulated (esp. at constituency level), not **contributions**

- ▶ Spending limits for candidates since 1883; for parties since 2000. (Also “third parties”: £500 per candidate-based campaign; about £1M for national campaigns)
- ▶ Disclosure of donations above £**50** to a **candidate** since 1983, donations above £**7500** to a **central party** since 2000.
- ▶ Parties rely on big donors: individuals and corporations for the Conservatives, trade unions for Labour.
- ▶ Basically no public funding of parties (aside from media subsidies in campaigns)
- ▶ Total ban on paid political advertising on radio and television (but not internet)

*You do not have to spend very long within a government, and in the private conversations within government, to know how many policy areas are coloured by the dependence of the party on particular kinds of very wealthy individuals . . . I do not think it is any secret that governments have been influenced by the likely views of major donors.\* (Labour party advisor 1997-2004)*

\*Source: “Political party finance: Ending the big donor culture”, Committee on Standards in Public Life, Nov. 2011.

# India

**In brief:** Similar to UK – (some) spending regulated, not contributions

- ▶ Candidate expenditures capped since 1950s (including spending for candidate by party, since 2003) (but no cap for party's general campaign)
- ▶ (Weak) disclosure requirements of large donations
- ▶ Over time, alternation between banning corporate donations and making them tax deductible; currently banned
- ▶ Concerns about “black money” and use of government resources for campaigns

Source: Gowda and Sridharan (2012).

# United States (1)

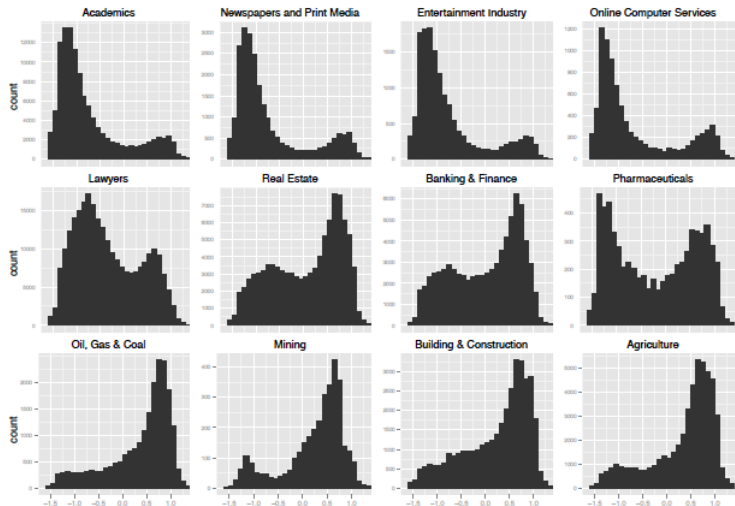
**In brief:** Opposite of UK and India – **Contributions** tightly regulated, not **spending**

- ▶ Restrictions on **contributions** depends on source, destination:

		Destination	
		Party or candidate	Independent group
Source	Individual	Caps and mandated disclosure	Mandated disclosure with exceptions and loopholes
	Corporation, union	Only through PAC, with caps and mandated disclosure	Mandated disclosure with exceptions and loopholes

- ▶ Spending by parties, candidates, and outside groups **not** restricted
- ▶ Public funding minimal (available with spending cap for presidential races, but rejected)
- ▶ Paid political advertising by anyone is fully permitted (subject to disclosure requirements)

## United States (2): extensive disclosure



**Figure 7: Ideological Distributions of Industries/Occupations**

# Brazil

**In brief:** Similar to US, in that contributions capped and disclosed but spending not limited

- ▶ Caps on individual and corporate donations to candidates (based on percentage of income); all contributions made electronically
- ▶ Detailed disclosure of campaign receipts and spending
- ▶ No limit on contributions to parties
- ▶ No spending caps, although they have been considered
- ▶ Political parties get public funding and free media time, depending on number of seats in legislature

Sources: Claessens, Feijen, and Laeven (2008), Samuels (2002) JOP.

# France

**In brief:** Contributions **and** spending tightly regulated

- ▶ Cap on contributions by individuals (to parties and candidates) similar to U.S.; total ban on contributions by corporations, unions, etc.; contributions tax-deductible for individuals
- ▶ Disclosure: campaign finance commission receives detailed, audited reports on party and candidate financing; publishes aggregated reports
- ▶ Caps on spending by candidates, depending on the office (no caps on **party** spending)
- ▶ Parties receive most of their funding from the state; amounts are based on previous results, number of candidates fielded, gender parity considerations
- ▶ No paid political advertising; requirement that presidential candidates receive equal media exposure

Source: Clift and Fisher (2004).

## Key dimensions on which regulations differ

- ▶ **Constraints on spending** (tight in constituency races in UK, India, and France; non-existent in US, Brazil)
- ▶ **Constraints on contributions** (individual caps in US, France, Brazil but not UK and India; corporate bans in France, India and US – with PAC exception)
- ▶ **Disclosure regulations** (very detailed disclosure of donors in US; big donors only in UK & India; donor identity protected in France)
- ▶ **Paid political advertising** (banned in France, UK; dominant in US)
- ▶ **Public funding** extensive in France and many other countries; not in others surveyed here

## How much do campaigns cost?

Some comparisons:

- ▶ Spending in presidential/parliamentary elections:
  - ▶ Lok Sabha elections, 2009: estimates as high as \$3bn (*New York Times*, Centre for Media Studies)
  - ▶ Obama + Romney, 2012: \$1.2bn by candidates, \$660m by party committees, \$220m by primary super-PAC (*New York Times*)
  - ▶ Dilma Rousseff and José Serra, 2010: total announced budgets of about \$200m; estimates of total actual spending much higher (media reports)
  - ▶ Conservatives, Labour, Lib Dems, 2010: \$48m (UK electoral commission)
  - ▶ Sarkozy and Hollande, 2012: about \$42m (CNCCFP)
- ▶ Spending per (serious) legislative candidate:
  - ▶ US, 2001/2: \$450,000 (Grant, 2005)
  - ▶ Brazil, 1994: declared contributions \$200,000 (Samuels 2001)
  - ▶ India, 1999: spending caps around \$50,000; actual expenditures around \$200,000 (Gowda and Sridharan, 2012)
  - ▶ UK, 2001: \$5,600 (at constituency level only) (Grant, 2005)
  - ▶ France, 2012: spending limits about \$80,000 (CNCCFP)



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Per elector, US has the most spending. Controlling for GDP, Brazil and India higher.

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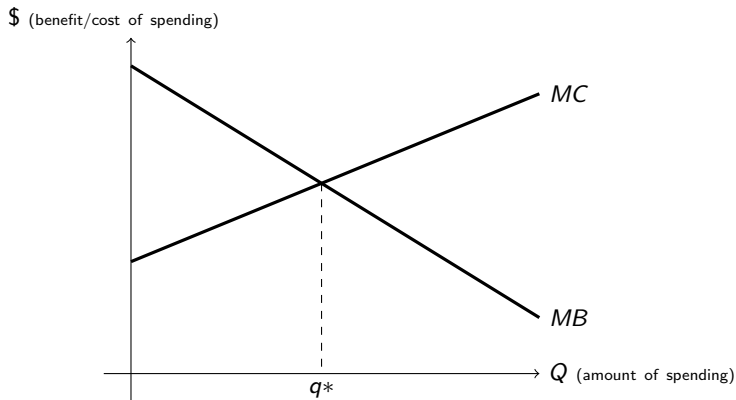
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# Spending as optimization problem for politician



- ▶ MC is marginal cost to politician: effort, \$ required to raise money
- ▶ MB is marginal benefit to politician:  $f'(q) \times B$ , where (as in collective action lecture)  $f(q)$  is the probability of winning as function of spending,  $f'(q)$  is  $df/dq$ , and  $B$  is benefit of winning

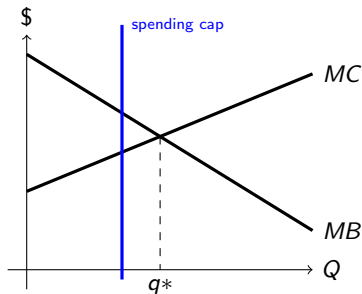
## Spending caps

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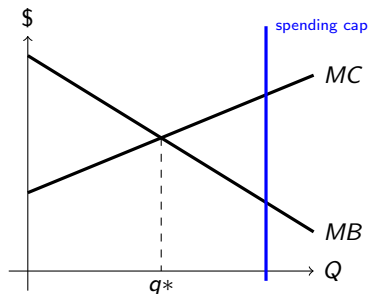
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French presidential elections



(Most) UK constituency contests



# Determinants of costs and benefits of campaign spending to politician

Assuming non-binding spending caps, equilibrium amount of spending depends on ...

- ▶ ... factors affecting marginal benefits of campaign spending:
  - ▶ Value of office  $B$
  - ▶ Marginal effect of spending on probability of winning ( $f'(q)$ ), which depends on:
    - ▶ Permissible campaign techniques
    - ▶ Voter receptivity
- ▶ ... factors affecting marginal costs of campaign spending:
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Let's talk about each of these.

# Value of office

Depends on a lot of factors:

- ▶ Non-material motivations: ego, desire to help, etc.
- ▶ Material motivations, which depend on
  - ▶ Salary
  - ▶ Political power associated with office
  - ▶ Constraints on rent-seeking by politicians



## Value of office (2)

How much are political officials paid?

TABLE 1. Political chief executives in four countries

	France	Sweden	United Kingdom	United States
President or Prime Minister's salary	\$80,000	\$130,000	\$270,000	\$400,000
Salary/GDP per capita	3.05	5.11	10.60	11.02
Salary(000s) per billion dollars of government expenditures	0.33	1.18	0.50	0.23
Salary(000s)/population (millions)	1.31	14.62	4.49	1.37

Sources: *Congressional Quarterly*, ([www.cabinet-office.gov.uk](http://www.cabinet-office.gov.uk)), ([www.sweden.gov.se](http://www.sweden.gov.se)), ([www.telegraph.co.uk](http://www.telegraph.co.uk)) (France), CIA fact book, OECD, plus author's calculations.

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But salary is only part of financial rewards.

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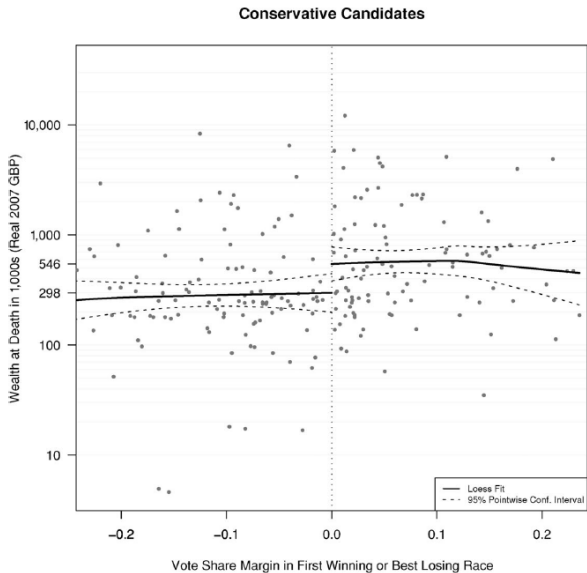
**Eggers & Hainmueller:** [We know](#)! OLS, matching, [regression-discontinuity design](#) to estimate effect of office on wealth.

## Gross wealth at death

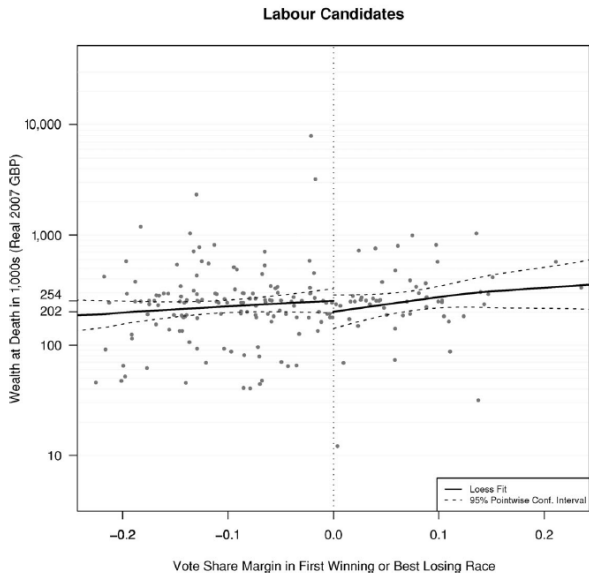
	Median	Mean	Obs
<b>Conservative Party:</b>			
All Candidates	328,400	1,022,000	233
Winning Candidates	532,200	1,410,000	121
Losing Candidates	257,300	601,800	112
<b>Labour Party:</b>			
All Candidates	250,300	346,000	201
Winning Candidates	253,700	315,500	65
Losing Candidates	249,800	360,700	136

2007 GBP, estimation sample

# RDD: Conservatives



## RDD: Labour

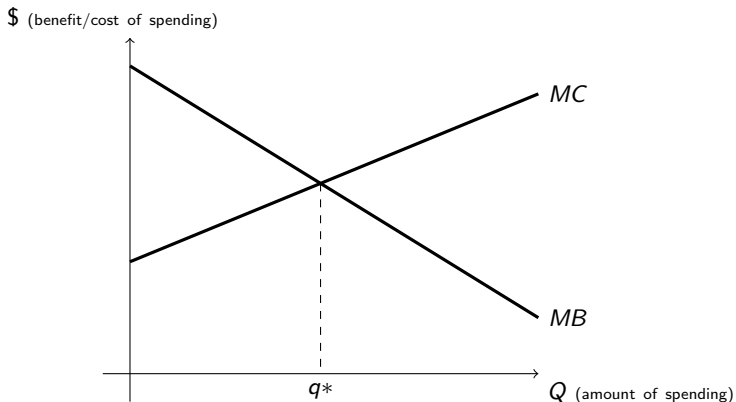


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Restrictions on types of spending (e.g. ban on paid advertising, ban on vote buying) must make each dollar spent (weakly) less effective and thus reduce the optimal amount of spending.

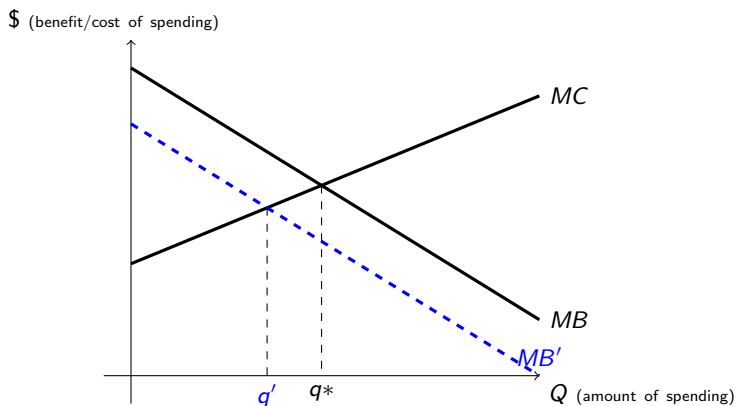
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- ▶ **Vote buying/turnout buying:** If offered money (or a drink/a sandwich/shoes) to vote (or to vote for X), will the voters respond?

## Quick focus on electoral system and voter attachments

One factor that affects whether voters can be swayed is what choice they are asked to make.

- ▶ In UK parliamentary elections (single-member district, plurality), voters typically choose between one Conservative candidate, one Labour; voters have strong party affiliations candidate, etc.
- ▶ In Brazilian parliamentary elections, (open-list PR), voters choose not just which party (where party affiliations are very fluid) but also which candidate(s) from that party's list

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- ▶ **Intra-party competition:**
  - ▶ Higher PVI in open-list PR systems (e.g. Netherlands, Brazil) than in list-PR systems
  - ▶ Higher PVI in systems with primary elections (e.g. U.S. Congress) than those without (e.g. U.K. House of Commons)

## Example of electoral system and incentives to cultivate a personal vote: Japan under SNTV

Before 1994, Japanese legislature elected using SNTV (single non-transferrable vote):

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- ▶  $\implies$  main parties field more than one candidate, so candidates from same party compete against each other
- ▶  $\rightarrow$  system blamed for high election expenses, dependence of candidates on e.g. construction industry, corruption scandals  $\rightarrow$  electoral reform in 1994

See Blechinger (2000).

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- ▶ (Interesting question: isn't vote buying Pareto-improving? No – consider other voters.)
- ▶ Still common in many developing democracies, despite “secret ballot” (Pinto-Duschinsky 2002; Stokes 2005)

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- ▶ (Interesting question: isn't vote buying Pareto-improving? No – consider other voters.)
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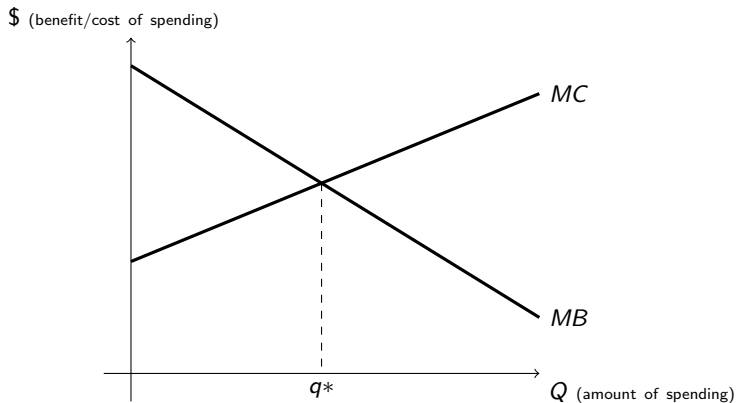
*Author:* Do they know how you voted?

*Interviewee:* For many years we've seen, people will say, “So-and-so voted for so-and-so.” And he wins, and they come and say, “You voted for so-and-so.” I don't know how they do it, but they know. (Stokes, 2005)

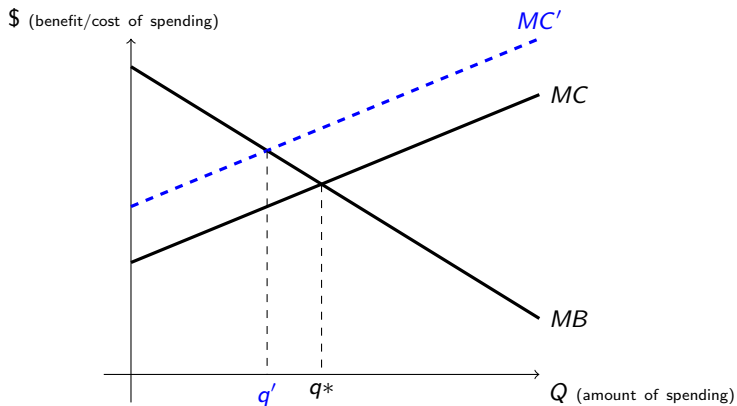
→ scope for vote-buying depends on degree of electoral secrecy, voters' education and values



# Campaign finance restrictions raise the marginal cost of fundraising



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## The cost of fundraising

### Fundraising is costly.

Yeah, I made [fundraising] calls, but it was always unpleasant for me. I did it for the [party] congressional committee and I did it for myself. And I would occasionally do it for a colleague of mine who needed some help. But I really loathed making those calls. (Quoted in Makinson (2003), *Speaking Freely*)



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## What makes it more costly?

- ▶ Restrictions on fundraising channels: bans on corporate contributions, anonymous contributions, contributions above certain amounts, etc.
- ▶ Restrictions on exchange with voters and interest groups

## Exchange between politicians and interest groups

Depends on:

- ▶ Political power of politician: can the politician affect anything?

Compare:

- ▶ a junior member of U.K. House of Commons: without a ministerial position she has no power to propose legislation; given absence of “personal” vote she could easily be de-selected for voting against the party (very few “rebels” in UK parliament)
  - ▶ a junior member of U.S. Congress: her committee position gives her votes and proposal power in at least one area; her local power base may mean she does not depend on party for re-election
- ▶ Trust and reciprocity between politician and interest group: exchanges are unenforceable in court!

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- ▶ How susceptible are voters to campaign activities (e.g. advertising, vote buying)?
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- ▶ Does the politician have anything to “sell”?

All of these depend on regulations. What determines the regulations?

Introduction

Survey of several systems

Factors affecting amount of spending

Demand factors: value of office

Demand factors: productivity of spending

Supply factors: permissible fundraising techniques

Determinants of regulations

Politician preferences

Constitutional constraints

Conclusion

## Regulation of political finance as self-regulation

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- ▶ Cost reduction (cooperation/collusion)

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Let's discuss each.

## Citizen pressure

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Examples:

- ▶ French reforms in 1988 followed major scandals in which corrupt financing methods were revealed
- ▶ Major U.S. reforms in 1970s followed Watergate scandal, general distrust of government

## Partisan advantage

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Examples:

- ▶ Ban on corporate donations in India in 1968 by Indira Gandhi: due to concern about corporate donations to right-wing opponents?
- ▶ Proposals by UK Labour government to restrict big donations from individuals and corporations: due to fact that these donations disproportionately benefit Conservatives?
- ▶ Limits on spending in 1974 Federal Election Campaign Act (US): due to fact that Democrats typically raised and spent less money than Republicans? (see Abrams and Settle 1978)

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Opposing parties may have opposing preferences on some campaign finance regulations (e.g. corporate contributions), but they may both support regulations that protect all incumbent parties and/or politicians by making it difficult for challengers to become known.

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For example:

- ▶ Banning paid advertising
- ▶ Limiting the length of the campaign
- ▶ Reducing fundraising limits on candidates facing privately-funded challengers (“millionaire’s amendment” of BCRA (2002, US), struck down by Supreme Court)

## Cost reduction

Can think of political contests as prisoner's dilemmas:

		Candidate 2	
		Cheap campaign	Expensive campaign
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Regulations can be thought of in this way as well:

- ▶ Expense limits introduced in U.K. in 1883 because campaigns were so expensive for the candidates
- ▶ U.S. Congress attempted to cap campaign spending in 1974 and 2002 because fundraising was dominating their jobs

## Incentives for looser constraints

Of course, sometimes politicians want looser constraints, e.g. because of

- ▶ partisan advantage
- ▶ incumbent protections: if incumbents have a serious advantage in raising money, they may want to maintain it

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- ▶ Bipartisan Campaign Reform Act (BCRA, aka McCain-Feingold) 2002 eliminated “soft money” loophole, restricted independent expenditures at elections → Supreme Court overturned all limits on independent expenditures (*Citizens United*)

Court recognizes the anti-corruption value of campaign finance restrictions (thus donation limits), but sets very high standard.

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One can debate extent to which Supreme Court judges are acting as partisans or as defenders of constitution.

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UK responded by raising limit on third-party expenditures in a constituency to £500.

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- ▶ cost of fundraising (which depends on what the politician/party has to offer, plus regulations)

Politicians choose stricter regulations for various reasons:

- ▶ to respond to public demand
- ▶ to gain an advantage over other party
- ▶ to gain an advantage over challengers
- ▶ to make competition less punishing.

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**Thank you!**