

Voters' Interests in Campaign Finance Regulation: Formal Models

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The Supreme Court's decision in *Citizens United v. FEC* significantly expands the scope for corporate- and union-financed campaign activity. How should we think about this policy change?

One approach, emphasized by the court, asks about the right to free speech. But this right is not absolute—it can be overridden (under a regime of strict scrutiny) by consequentialist reasoning. In his opinion for the majority, Justice Kennedy repeats the consequentialist arguments in favor of unfettered speech in campaigns:

Speech is an essential mechanism of democracy, for it is the means to hold officials accountable to the people... The right of citizens to inquire, to hear, to speak, and to use information to reach consensus is a precondition to enlightened self-government and a necessary means to protect it.

But Justice Stevens, in his dissent, points to a different set of consequentialist arguments:

[T]here are substantial reasons why a legislature might conclude that unregulated general treasury expenditures will give corporations “unfai[r] influence” in the electoral process and distort public debate in ways that undermine rather than advance the interests of listeners. [citation omitted]

Several recent formal models of campaign finance can help us think about whether privately funded campaign activity advances the interest of “listeners”, in this case, citizens. Here, I survey models relevant to three arguments: the antidistortion argument, the anticorruption argument, and the antidistracton argument.

Throughout, I focus on models in which campaign expenditures allow voters to make more informed decisions. These assumptions—fully rational voters and informative campaign messages—capture two of Justice Stevens’s sufficient conditions for the majority’s argument based on listener interests to work: individuals have “infinite free time to listen to and contemplate every last bit of speech uttered by anyone, anywhere” and advertisements have “no special ability to influence elections apart from the merits of their arguments (to the extent they make any)”. This approach has two benefits. First, with rational voters, it is clear what it means to advance the interests of listeners. Second, assuming that expenditure provides genuine information creates a best-case scenario for a system of extensive donations, one that fully embodies the benefits claimed by Justice Kennedy. As a result, a case against private campaign finance that is based on these models will be particularly compelling.

The Antidistortion Argument In *Austin v. Michigan Chamber of Commerce*, the court upheld a limit on corporate spending because of the government’s interest in limiting the

corrosive and distorting effects of immense aggregations of wealth that are accumulated with the help of the corporate form and that have little or no correlation to the public’s support for the corporation’s political ideas.

This so-called antidistortion argument was rejected by the majority in *Citizens United*.

Coate (2003) offers a benchmark model, one useful both for thinking about the antidistortion argument and as a baseline for the models to discussed latter. Coate imagines an election contested by a left and a right party, each of which is dominated by ideological extremists. The median voter is moderate, with ideal policy at the midpoint of the party leaders’ ideal policies. The voter, then, wants to vote for a party that has sacrificed its own ideological preferences by nominating a moderate candidate.

Unfortunately for the voter, she cannot identify moderates without information that is too costly for her to collect on her own. This is where campaign expenditure comes in. Candidates, if they can find someone to make donations that cover the cost, can credibly reveal their ideology to voters. Clearly, revealing an extreme ideology is not helpful. But revealing a moderate ideology will, in fact, attract votes.

Now put yourself in the shoes of an extremely right-wing, potential donor. You know that funding the campaign of someone who shares your

views is pointless—expenditure cannot help that candidate win. But funding a moderate who leans to the right is a different matter. That candidate can use the funds to help himself win the election, and, if he does so, you are better off—not because you get your ideal policy, but because policy is moved somewhat to the right.

Even though they are dominated by extremists, parties thus have an incentive to nominate moderates: moderate candidates attract donations and use them effectively. Thus a party that nominates a moderate, like a donor who funds a moderate, is able to move policy in a beneficial direction.

In this environment, banning contributions harms moderate voters. They must cast their votes with less information, and candidates are less likely to be moderate. Members of the interest groups, on the other hand, are better off if contributions are banned. They save the cost of the contributions, and policy is no worse in expectation—the extra probability that policy is extreme in the wrong direction is exactly offset by the increased probability that policy is close to the group’s preferred position.

Coate’s (2003) model shows that extremism of donors need not, on its own, harm moderate voters. But it leaves open the possibility that voters would be better off if campaign funds came from a broader base of contributors. Vanberg (2008) uses an elegant model and empirical test to evaluate this idea. In his model, two candidates have attributes that are unknown to the voters. One of these attributes can be credibly communicated by an advertisement, while another attribute cannot. Advertising has a fixed cost which must be covered by interest group donations. Vanberg considers a simple contribution regulation—each member of a donor group is limited to contributing less than some threshold. This limit implies that a group can make a successful donation only if the group has enough members. Such a policy can be beneficial to voters if candidates with desirable unadvertisable attributes have larger donor groups than candidates with undesirable unadvertisable attributes and if unadvertisable attributes are more important to voters than are advertisable attributes. These conditions imply an observable condition: conditional on party strength and aggregate spending, candidates who collect larger contributions do less well than candidates who collect smaller donations. Data from House elections between 1990 and 2002 do not display this pattern, casting doubt on this argument for individual contribution limits.

The Anticorruption Argument In Coate’s (2003) model, the only way a party could make itself more attractive to donors was to nominate a more

moderate candidate. But in reality, we worry that other actions, less beneficial to voters, help in fundraising. The obvious example is the exchange of policy favors for campaign contributions.

To start thinking about this issue, assume that donors do not care directly about who wins the election. Instead, they value policy favors from the winner. Such donors will make contributions only if the value of the policy favors, weighted by the probability that the candidate wins, exceeds the value of the donation. As long as donors' interests are not the same as voters', a ban on contributions now has both costs (less information in campaigns) and benefits (less costly favors to donors). What is not clear is if the net value of campaigns can be negative to rational voters.

To see the difficulty, consider a voter who sees many ads in a campaign. The voter will learn from the content of these ads, and that might make her more willing, all else equal, to support the candidate. But all else is not equal—the very fact that the ads were run also carries information. In a world of private campaign finance with favor-motivated donors, the ad's existence tells the voter that the candidate promised enough favors to make the donation worth the while for the donor. And that makes the candidate less attractive to the voter.

A simple-minded application of rational choice theory would suggest that the voter cannot actually be harmed by this—the voter understands both effects, and will not vote for a candidate for whom the favor-promising effect dominates the informational effect. Tempting as the argument is, it ignores the crucial role of equilibrium in the competition between two candidates.

A candidate wants to make the net payoff he offers to voters as large as possible.¹ But this does not mean that a candidate will refrain from advertising whenever the cost of favors is larger than the voter's ex-ante value of information. This is because a rational voter not only learns from ads, but also from the absence of ads. So, in a world in which high-quality candidates raise funds to advertise that fact, the absence of ads implies that candidates are not high-quality. Thus, a candidate who advertises improves his chance of winning as long as the promised favors are not so great that they make a high-quality candidate worse than a candidate who is low-quality for sure. Candidates expand transfers until voters are indifferent between a high-quality candidate with transfers and a low-quality candidate with no transfers. This means that, from the voter's point of view, it is as if

¹To be slightly formal about this, assume that there is probabilistic voting, so the probability a candidate wins is a strictly increasing function of this net payoff, independent of what the other candidate does.

all candidates are low-quality. In such a case, the voter actually loses from the possibility of a campaign, and would be better off if contributions were banned outright—the likelihood of getting a high-quality winner is no lower, and the voter escapes the cost of favors.

The key to the inefficiency here is that the voter’s knowledge that ads imply favors to interest groups makes the ads less effective at ensuring a high quality candidate is elected. Prat (2002), Coate (2004), and Ashworth (2006) show that there can be voter-welfare enhancing limits on private campaign contributions in this class of model.

The Antidistracton Argument A final argument for the regulation of campaign finance is rooted in an observation made by Justice Stevens in his dissent in *Randall v. Sorell*:

Fundraising devours the time and attention of political leaders, leaving them too busy to handle their public responsibilities effectively.

It makes sense, then, that limiting campaign contributions could improve voter welfare by inducing elected officials to choose a better allocation of their efforts.

Daley and Snowberg (2011) formalize this antidistracton argument. Their model starts with the reasonable assumption that the incumbent takes two actions, one directed to improving public policy and the other directed to raising funds. Politicians differ in ability, and high-ability types are better at both policy work and fundraising. In the least-cost separating equilibrium, low-ability candidates do nothing, while high-ability candidates choose a combination of policy and fundraising that just deters low-ability candidates from mimicking them. At this combination, the candidate is typically devoting a non-zero amount of effort to fundraising. This raises the possibility of voter-welfare-enhancing campaign finance reform—limiting the option of raising funds will force the high-ability candidates to devote more effort to policy to preserve separation.

The literature briefly surveyed above shows that voters’ interests can be served by campaign finance regulation, even if campaign expenditures are genuinely informative about which candidate is best for voters and even if voters are fully rational, so that they understand that ads might be paid for by promises of favors or that fundraising took time away from the policy work that they value.

However, not all of the arguments offered in the policy discussion hold up to formalization equally well—the antidistortion argument seems quite hard to support with rational voters. It is easy to see ways to change the model to make the results different. For example, if campaign expenditure fools voters into thinking that they are more extreme than they “really” are, then banning the expenditure might be welfare improving.

But the main contribution of the other papers discussed above is to show that there is reason to worry even if we have significantly more faith in voters. Both the anticorruption and antidistracton arguments show up robustly even under best-case assumptions about voter competence. Transparency and high quality discourse in ads are not enough to ensure that privately financed campaigns advance voters’ interests.

References

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