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DEMOCRATIZATION EFFECTS OF CAMPAIGN CONTRIBUTION LIMITS IN GUBERNATORIAL ELECTIONS

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ABSTRACT

Campaign contribution limits have become a common feature of campaign finance reform efforts in most states. The use of contribution limits has been seen as an important mechanism by which to lessen the influence of so-called 'special interests' and to encourage citizen participation. Contribution limits could 'democratize' the system of contributions by forcing candidates to rely on a larger number of smaller contributions, thereby reducing the value of any single contribution. In this article, we focus on the alleged 'democratization' effects of campaign contribution limits. We examine 58 gubernatorial elections in 42 states during the period 1990 to 2000. Analyses of the number of contributors, the total dollar amount of contributions and the average amount given by contributors suggest that contribution limits do have a democratization effect. The nature of the effect, however, depends upon whether one examines all contributors, just particularistic contributors or just individualistic contributors.

KEY WORDS ■ American gubernatorial elections ■ campaign contribution limits ■ democracy of political contributions ■ special interests group

Introduction

Soon after the Watergate scandal, Congress undertook efforts in 1974 to reform the federal campaign finance system. A major component of this reform effort was the introduction of campaign contribution limits. The use of contribution limits was seen as an important mechanism by which to lessen the influence of so-called 'special interests' and to encourage citizen participation. Contribution limits could 'democratize' the system of contributions by forcing candidates to rely on a larger number of smaller contributions, thereby reducing the 'value' of any single contribution.¹ Similar

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represents a given major party candidate in a given state during a given election cycle.

Independent Variables

The effect of contribution limits is the primary focus of our analyses. We use a single composite variable to measure the effects of contribution limits.¹³ Although states often place different levels of restrictions on corporations, labor unions, PACs, individuals and political parties, regulations do exhibit cumulative properties (Gross and Goidel, 2003; Malbin and Gais, 1998).¹⁴ As such, the limitation variable is coded in the following manner. Limitation is coded 0 if there are no limitations placed on individual, political party or PAC contributions. This is done because corporations and labor unions can often circumvent limitations placed on them through the use of affiliated PACs (Sorauf, 1992). It is coded as 1 if there are some limits placed on corporations, labor unions and PACs with no limitations placed on individuals or political parties. States are coded as 2 if there are some limitations placed on corporations, labor unions and PACs with some limits placed on either individuals or political parties. A value of 3 indicates that some limits are placed on corporations, labor unions and PACs with some limits placed on both individuals and political parties. Finally, a value of 4 indicates that corporations and labor unions are prohibited from contributing, that there are some limits on PACs, and that there are some limits on both individuals and political parties.

In addition to the limitation variable, independent control variables fall into three categories: political variables, demographic variables and dummy variables used to represent years. The political control variables are inter-party competition, partisan strength, government status, candidate status and the party of the candidate. Demographic control variables are the wealth of a state and education.

Numerous analyses have shown that inter-party competition is an important factor to consider when analyzing campaign finance issues in general and political contributions in particular (Fuchs et al., 2000; Goidel et al., 1999; Gross and Goidel, 2003; Gross et al., 2002; Stratmann and Aparicio-Castillo, 2001). As elections become more competitive, the number and amount of political contributions tends to increase. In our analyses, inter-party competition is measured as the absolute difference in the percentage of the vote between the two major party candidates.

The importance of partisan strength and government status can be considered to be important to the number and amount of political contributions in the context of contributors as investors. If contributors do act as investors, then they should be more likely to invest in a candidate whose party is in power. So, contributors should be more likely to contribute to a candidate whose party controls every branch of government or whose political party is considered strong in a state. Government status is coded as 1 if

a candidate's political party controls both the state house and the state senate, 0 if the state house is controlled by one party while the state senate is controlled by the other party, and -1 if his or her opponent's political party controls both the house and the senate. Our measure of partisan strength is the percentage of a candidate's political party's vote share in the latest presidential vote in the state (Medvic, 2001).

Candidate status is always an important variable to consider when evaluating political contributions. In almost all types of elections, incumbents tend to have more contributors and a greater total dollar amount of contributions compared to challengers (Box-Steffensmeier and Dow, 1992; Gross and Goidel, 2003; Snyder, 1990, 1993; Stratmann and Aparicio-Castillo, 2001). It has also been debated whether or not contribution limits have a different effect on incumbents than on challengers (Aranson and Hinich, 1979; Box-Steffensmeier and Dow, 1992; Cox and Magat, 1999; Eom and Gross, forthcoming; Hogan, 2000; Snyder, 1990, 1993; Stratmann and Aparicio-Castillo, 2001). One might also expect that the behavior of contributors is different in open seat races than when there is an incumbent running. We measure candidate status through the use of two dummy variables. Being an Incumbent (BI) takes on a value of 1 if the candidate is an incumbent, 0 otherwise. Being a Challenger (BC) takes on a value of 1 if the candidate is challenging an incumbent candidate, 0 otherwise.

Finally, a party variable was included to see if there are different effects for Democrats as opposed to Republicans. The party variable is coded 1 if the candidate is a Democrat, 0 if the candidate is a Republican.

To capture state-specific characteristics, two demographic control variables are used: the wealth of a state and education often used to measure the pool of contributors across states (Rosenstone and Hansen, 1993; Shields and Goidel, 2000; Snyder, 1990, 1993; Verba et al., 1995). The wealth of a state is measured in terms of personal income in billions of current dollars in a state. Education is measured by the percentage of the state's population that are college graduates or higher. Dummy variables for years are also added to control yearly specific effects.¹⁵

The Statistical Model

The theoretical model can be written as regression equations in which the independent variables are contribution limits, political control variables and demographic variables. The model is specified for a candidate level analysis where each case is a given candidate in a given state in a given election cycle, as shown in equation 1:

$$(1) \text{Contribution}_i = \beta_0 + \beta_1 \text{BC}_i + \beta_2 \text{BI}_i + \beta_3 \text{Limitation}_i + \beta_4 \text{Party}_i + \beta_5 \text{Partisan Strength}_i + \beta_6 \text{IPC}_i + \beta_7 \text{Government Status}_i + \beta_8 \text{Income}_i + \beta_9 \text{College}_i + \sum_{j=2}^9 \theta_j \text{YD}_j + \varepsilon_i$$

reduced by contribution limits, while these limits did not affect the number and the amount of labor union contributions. Furthermore, limits did not affect the average amount per corporate contribution, while they did affect the average amount per labor union contribution. This suggests that, given the presence of contribution limits, corporations decide not to contribute, but labor union contributors continue to donate in smaller amounts. Contrary to assumptions in the previous literature on the type of particularistic contributions, further studies are needed to differentiate between the different nature of corporate and labor union contributions. The results are available from the authors upon request.

23 The value of inter-party competition is 5.38 for the 25th percentile and 24.43 for the 75th. The difference between the percentiles is multiplied by the slope coefficient, -0.05 for the number and -0.04 for the amount.

24 For the particularistic data we also ran analyses including interaction terms to search for differential effects of the limitation variable. None of the interaction terms were statistically significant and a joint F-test once again indicated that there was no statistical basis to justify the inclusion of the interaction variables. The *p*-value of a joint F-test was 0.78 in the case of the number of contributors, 0.69 in the case of the total dollar amount and 0.38 in the case of the average amount given by contributors. While there were some changes in the behavior of the BC and BI variables when including interaction terms, substantive interpretations of other control variables remained the same. The results are available from the authors upon request.

25 The direction of the coefficients in Table 3 would indicate support for hypotheses 5 and 7, but they are of insufficient magnitude to reach statistical significance. The reason for these findings is probably similar to those given in note 18.

26 Once again there was no statistical basis for including interaction terms in the analyses. When included, none of the interaction terms were statistically significant and joint F-tests indicated no need to add interaction terms. The *p*-value of a joint F-test was 0.87 in the case of the number of contributors, 0.65 in the case of the total amount of contributions and 0.38 in the case of the average amount given by contributors. The results are available from the authors upon request.

27 It is also important to point out that we found no support for the critics' argument that campaign contribution limits increase the financial advantage of incumbents *vis-à-vis* challengers. In all analyses, there was no statistical basis to suggest the need to include interaction terms which would have been indicative of a differential effect of contribution limits upon incumbents and challengers.

28 This stream of argument can be applied not only to candidate-centered politics, but also to party-centered politics where money has an importance in elections, such as Great Britain (Pattie et al., 1995) and Korea (Shin et al., 2005).

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