3

The System of Money in Politics

Why did Andimuthu Raja decide to use his position to enrich himself? Why did Walt Minnick spend several hours every day wooing potential donors to support his reelection campaign? And why did Gerhard Schröder leave electoral politics to take up a well-paid private sector position? Are these three forms of money in politics connected to each other? What does a change in one type imply for the others? And what happens if a particular form is more prevalent in a particular context? In this chapter, I lay out my main argument that addresses these questions, and derive a set of testable hypotheses in three steps.

In the first step, I make sure that self-enrichment, campaign spending, and golden parachute employment can – and should – be studied in a common framework by examining why politicians want money in politics in the first place. Many lawmakers are famously motivated by a desire to win (and stay) in office. But several studies have demonstrated that they also care about their personal financial situation. Since money helps them achieve both of these goals, the different forms are at least partly fungible. I also show that much of the money that enters politics is partially interchangeable from the perspective of its source, whether it is instrumentally motivated financiers or state resources appropriated by a politician. This makes clear that the different forms of money in politics should be treated as part of a *common system*.

In a second step, I describe my *comparative theory* that makes sense of when politicians use their time in office to enrich themselves, when they invest in increasing their chances of staying there, and when they use their position as a stepping stone to a lucrative job with the very special interests they previously regulated. I argue that, depending on their level of motivation to stay in office and their financial motives, they use

https://doi.org/10.1017/9781009053952.003 Published online by Cambridge University Press

the different types of money in the way that best suits their needs, given the environment they operate in. I focus on two macro-level factors that influence this optimization – the legal and electoral campaign environments. Treating the different forms of money as part of a common system reveals a crucial insight: A change in one type has *second-order effects* in the opposite direction on the others. For example, a decrease in self-enrichment (say, as the result of stricter regulation) leads to an *increase* in campaign spending and/or golden parachute employment. I derive a set of empirical predictions that I test in subsequent chapters.

In a third step, I explore the broader implications of these second-order effects. The three types of money have different consequences for numerous aspects of democracy. A change in one form, which in turn generates second-order effects on the other types, therefore has important *third-order consequences*. First, I argue that voters' attitudes should not only be affected by the total amount of money in politics, but also by how politicians use it. If one form becomes less common, for whatever reason, and another turns out to be more prevalent as a result, this changes how voters view their representatives. Second, because campaign spending helps candidates win, how money enters politics systematically biases election outcomes in favor of some parties or candidates, and against others. And since campaign spending changes as a second-order response to adjustments in other forms of money, this leads to the prediction that any event that alters any type of money can affect election outcomes. I again derive a set of testable empirical implications.

3.1 WHAT POLITICIANS WANT, AND HOW MONEY HELPS THEM GET IT

To determine whether it makes sense to examine enrichment in office, campaign spending, and golden parachute jobs in a single framework, we first need to ask why politicians want money in politics. This, in turn, requires figuring out what they care about in the first place, and how money helps them achieve it.

What do politicians want? The most well-known answer comes from Mayhew (1974), who studied the motivations of US representatives and famously argued that their main goal is to get reelected. To show this, he assumed that politicians *only* care about being reelected, and then demonstrated that they engage in activities that are consistent with this vision of "single-minded seekers of reelection" (Mayhew, 1974, 5).

The "re-election assumption" underlies much modern political science research and is at the core of many formal as well as nonformal theories. In fact, it has reached "near axiomatic status" (Carey, 1998, 103).[1] A sentence in which an author states that they assume politicians care solely about being reelected typically goes undisputed. For example, the style guide of the *Quarterly Journal of Political Science* instructs authors to "not cite works on points that are uncontroversial, such as, 'Members of Congress are reelection-seekers"' (Mayhew, 1974).[2]

But reelection is not the only goal that politicians have, and very often not even the most important one. Mayhew himself acknowledged this, pointing out examples from other countries where politicians are in office for only a short time and allowing that even some US legislators "try to get rich in office, a quest that may or may not interfere with reelection" (Mayhew, 1974, 16). Similarly, Manin, Przeworski, and Stokes (1999) observe that some politicians "may want to get rich at the expense of citizens, while in office or after leaving it" (Manin, Przeworski, and Stokes, 1999, 40).

The literature provides systematic evidence supporting the idea that politicians not only care about getting reelected, but also about their personal finances. Probably the clearest demonstration of this occurred in 1992 in the US Congress. A 1979 amendment prohibited new legislators from personally pocketing unused campaign funds when they left office; existing legislators were not affected by the rule. A second amendment in 1989 ended this exemption, which came into effect in early 1993. This meant that in the 1992 elections, members who had been in Congress since before 1980 could either retire and keep any unspent campaign money for their personal use, or run for reelection and lose it.

Groseclose and Krehbiel (1994) estimate that of the fifty-three retirements that took place that year, nineteen would not have occurred without this payout. Groseclose and Milyo (1999) go one step further and use variation in leftover campaign money to estimate that the average amount required to buy a congressperson out of their seat is about \$3 million (\$5.5 million in 2021 dollars), but ranging from \$0.3 million to \$20 million (\$0.5 to \$36.7 million in 2021) depending on factors such

[1] Caring about reelection is most widespread among members of a country's most attractive legislature. Those who are in positions that are considered less important may also exhibit "progressive" ambition, such as a desire to hold higher office (cf. Schlesinger, 1966; Black, 1972; Rohde, 1979). While seeking higher office is slightly different from trying to stay in office ("static ambition"), both share a desire to hold political office.

[2] "Style Guidelines," *Quarterly Journal of Political Science*.

https://doi.org/10.1017/9781009053952.003 Published online by Cambridge University Press

TABLE 3.1 *Politicians' motivations for money in politics.* Reasons why politicians want to receive money in its different forms

	Office Motivation	Financial Motivation
Self-Enrichment	No	Yes
Campaign Spending	Yes	No
Golden Parachute	No	Yes

as legislators' age and wealth. Similarly, Diermeier, Keane, and Merlo (2005) use data on all House and Senate members from 1947 to 1993 to estimate a dynamic structural model of congressional career decisions. They demonstrate that, on average, a payment of about $600,000 in 1995 dollars makes members of the House of Representatives willing to give up their seat, while it takes $1.7 million to convince a senator ($1.1 and $3.1 million in 2021, respectively).[3] So while legislators *do* value being (and staying) in office to a considerable degree, they, just like everyone else, also care about their material wealth.

Regardless of in what proportion a legislator is driven by each of these motivations, money helps with both, as laid out in the literature review in the previous chapter. Table 3.1 summarizes the underlying motivations that were identified for each type. For the financial motivation, lawmakers can try to "supplement" their official income while in office, like Andimuthu Raja did. They can also decide to leave office and cash in on their political position by securing a golden parachute job, as Gerhard Schröder decided to do. Politicians who seek to remain in office must finance a campaign, which means raising funds, as exemplified by Walt Minnick. Money can thus enter politics in different ways, and they satisfy the two main things politicians care about.

3.2 SOURCES OF MONEY AND THEIR MOTIVATIONS

We have to distinguish between two different sources of money in politics. Most commonly, it comes from external sources such as corporations, special interest groups, and wealthy individuals. In some countries, however, money can also come from politicians appropriating internal (state) resources, for example, by stealing taxpayer money. In this section, I discuss each source in turn.

[3] See also Kiewiet and Zeng (1993); Hall and van Houweling (1995); Mattozzi and Merlo (2008); Keane and Merlo (2010).

External Sources of Money

If external financiers give money to serving politicians for their *self-enrichment*, they usually have instrumental motivations. A host of anecdotes as well as the systematic studies discussed in the previous chapter show that such payments often lead to political favors: Financiers are more likely to receive government licenses, benefit from public contracts, and have favorable policies enacted (or unfavorable ones discarded).

The literature stresses two motivations for *campaign donors*. The first is, again, instrumental considerations: Campaign money is strategically spent on politicians in influential positions, and donors often expect that they will get face time with lawmakers so they can make their case, and that this will translate into action at least some of the time. Second, campaign donors also give money due to electoral or expressive motivations. Many contributors simply want to express their support for a certain candidate or party and to boost their chances of winning the election. This is especially true for small-scale donors, who are common in the United States, although less prevalent elsewhere.

Finally, the discussion of *golden parachute employment* has also revealed that those who offer it have two potential motivations. The first is former politicians' human capital. During their time in office, they acquire knowledge of certain subject areas and the legislative process, and make valuable contacts. The second motivation is, again, instrumental. There may not be an explicit agreement that politicians will receive a lucrative job in the future in exchange for access and policy favors now. But companies do not give such jobs to politicians who did not support their positions while in office. It is difficult to imagine a Russian pipeline consortium hiring Gerhard Schröder if his policy had been to make Germany less dependent on Russian oil and gas. Consciously or unconsciously, this can – and does – influence politicians' decisions while in office.

Table 3.2 summarizes what financiers want and how money helps them get it. It illustrates that while some motivations are unique to the specific type of money in politics, the instrumental motivation is common to all three. That is, if moneyed private actors want to obtain access to (and potentially influence over) elected officials, they can enrich politicians, help them get reelected, or hire them after they leave office.

TABLE 3.2 *Financiers' motivations for money in politics.* Reasons why financiers want to spend money, in different forms, on politics

	Instrumental Motivation	Other Motivation
Self-Enrichment	Yes	No
Campaign Spending	Yes	Electoral/Expressive
Golden Parachute	Yes	Human Capital

Internal Sources of Money

Few studies have investigated how politicians acquire internal sources of money, partly because getting reliable data on funds stolen from state coffers is even harder than finding information on external money. However, the evidence that does exist suggests that it can be used for both personal enrichment and to fund campaigns.

Perhaps the best-known studies with hard data on stolen taxpayer money come from Brazil. Since 2003, a set of municipalities has been randomly selected every month for a thorough audit to detect misappropriations of federal transfers. This typically involves the diversion of funds (e.g. through the purchase of goods and services that are never provided, or through money simply disappearing from municipal bank accounts), fraud in procurement practices (e.g. noncompetitive bidding processes), over-invoicing, or fake receipts. As Ferraz and Finan (2011) report, "In some cases, the mayor himself is a direct beneficiary. For example, in Paranhos, Mato Grosso do Sul, $69,838 was paid to implement a rural electrification project. As it turns out, one of the farms benefiting from the project was owned by the mayor" (Ferraz and Finan, 2011, 1281).

Pereira and Melo (2015) provide an example of an electoral motivation behind the corruption: "[T]he mayor of Belém, in the northern state of Pará (Duciomar Costa), was reelected despite being investigated for the use of public funds in his electoral campaign" (Pereira and Melo, 2015, 89).

Thus, politicians can use internal money both to enrich themselves and to finance their reelection campaigns (see Table 3.3). However, money stolen from state coffers can clearly *not* come in the form of a golden parachute job. This makes internal money different from external money in one important aspect: whereas the latter can come in all three forms, the former can only come in two. In this chapter, I first examine the more

TABLE 3.3 *Uses for internal money in politics.* Whether internal money can be used for the different forms

	Internal Money
Self-Enrichment	Yes
Campaign Spending	Yes
Golden Parachute	No

general case of external money, and then discuss how the more limited case of internal money fits into the theoretical argument.

3.3 MAPPING THE SYSTEM OF MONEY IN POLITICS

The preceding discussion has made it clear that the different forms of money in politics are not unrelated to each other. Self-enrichment, campaign spending, and golden parachute employment all help politicians achieve objectives they care about. This leads to the book's central argument: the different types of money in politics are partially fungible and thus form a *common system*. In the second major step of this chapter, I now develop a theoretical framework that provides insights into when each form is more or less prevalent, and what downstream effects an increase or decrease in one type has on the others. To facilitate the discussion, I use a stylized theoretical setup to analyze how money enters politics under different conditions. I focus on an intuitive description of the setup and analysis and use graphs to enhance clarity. In the Appendix, I provide a simple decision-theoretic formalization of my setup and mathematically derive all insights discussed here.

Stylized Theoretical Setup

I focus on a stylized *incumbent politician* with access to money. I first consider the case of external money: there are instrumentally motivated special interests willing to give money to the incumbent. Further in the text, I discuss how the argument translates to the more limited case of internal money, for example, through stealing taxpayer money. For simplicity, I assume here that no actors have electoral or expressive motivations to make campaign contributions, and that no actors are interested in employing the incumbent after they leave office for their human capital.

In the Appendix, I show that these simplifications do not affect the main insights of the argument.

The politician faces a standard trade-off: The money is only available to them if they pursue a policy that is favored by the financier(s) but is unpopular with the electorate, so they pay an electoral penalty (cf. Grossman and Helpman, 2001).[4] Of course, real-world interactions rarely involve such a straightforward quid pro quo; they tend to be more subtle. For example, Lessig (2011) describes a long-term "gift economy," in which campaign contributions or gifts indebt politicians to interest groups and policy favors indebt interest groups to politicians, perpetuating a continuous exchange (see also Fox and Rothenberg, 2011). The mechanism described here should thus be seen as a simplified description in the spirit of well-known models of money in politics (e.g. Grossman and Helpman, 2001; Bombardini and Trebbi, 2020).

Since I am exploring *how* the politician uses money, I focus on a situation in which they have already decided to take it. Thus for now, I assume it is optimal for them to do so. I revisit this topic in Chapter 8, where I discuss the connection between how money enters politics and *whether* it does so.

Figure 3.1 provides a schematic overview of the incumbent's situation and the points at which money in different forms can enter. There are two legislative periods, the current and a future one, with an election in between them. The first opportunity to take money presents itself right away: Like Andimuthu Raja, the incumbent can *enrich themselves* in the current period, so *while holding office*.

Next, at some point during their term, our incumbent must decide whether to run for reelection. Let's say they choose to do so, so we go down the left arm of Figure 3.1. They now fight an election campaign, which means they incur personal costs: traveling around their constituency to give speeches, being subject to heightened scrutiny by the media, being attacked by opponents, and so on. As the example of Walt Minnick demonstrated, the campaign is the incumbent's second opportunity to use money, since *campaign spending* will increase their chances of reelection.

If the incumbent wins the election they remain in office for another period, which they value and derive satisfaction from. Of course, the value

[4] For details on what these policy favors can look like, see, for example, Ansolabehere, de Figueiredo, and Snyder (2003); de Figueiredo and Edwards (2007); Mian, Sufi, and Trebbi (2010, 2013); Boas, Hidalgo, and Richardson (2014); Kalla and Broockman (2016); McKay (2018); Egerod (2019); Bombardini and Trebbi (2020).

https://doi.org/10.1017/9781009053952.003 Published online by Cambridge University Press

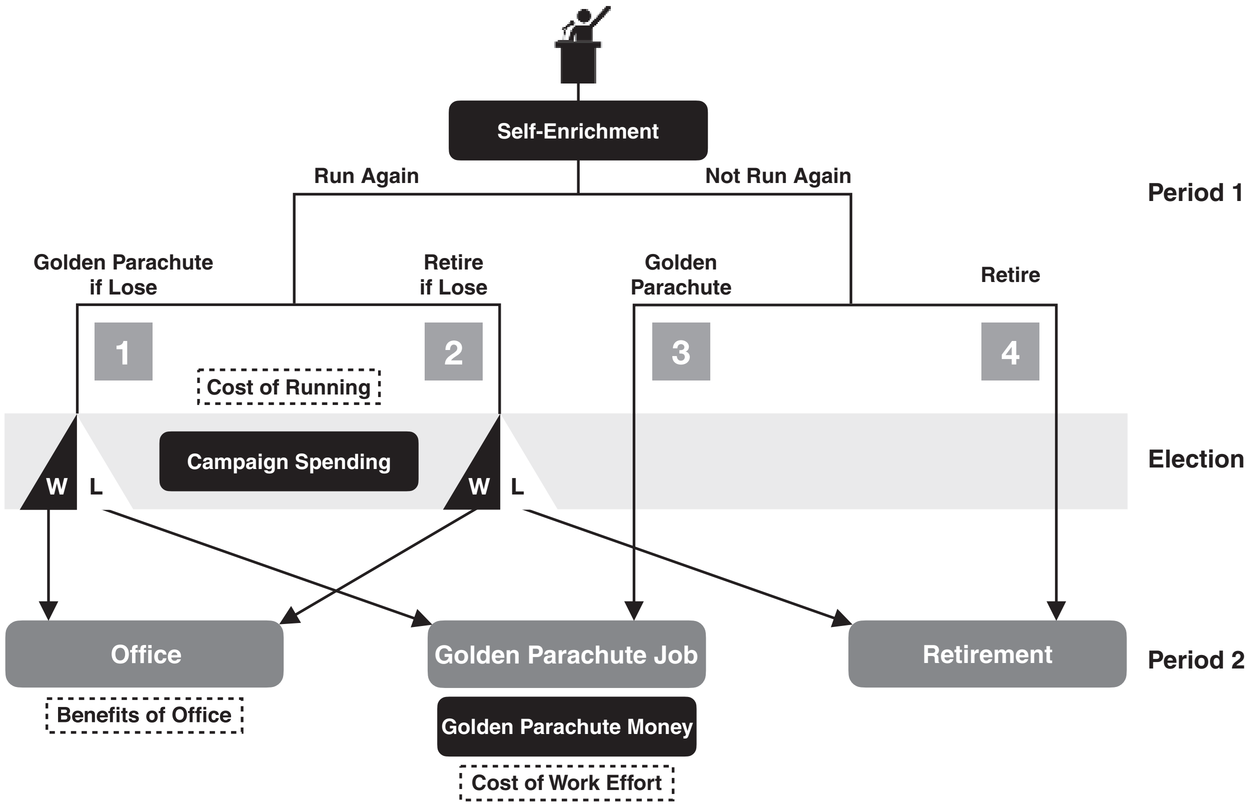

Figure 3.1 *Incumbents' decisions and the three types of money in politics*. Black boxes: Different types of money. Dark gray boxes: What the incumbent does in the second period. Medium gray boxes: Numbering of the incumbent's four possible paths. Light gray box: Election period. Black and white triangles: Election with probabilistic outcome. Dotted boxes: Costs or benefits internal to the incumbent

a politician attaches to being in office vis-à-vis how much money they earn differs between individuals (cf. Groseclose and Milyo, 1999; Diermeier, Keane, and Merlo, 2005). Some politicians care primarily about being rich, while others are mostly driven by a desire to stay in office, perhaps because they are already wealthy or because they have a strong public service motivation. The value a politician associates with holding office may also become less important over the course of their career. I take this diversity into account in the analysis.

Either way, there is no certainty in democratic elections. Campaign spending can increase the chances of staying in office, but does not guarantee it. This means the incumbent must decide what to do if they lose. They can leave electoral politics and retire (the second path in Figure 3.1) or, as shown in the first path, they can make use of the final option in which money can enter politics – *golden parachute employment*, where in the second period they take up a job that is directly or indirectly paid for by a financier.[5] This means that the incumbent benefits from their position *after* leaving office by earning a lucrative salary, in return for which they have to provide a (potentially small) work effort. Many politicians use such a job as an "insurance" option that is only taken up if they lose an election. For example, Gerhard Schröder only became Nord Stream's board chairman after he was defeated by Angela Merkel.

If our incumbent decides not to run for reelection at the end of their term (right arm in Figure 3.1), they again have two options. First, they can go straight into the private sector and take up a golden parachute job (third path in Figure 3.1). For example, in 2009 former British Health Minister Alan Milburn announced that he would not seek reelection and would instead "pursue challenges other than politics."[6] After serving out his term, he worked for several private health companies and in the health industry division of PricewaterhouseCoopers. The incumbent's second option is to not run for reelection and retire, which is the fourth path.

Incumbent Decisions and the Three Types of Money

Figure 3.1 makes clear how the different forms of money are part of a *common system* and how a politician can benefit from them at different

[5] A direct way for the interest group to pay the incumbent after leaving office would be to hire them as a board member, strategic adviser, or in-house lobbyist. An indirect way would be if the politician sets up or joins a lobbying or consultancy firm and is then hired to advise or represent the financier.

[6] "Milburn to Stand Down at Election," *BBC News*, June 27, 2009.

points. The question thus is: When is money used for self-enrichment while in office, when does it help politicians win elections to stay in office, and when does it come in the form of a lucrative job after leaving office?

I argue that incumbents, who care about being in office as well as their finances, choose to use the money in the way that benefits them the most, given the environment they operate in. This argument has two elements. First, *politicians* decide how to use the money they have access to. Second, when making that decision, they are essentially solving an *optimization problem* subject to a budget constraint (the amount of money that is available to them). Both of these points require further elaboration.

First, the argument that incumbents have agency over their career, and thus over how they solicit and use money, is a strong one. There is considerable evidence that politicians actively ask for money in specific forms. For example, in 2010 a voicemail left by US Congresswoman Eleanor Holmes Norton on a lobbyist's phone was leaked to the public:

> This is Eleanor Norton, Congresswoman Eleanor Holmes Norton. I noticed that you have given to other colleagues on the Transportation and Infrastructure Committee. I am a senior member, a 20-year veteran and I'm handling the largest economic development project in the United States now ... I was, frankly, surprised to see that we don't have a record – so far as I can tell – of your having given to me, despite my long and deep work, essentially in your sector. I'm simply candidly calling to ask for a contribution.

This is not an exception. Many corporations report being approached by politicians, as former US Senator Russ Feingold recalled: "[S]ometimes the corporations that didn't like the system would come to us and say, you know, you guys, it's not legalized bribery, it's legalized extortion. Because it's not like the company CEO calls up to say, gee, I'd love to give you some money. It's usually the other way around."[7]

Given that politicians care about being in office as well as about their personal financial situation, it makes sense that they try to get the money to which they have access in the way that is most useful to them.

By contrast, financiers who are motivated by instrumental interests can achieve them through any of the three forms of money. They therefore have no inherent preference for a particular type, and it would make little sense for them to insist on, say, making a campaign contribution to an incumbent who is not interested in getting reelected. In other words, the

[7] Both quotes appear in: "Take the Money and Run for Office," *This American Life*, March 30, 2012.

most cost-effective way for a financier to achieve their goal is to provide money in the form that the incumbent desires most.[8]

The second element of my argument is that in choosing how to use the money, incumbents implicitly solve a constrained optimization problem. That is, if they ask, for example, for a large campaign contribution, it means that any self-enrichment they engage in, or any chance of getting a lucrative post-politics job, will be lower.

At first glance, it may not seem that politicians trade off between the different forms of money; some appear to be able to have it all. For example, Eric Cantor, a former Republican majority leader of the US House of Representatives, was one of the most prolific campaign fundraisers in Congress while he was in office. He collected more than $7.5 million in donations for his 2012 campaign, and raised more than $26 million over the course of his thirteen years in the lower house.[9] After leaving office in 2014, he took up a job as vice chairman and managing director at the Wall Street investment bank Moelis & Company that earned him around $3.5 million per year.[10] Yet many of his colleagues raise less campaign money and have less lucrative jobs after leaving office, or none at all, which provides the impression that the different forms of money may be complements.

However, the relevant comparison here is *within* – not *between* – individuals. The reason why some politicians have a lot of money in several forms, while others have little of any type, is that the former tend to be more influential, and therefore have access to more money. After all, Eric Cantor was one of the most important politicians in the country. A powerful lawmaker who raises a lot of campaign money and then takes a golden parachute job could have put even more effort into raising campaign funds. If they had done so, and had received even more generous contributions, instrumentally motivated financiers would decide at some point that it does not make sense to spend more money. Therefore,

[8] This implies that the assumption that the incumbent decides how to use the money mostly amounts to a rhetorical simplification. If a financier decided how to spend money, and they had knowledge of the politician's preferences, we would expect money to enter politics in the same way as when the politician makes the decision. Of course, financiers may also have an electoral interest, in which case only a campaign contribution makes sense; or they may be interested in the incumbent's human capital, so would offer them a golden parachute job. But if financiers' interests are *instrumental*, they should be happy to provide the money in the ways the politician prefers.

[9] "Rep. Eric Cantor – Virginia District 07," *Center for Responsive Politics*.

[10] "Eric Cantor Lands $3.4 Million Investment Banking Job," *Newsweek*, September 2, 2014.

they will be less inclined to offer the politician a lucrative job down the road. Put a different way, there is only so much a politician can do, and there is only so much a rational, instrumentally motivated financier can pay. Given these constraints, there has to be a trade-off between different forms of money: more of one means less of another.

I develop my theoretical argument that explains how money enters politics by analyzing the optimal course of action for our incumbent in Figure 3.1. To maximize their utility, they "allocate" the money from the different possible forms along the four paths, and choose the path that provides the highest payoff. The outcome of this optimization will differ depending on the macro-level conditions in which they operate, particularly the legal and electoral campaign environments.

Simplifying Assumptions

My theoretical setup simplifies complex processes in numerous ways and neglects many details. However, cutting through the complexities and distilling the process of how money enters politics into its essential components allows me to unify personal enrichment, campaign spending, and golden parachute employment into a single, and tractable, theoretical environment (cf. Healy, 2017). The important thing is that my simple setup captures the core characteristics of money in politics.

First, the allocation of the money between campaign spending, personal enrichment, and golden parachute job is a simplified description of reality. Politicians do not explicitly state that they are foregoing enrichment in office to instead take up a private sector job with a specified salary upon leaving office; nor do they instruct special interests to make a campaign donation worth X and deliver a suitcase containing amount Y in cash. Instead, politicians may make their preferences known by hinting that they might be a valuable addition to a certain company rather than asking for a campaign contribution, or vice versa. Again, in practice these delicate relationships constitute an implicit exchange that depends on mutual understanding and a stock of reputational capital.

Second, the incumbent may not necessarily receive money in different forms from the same source. For example, they may take a campaign contribution from one financier and accept a golden parachute job from another. The trade-off between the different forms is still present: Instead of accepting campaign money from one source and securing a job with another, a politician could have solicited only campaign funds, or could have doubled up on post-employment jobs. The important point is that even the most powerful politician only has a finite amount of special interest money they can draw on, and they have to decide how they want to use it.

Third, each type of money in politics requires a different culture and infrastructure to support it (see Johnston, 2005, 2014). For example, the golden parachute option requires companies to create a job for the politician, such as a board member or lobbyist. In many countries, such roles do not exist, and politicians cannot simply move into the private sector. They might not even be aware that this is a way for them to "cash in" on their position. The results presented in the empirical chapters demonstrate that politicians usually do not consider all three types of money at the same time, and instead only face a subset of options. But the point of the theory is to determine the parameters under which, for example, a golden parachute job is a feasible way for money to enter politics. If it is, entrepreneurial politicians will find out about it sooner or later, and the necessary infrastructure will develop. Similarly, it probably does not cross most US politicians' minds to ask for millions of dollars to enrich themselves, even though they regularly do so to finance their campaigns. However, this has not been true historically (cf. Glaeser and Goldin, 2006; Querubin and Snyder, 2013; Teachout, 2014), and my theory sheds light on the structural conditions that lead away from enrichment in office toward other forms of money in politics.

Fourth, Figure 3.1 simplifies politicians' careers by only focusing on two periods, but most politicians stand in more than one election over the course of their career, so they go through several such cycles. Thus their preferences regarding how much they value being reelected and how much they care about financial gains may change over time. For example, they could care more about obtaining and staying in office early on in their careers, and be more concerned about money later in life. It is also plausible, and indeed likely, that the trade-offs between the different forms of money occur over several electoral cycles. For example, politicians may take a job with a company in an industry whose interests they reliably advocated for during their entire political careers. But again, my simpler theoretical setup captures the relevant features. I discuss the impact of the legal and electoral campaign environments on politicians with different preferences regarding wealth and office, and the basic optimization problem that politicians face is the same regardless of whether that happens over one or several periods.

Finally, I assume that there are no commitment problems. But how is the promise of golden parachute employment credible? Why would someone hire a politician after they leave office? After all, there is no third-party enforcer to invoke. In fact, the commitment problem is much broader than that and applies to the other forms of money as well. Why should someone make a campaign donation after they have already benefited from the incumbent's policies? And as for personal enrichment, why does the incumbent not simply take the money and then implement their own preferred policies? However, such commitment problems primarily arise in single-shot interactions. But, as mentioned earlier, the short-term dynamic described in Figure 3.1 is part of a long-term pattern of interactions. If, for example, a politician provides policy benefits to an industry but never receives any money from it, they will eventually stop listening to the industry's preferences, as will other politicians. Similarly, if a group gives money to politicians and does not perceive any benefits in return, it will not be inclined to continue spending on politics. In technical terms, all actors involved could employ a trigger strategy, and interactions can be sustained if the future is not discounted too highly (cf. Kroszner and Stratmann, 1998). In nontechnical terms, everyone involved has at least some interest in maintaining a reputation of trustworthiness.

Money in Politics in a "State of Nature"

I begin the theoretical discussion of the decisions our incumbent makes with a brief analysis of a "state of nature" – a deliberately simple (and unrealistic) environment in which there are no restrictions or regulations of any form of money. How the incumbent uses money in such a situation will serve as the baseline. I will then layer different macro-environments on top of this baseline to derive a set of empirical implications that I test later in the book.

The first thing to realize is that in a state of nature, taking a golden parachute job *cannot* possibly be the best option for the incumbent. Leaving politics and working in the private sector is an option for lawmakers to become rich after leaving office. But in a state of nature, there are no penalties for personal enrichment *in* office. Thus the benefits of both options are the same. The golden parachute, however, comes with costs: A politician who takes a job in the second period has to put in work effort, however little it may be, and wait for the payout, which thus has a lower present value. In addition, they face opportunity costs, since they cannot hold office and enjoy the associated benefits.

If politicians can accept money for personal enrichment without fear of punishment, they can have their cake and eat it too: They can get monetary compensation in the first period rather than through a golden parachute later on, and they can potentially stay in office in the second period. And even if the incumbent does not run for reelection, taking the money in the first period and without work effort is preferable to receiving the money later and having to work for it. Thus, in the benchmark scenario with no restrictions on money in politics, there is *no golden parachute*.

This eliminates Paths 1 and 3 in Figure 3.1. The remaining options for the incumbent are to (1) use the money in a mixture of personal enrichment and campaign spending, and run for reelection and retire if they lose (Path 2) or (2) use all of the money for personal enrichment and retire straight away (Path 4). Which path the incumbent prefers, and in what proportion they use the money to enrich themselves versus to finance their campaign, depends on a number of incumbent-specific factors.

One is the incumbent's internal motivation – how much they value holding office relative to personal wealth. If they do not value office very much, they will take a "smash-and-grab" approach – get all of the money for their personal enrichment, and not even try to seek reelection (Path 4). If they value being in office to a greater degree, running for reelection and retiring from politics if they lose is the better option (Path 2). In this case, the money is used for both personal enrichment and campaigning. The latter increases when an incumbent values holding office more. At some point, no personal enrichment takes place anymore and all funds raised are allocated to the incumbent's campaign.

Another factor that influences how money enters politics is the cost of running for reelection: higher running costs mean the incumbent is more likely to enrich themselves and retire. Finally, a third factor is how much an incumbent discounts the future. If they value the future to a lower degree, they invest less in their campaign and are less likely to run for reelection in the first place.

These individual-specific factors depend on, for example, candidates' personality and preexisting wealth, and may change over the course of their career. In each context, there will thus be an unobservable distribution of motivations, perceived costs, and valuations of the future among politicians. In the theoretical discussion that follows, I take this into account by examining the impact of changes in the legal and electoral campaign environments given different "starting points" of how money is used and what career path a politician chooses.

3.4 THE EFFECT OF THE LEGAL ENVIRONMENT

Few, if any, democratic countries do not regulate money in politics at all. In this section I explore the impact of various restrictions by focusing on three different forms of regulation in turn: (1) punishing self-enrichment, (2) campaign finance laws, and (3) cooling off periods that impose restrictions on post-politics employment. A large literature has analyzed the direct and immediate impact of such legal restrictions on the form of money they pertain to. However, it has not examined them using a framework that situates the different types in a common system, like in Figure 3.1. The analysis below shows that, in line with the findings in the literature, such restrictions reduce the flow of the particular type of money they target. However, it also shows that such regulations have much less obvious *second-order consequences* on the other forms. By treating the different types of money in isolation, previous studies have largely overlooked these knock-on effects.

Punishing Self-Enrichment

The first target of efforts to get money out of politics is usually politicians who use their position for personal enrichment. Nearly all countries prohibit direct monetary payments to incumbents. Many countries also have restrictions on more hidden ways through which politicians can enrich themselves, such as gifts, sponsored travel, or holding stocks of certain companies (see e.g. Djankov et al., 2010). And while the enforcement of such rules varies, incumbents who use their office to enrich themselves face some risk of being caught and punished in many countries. What is the effect of such regulation on the system of money in politics?

If engaging in self-enrichment may result in being caught and fined, the expected value of doing so declines. Consequently, the incumbent will engage in less of it, as seen in the first row of Figure 3.2. The donuts show how the incumbent uses money, and the lines above indicate which of the four possible career paths they choose. The leftmost column shows a "state of nature" starting point. In the first row, the incumbent runs for reelection and retires if they lose (Path 2 in Figure 3.1). They solicit some money in the form of campaign contributions, and the rest is used for self-enrichment. Moving from left to right, as regulations become stricter and/or better enforced, self-enrichment drops until it eventually disappears completely. This is, of course, not a new insight: several past studies

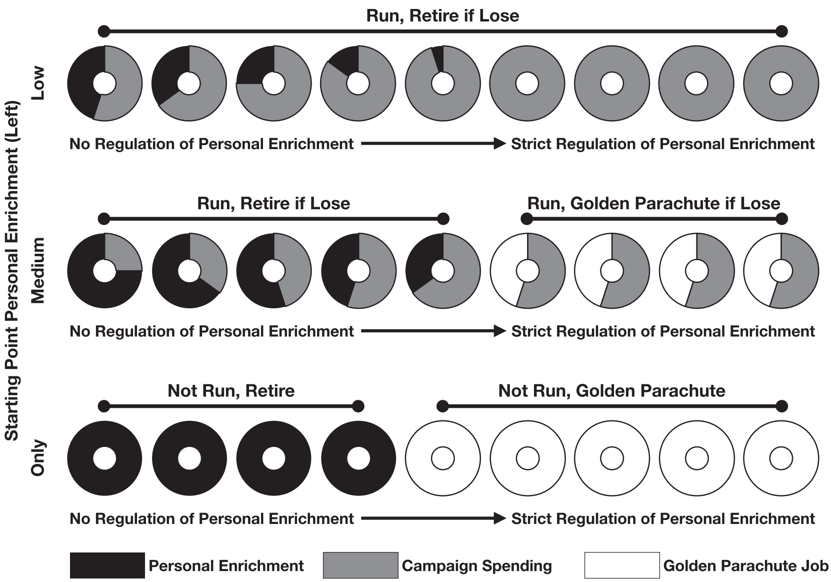

FIGURE 3.2 *Effect of regulation of self-enrichment on how money enters politics.* Effects depending on how much personal enrichment the incumbent engages in during the "state of nature" (left of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

have demonstrated how tough anti-corruption laws dissuade politicians from enriching themselves (e.g. Glaeser and Goldin, 2006; Teachout, 2014).

What *is* a new insight, however, is that the decrease in self-enrichment leads, as a *second-order effect*, to an *increase* in campaign spending. After a penalty for personal enrichment is introduced, politicians who care about both staying in office and their financial well-being have no easy option to improve the latter anymore. It therefore makes sense to invest more money in campaigning to increase their chances of staying in office. And if the laws against self-enrichment are very stringent, incumbents only use money for their campaign: they become single-minded seekers of reelection. The reelection assumption, so fundamental in political science, is thus endogenous to the legal environment regarding money in politics and holds only under certain circumstances.

The second row in Figure 3.2 shows what happens when an incumbent starts out with more self-enrichment, for example, because they value holding office less. As regulation becomes stricter, they again spend more on campaigning and engage in less self-enrichment. And once the practice becomes risky enough, the incumbent chooses a career path that involves golden parachute employment. Recall that in the "state of nature," it was never optimal for the politician to do so. When politicians expect to be caught and fined if they enrich themselves while in office, this no longer needs to be the case, as both self-enrichment and golden parachute employment come with losses. For the former, it is the expectation of being caught and fined, and for the latter it is the opportunity cost of not being in office in the second period, the discount of being paid later, and the work effort. Thus, the incumbent will choose whichever form comes with the lower costs.

An important implication of this is that politicians will generally *not* engage in enrichment in office *and* take up a golden parachute job.[11] In the second row of Figure 3.2, this means that once self-enrichment becomes risky enough, the incumbent will switch to using money in the form of campaign spending, but also "plan ahead" for a golden parachute job. They run for reelection and only take up the job if they lose: the private sector position is used as an insurance option.

Finally, the last row in Figure 3.2 displays a situation in which the incumbent starts out by *not* running for reelection, and only engaging in self-enrichment. This politician does not value being in office much, or faces prohibitive costs of running again. Stricter regulation does not immediately lead to less self-enrichment, since campaign spending is of little use to them. However, once the restrictions become stringent enough, the expected loss from enrichment in office starts to outweigh the work required to obtain a golden parachute job and having to wait until the next period for the payout. The incumbent now uses their political career as a stepping stone to land a lucrative appointment in the private sector, and all money comes in the form of a golden parachute salary. They do so without seeking reelection. Politicians thus react to stricter and better enforced laws by moving from enrichment *while in office* to enrichment *after leaving office*.

In summary, a crucial insight gleaned from analyzing the different forms of money as part of a common system is that if countries clamp down on enrichment while in office, they can expect *second-order consequences*. Politicians respond by exploiting the arbitrage opportunities due to the fact that the different forms of money are regulated differently. Rather than in suitcases full of cash, money then enters politics in more

[11] Note that this only holds when the financier has instrumental motivations and is not interested in hiring former politicians for their human capital, see Appendix.

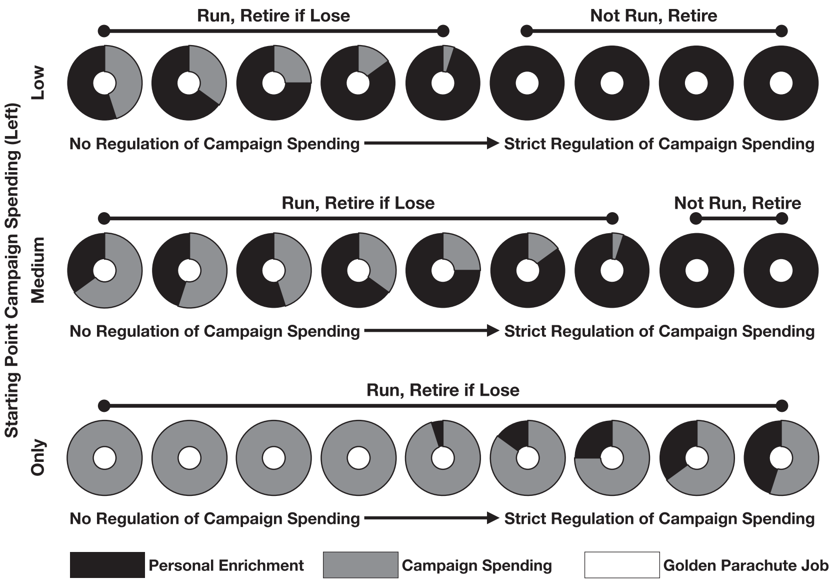

FIGURE 3.3 *Effect of campaign finance regulation on how money enters politics with permissive regulation of self-enrichment.* Effects depending on how much the incumbent spends on their campaign when there is no campaign finance regulation (left of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

subtle ways. Incumbents who, either because of their personality or their stage in life, care more about being in office use the changed environment to spend more money on their campaigns, thus improving their chances of being reelected. Incumbents who are in politics for the money can still use their position to fulfill this goal, but they now have to wait a bit longer, and have to do at least some work in exchange. Examining only one type of money in politics at a time obscures these knock-on effects on other forms.

Campaign Finance Regulation

Many countries not only have legislation that restricts politicians from enriching themselves in office, but also regulates how much money candidates or parties are allowed to accept and spend on their campaigns (Austin and Tjernström, 2003; Falguera, Jones, and Ohman, 2014; Abel van Es, 2016). This section examines how introducing stricter campaign finance regulation affects how money enters politics.

Figure 3.3 shows the effect of tougher campaign finance laws where the regulation of self-enrichment is permissive. Because enrichment is not very risky, there is no golden parachute employment. The three rows reflect different starting points. In the first row, the incumbent starts out with positive (but low) campaign spending and enriches themselves more than in the other two rows. They run for reelection and will retire if they lose. The same is true in the second row, although here they spend more on their campaign. In the last row, the incumbent is a single-minded reelection seeker and uses all money for campaign spending.

As campaign finance legislation becomes more stringent (moving from left to right in each row), the amount of campaign spending decreases. Again, prior studies have demonstrated how campaign finance regulation leads to cleaner elections (e.g. Eggers and Spirling, 2014; Mutch, 2014; Avis et al., 2021; Fouirnaies, 2021). However, such rules also generate second-order effects, as self-enrichment becomes comparatively more enticing again. Because this means a lower chance of winning reelection, running again and retiring in case of a loss becomes less attractive. Instead, incumbents are more likely to simply retire after their term ends, as seen in the first two rows.

Adding campaign finance laws to the mix can thus lead to a paradoxical situation: Politicians may be more likely to use their office to personally enrich themselves in an environment that penalizes personal enrichment than in one where it is completely unrestricted. If the restrictions are not severe enough to get money out of politics (see Chapter 8), it is the strictness of the prohibitions on self-enrichment and campaign spending *relative to each other* that determines how money enters.

Figure 3.4 illustrates the effect of stricter campaign finance laws when regulation of self-enrichment is stringent, so the dominant ways in which money enters politics are campaign spending and golden parachute employment. As campaign finance regulation becomes stricter, the incumbent again leverages the arbitrage opportunities between the separately regulated forms of money. Campaign spending decreases, but golden parachute jobs become more common as well as more lucrative.

In the first row, the incumbent starts out with relatively low campaign spending. Instead, they can obtain a generous salary if they lose their reelection race and take up a golden parachute job in the second period. As the penalty for campaign spending increases, it is rational for the incumbent to invest even less in their campaign, opening up the possibility of having a more lucrative backup option in the private sector if they lose.

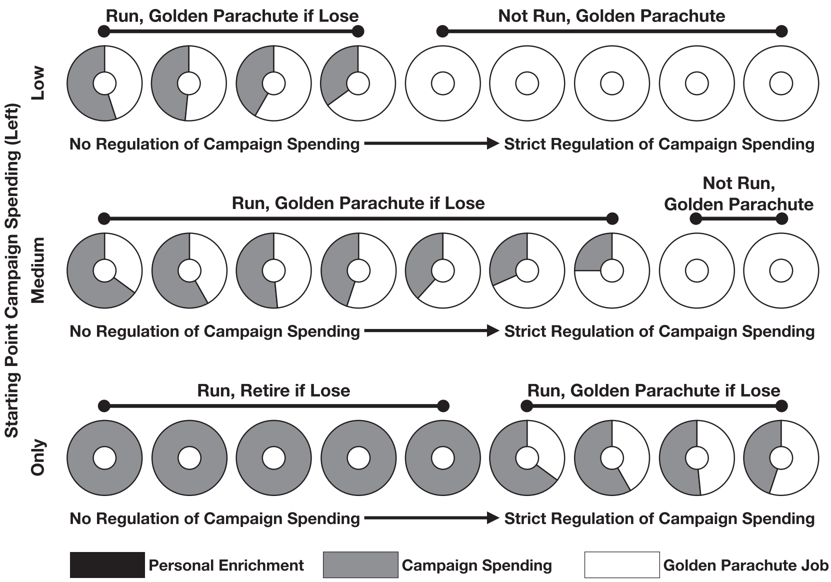

FIGURE 3.4 *Effect of campaign finance regulation on how money enters politics with strict regulation of self-enrichment*. Effects depending on how much the incumbent spends on their campaign when there is no campaign finance regulation (left of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

At some point, however, the probability of winning becomes so low that it is better to avoid the cost of running again and instead walk straight into a golden parachute job. Note that there is a pronounced drop in campaign spending rather than a gradual tailing off. This is because running for reelection comes with fixed costs. If they are incurred, the incumbent will want to invest enough in campaigning to have a realistic chance of winning. Once campaign spending, and the associated chance of winning, falls below a certain threshold, it becomes preferable to not incur the cost of running and instead go directly into the private sector.

In the second row, the politician also starts out by running for reelection and taking a private sector job if they lose, but solicits more money for their campaign. Their reaction to more stringent campaign finance rules is the same – a decrease in campaign spending, accompanied by a more lucrative golden parachute job. And ultimately, if the penalty becomes very high, the incumbent again ceases to run for reelection and uses their time in office as a stepping stone to a lucrative private sector career.

Finally, the last row depicts a situation in which the incumbent starts out by using only campaign money and retiring if they lose their bid for reelection. Here, an increase in the penalty for campaign spending does not have an immediate effect. However, at some point the incumbent will switch from running and retiring if they lose to running but taking a golden parachute job if their reelection bid is unsuccessful. There is a drop in campaign spending and a jump in the salary to compensate for the fact that a private sector job involves a fixed effort.

In summary, stricter regulation of campaign spending again results in politicians exploiting arbitrage opportunities. While it does decrease the amount of money that incumbents spend on their campaigns, as a second-order consequence it also increases the effort they dedicate to improving their personal financial situation, either while holding office or after leaving it.

Golden Parachute Restrictions

One implication of the preceding discussion is that golden parachute jobs should be most prevalent in countries that have strict rules against enrichment in office as well as restrictive campaign finance laws. I will substantiate this empirically in Chapter 6 in more detail, but a brief look already reveals that this is indeed the case. It is not an accident that prior studies of golden parachute jobs have been conducted exclusively in countries that effectively restrict other forms of money in politics, such as the United States, United Kingdom, Germany, Ireland, or the Netherlands.[12]

Of course, most countries' anti-corruption legislation prohibits offering golden parachute jobs in a *direct* quid pro quo. However, as discussed earlier, these jobs usually come about more subtly. They are more likely to be based on a shared implicit understanding, or on politicians anticipating a lucrative career in the future, which consciously or unconsciously influences their actions in office. Thus, calls for reforms designed to curb golden parachute jobs by restricting or prohibiting former politicians from being employed in the private sector have escalated in many countries.

These regulations typically take the form of "cooling off" laws that prohibit former politicians from holding certain jobs for a limited period of time. For example, more than twenty US states ban former legislators from registering as lobbyists or representing their new employer in interactions with government officials for a set period of time after leaving

[12] See González-Bailon, Jennings, and Lodge (2013); Dörrenbächer (2016); Lazarus, McKay, and Herbel (2016); Palmer and Schneer (2016, 2019); Baturo and Arlow (2018); Würfel (2018); Egerod (2019); Claessen, Bailer, and Turner-Zwinkels (2021).

office (see Chapter 5). Thus, existing restrictions narrowly target jobs that directly involve interactions with the government. However, politicians take up many other occupations after leaving office, for example, as advisers or members of boards of directors. As I argue in more detail in Chapter 8, it is very difficult to square restrictions on employing former politicians with common constitutional provisions that guarantee people's freedom of occupation. And indeed, post-politics jobs that do not directly involve lobbying the government are usually unregulated.

Returning to the theoretical setup laid out in Figure 3.1, existing restrictions are best thought of as increasing the cost of the work effort that a politician incurs. Being a lobbyist is probably the private sector job that is best suited to the skill set of someone leaving politics; it is the occupation of choice for most former members of the US House of Representatives (Palmer and Schneer, 2019). If this move is legally prevented, politicians instead need to take up a different job when they leave office – likely one to which they are less suited. This increases their perceived work effort.

The consequences of such golden parachute regulation follow the now familiar pattern. On the one hand, increasing the cost of taking a private sector job makes the incumbent place less emphasis on securing a lucrative post-office salary, and it makes them less prone to pursue such a path at all. On the other hand, there are second-order effects in the other direction again. As they are less likely to leave office for the private sector, the incumbent spends more on campaigning and potentially engages in more self-enrichment while in office.

Empirical Implications

In this section, I have argued that politicians arbitrage differences in how strictly the various types of money in politics are regulated. Changing the law that relates to one form not only has implications for how common that type is; it also affects the *other* forms. While the direct first-order effects have been extensively studied, the second-order effects have received little attention.

Of course, my argument is based on the assumption that a significant amount of money continues to flow after reforms have been implemented, which is borne out in the empirical case studies in Chapters 4 to 6. I discuss how the legal environment affects *how much* money enters politics in more detail in Chapter 8, and show that when there are multiple types of money that can partially substitute for each other, the consequences of reforms are not straightforward. The empirical chapters will test the following implications that can be derived from the discussion in this section:

- Stricter regulation of self-enrichment leads to more campaign spending and more golden parachute employment.
- In environments with permissive regulation of self-enrichment, stricter campaign finance regulation leads to more self-enrichment in office.
- In environments with strict regulation of self-enrichment, stricter campaign finance regulation leads to more golden parachute jobs.
- Golden parachute restrictions lead to more self-enrichment and more campaign spending.

3.5 THE EFFECT OF THE ELECTORAL CAMPAIGN ENVIRONMENT

Democratic politics revolves around elections, and thus campaigns. The circumstances in which these are fought vary dramatically, and I argue that how demanding the *electoral campaign environment* is constitutes a second macro-level variable that shapes the system of money in politics. I focus on two crucial component parts. First, there is considerable variation in the *effectiveness* of the technology used to fight campaigns. Second, electoral campaign environments differ in their *a priori competitiveness*. Both factors can be expected to influence how much a politician spends on campaigning, which in turn has second-order effects on the other forms of money.

Effectiveness of Campaign Technology

Consider some of the options to fight a campaign that a typical US politician has. For example, they can purchase TV ads highlighting their strengths or attacking their opponents, which can bolster their approval ratings and increase their vote share. They can send leaflets or call constituents. And they can set up a canvassing operation that sends campaign workers door to door to persuade citizens to vote for them and motivate voter turnout. All of these techniques are costly, but effective (see e.g. Huber and Arceneaux, 2007; Gerber et al., 2011; Green, McGrath, and Aronow, 2013; Green and Gerber, 2015). They are made even more efficient by the widespread availability of individual-level voter data, which facilitates more precise microtargeting of efforts (Hersh, 2015). And of course, a politician can campaign for many months to increase their chances of being elected.

Contrast this with a politician running for reelection in a European country, where campaign spending tends to be much less effective. For example, door-to-door canvassing has been shown to have considerably smaller effects than in the United States, and often none at all (Bhatti et al., 2019). In many countries, campaigns are only a few weeks long, and only a small number of political ads are broadcast on TV.[13] European campaigns often also lack even basic information about individual voters, as one German campaign manager explains: "A lot of things that are popular in the US are not popular here, like keeping track of who is a Democrat or a Republican. The public would revolt if we did microtargeting."[14]

These differences also exist in contexts where campaigning primarily means vote buying or other targeted goods distribution. For example, Thachil (2014) shows that India's Bharatiya Janata Party (BJP) provides basic social services, such as schools or health clinics, that are cheap and effective at turning out poor voters for the party. In contrast, prior studies have revealed that to make an impact, the value of handouts must increase considerably to be effective among wealthier voters (Calvo and Murillo, 2004; Hicken, 2011; Weitz-Shapiro, 2012, 2016).

How do such differences in the effectiveness of campaign spending affect the system of money in politics? Figure 3.5 illustrates the answer for a situation in which there is little effective regulation of self-enrichment. Baseline campaign spending effectiveness is located in the *middle* of each row. Moving toward the left shows what happens when campaign money becomes less effective; rightward shifts indicate greater efficiency. In the first row, the incumbent starts out with no campaign spending and enriches themselves instead. They do not run for reelection. In the second row, the incumbent runs for reelection but plans to retire if they lose; they thus split the money between self-enrichment and campaign spending. Finally, in the last row they start out with only campaign spending.

When spending is less effective (moving left), its marginal returns are lower. As a consequence, incumbents solicit less money for their campaigns. But again, looking at the different forms of money together

[13] These factors are at least partly determined by regulation, so the effectiveness of campaign spending is not independent of legal factors. However, these legal restrictions pertain to campaign *technologies*, whereas those considered in the previous section pertain to campaign *spending*.

[14] "Why Germany's Politics Are Much Saner, Cheaper, and Nicer Than Ours," *The Atlantic*, September 30, 2013.

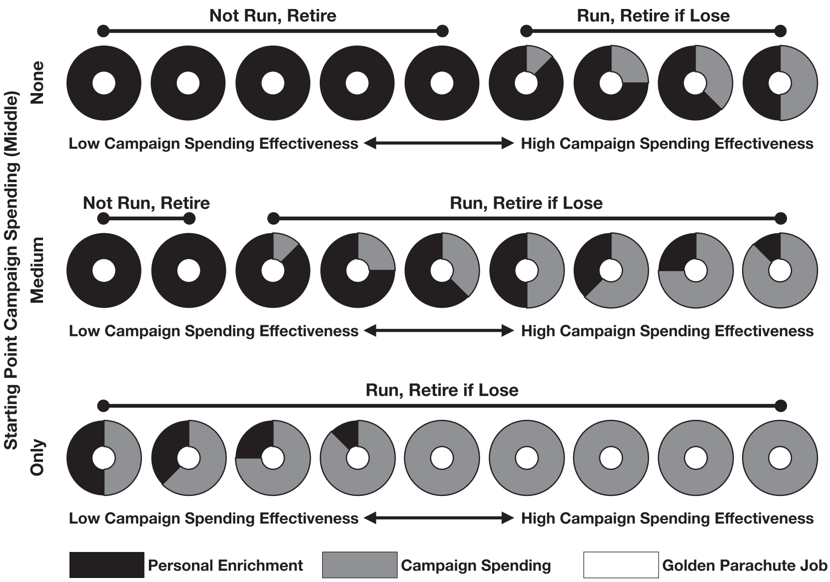

FIGURE 3.5 *Effect of campaign spending effectiveness on how money enters politics with permissive regulation of self-enrichment.* Effects depending on how much campaign money the incumbent uses with baseline campaign spending effectiveness (middle of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

demonstrates that this opens up the opportunity for them to use their position to enrich themselves. The lower campaign spending and its limited effectiveness also decrease incumbents' chances of winning a second term in office. This can lead them to decide against running for reelection, as happens in the second row.

When spending effectiveness increases (moving right), it leads incumbents to invest more in their campaigns. This comes at the expense of personal enrichment. Because of the higher chances of winning reelection, incumbents who previously would have used the smash-and-grab approach may now decide to run again, as in the first row.

Figure 3.6 illustrates the impact of campaign spending effectiveness if self-enrichment in office is stringently regulated, so the dominant types of money are campaign spending and golden parachute employment. Again, each row displays a situation in which the incumbent starts out (in the middle of each row) with no, medium, or only campaign spending. The basic dynamics are the same as earlier. Lower effectiveness leads to less campaign spending and more golden parachute employment. This can reduce incumbents' desire to run for reelection, as seen in the second row.

https://doi.org/10.1017/9781009053952.003 Published online by Cambridge University Press

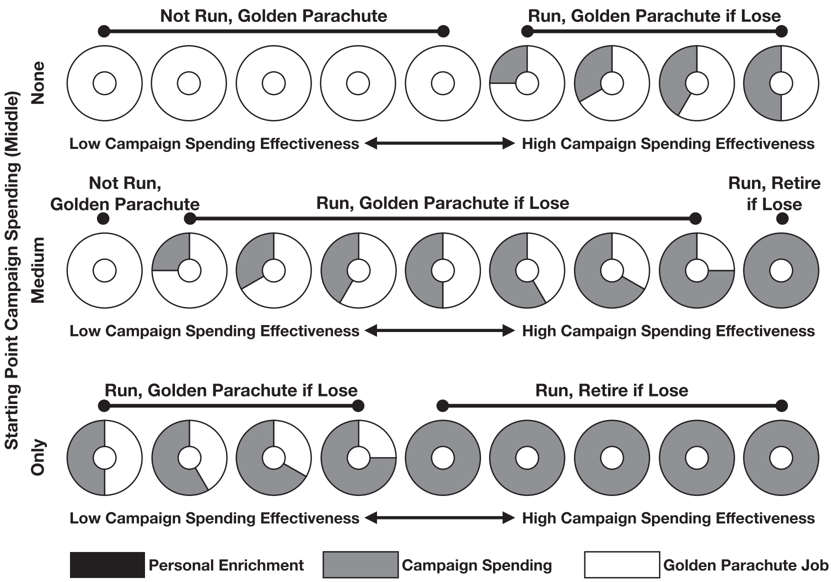

FIGURE 3.6 *Effect of campaign spending effectiveness on how money enters politics with strict regulation of self-enrichment.* Effects depending on how much campaign money the incumbent uses with baseline campaign spending effectiveness (middle of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

Greater effectiveness leads to more campaign spending and fewer golden parachute jobs. This may lead incumbents who did not run for reelection at baseline to seek another term in office, as exemplified in the first row.

In summary, this section demonstrates that greater campaign spending effectiveness leads to more money being spent on elections – a pattern detected in past research.[15] But again, there are second-order effects, as incumbents enrich themselves less, either while in office or after they leave. And because more, and more effective, campaign spending results in a greater chance of winning reelection, incumbents are more likely to run again. Lower campaign spending effectiveness has, of course, the opposite effect.

Electoral Competitiveness

How demanding elections are also depends on their *a priori competitiveness*. Some incumbents know the outcome is very uncertain. For example, a US campaign strategist recalls the nervousness of many candidates on

[15] See, for example, Gingerich (2013).

election day: "There were several I talked to over the years who had been in bed for days with headaches because of stress. There were other candidates who hadn't slept in days."[16]

In contrast, a German member of parliament experienced a different kind of anguish on election day in 2017. When it was announced that he won an eight-candidate election with 48.5 percent of the votes, more than twice as many as the runner-up, local media reported that he appeared visibly shocked when commenting that "the result is a surprise, in the negative sense."[17] Clearly, if he was this upset about a winning margin of almost 25 percentage points, he never had to contemplate that he might actually lose his seat.

Differences in the competitiveness of elections can result from a number of factors. For example, politicians may enjoy a large advantage if they are running on the ticket of a party that has historically performed well in their district. They may also have qualities that make them attractive to voters. For example, they might be perceived as especially charismatic, competent, attractive, or honest.[18] A politician may also have an advantage if they share ethnic or religious attributes with voters, or if they presided over a period of economic growth.[19]

What are the consequences of such differences in a priori competitiveness on how money enters politics? Figure 3.7 shows how it affects the way incumbents use money in a context of permissive regulation of self-enrichment. There are three different starting scenarios (no, medium, and only campaign spending) for the situation in which the incumbent can expect their election to be competitive (on the left of each row).

The first consequence of greater electoral safety is that it affects which career path the incumbent chooses. When the a priori chance of being reelected is higher, independent of any decisions about campaign spending, then the expected benefits of being a legislator in the second period increase as well. The first row shows that this increase may eventually exceed the cost of running, leading an incumbent to seek reelection when they would not have done so in a less electorally safe environment.

[16] "How Campaign Staffers Actually Spend Election Day," *MinnPost*, November 7, 2016.

[17] "So hat die Region gewählt," *Mittelbayerische Zeitung*, September 24, 2017. Translated by the author.

[18] Such factors are often referred to as valence terms, see e.g. Adams, Merrill, and Grofman (2005); Schofield and Sened (2006); Adams and Merrill (2009); Stone and Simas (2010).

[19] On ethnicity and voting, see e.g. Chandra (2004); Wilkinson (2004). On religion and voting, see e.g. Lipset and Rokkan (1967); Manza and Brooks (1997); Stegmueller (2013). On economic voting, see e.g. Duch and Stevenson (2008); Weschle (2014).

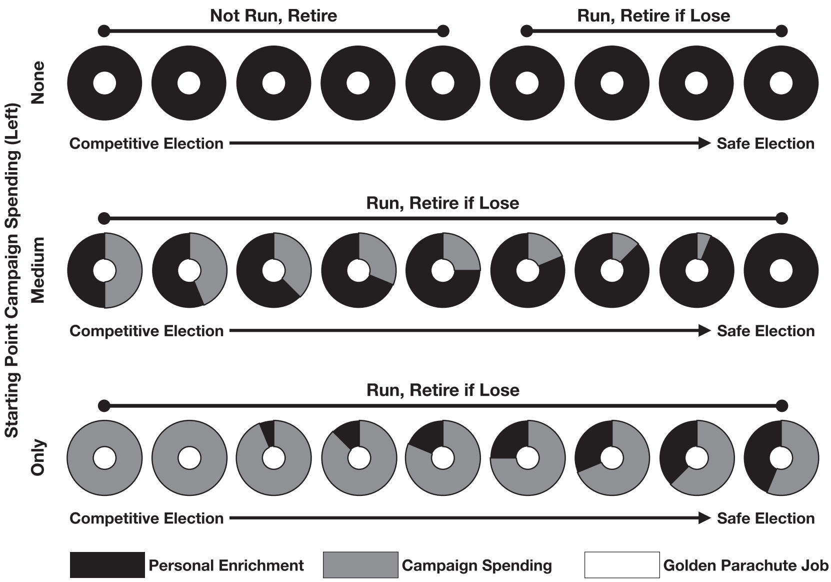

FIGURE 3.7 *Effect of expected election competitiveness on how money enters politics with permissive regulation of self-enrichment.* Effect depending on how much the incumbent spends on their campaign with baseline expected election competitiveness (left of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

How does greater electoral safety influence how much the incumbent spends on their campaign if they run for reelection? Consider two scenarios. In the competitive one, they have the a priori support of half of the electorate. That means they can potentially still convince the other half of the electorate to vote for them. In the safe scenario, a priori support is, say, 80 percent. Here, campaign advertisements, the distribution of money and gifts, and voter mobilization efforts can only sway a much smaller number of citizens. In other words, campaign spending becomes less effective as elections are a priori safer for the incumbent. Thus, if an incumbent runs for reelection, they will spend less on their campaign. And, in the now-familiar pattern of second-order effects, this opens the door for personal enrichment, as seen in the second and third rows.

Figure 3.8 shows the effect of a less competitive election on how money enters politics when regulation of self-enrichment is stringent. Greater electoral security again affects which of the four paths the incumbent takes. A higher a priori probability of winning reelection makes it more attractive to run again. The first row illustrates that the incumbent will be less likely to move directly into the private sector as a consequence.

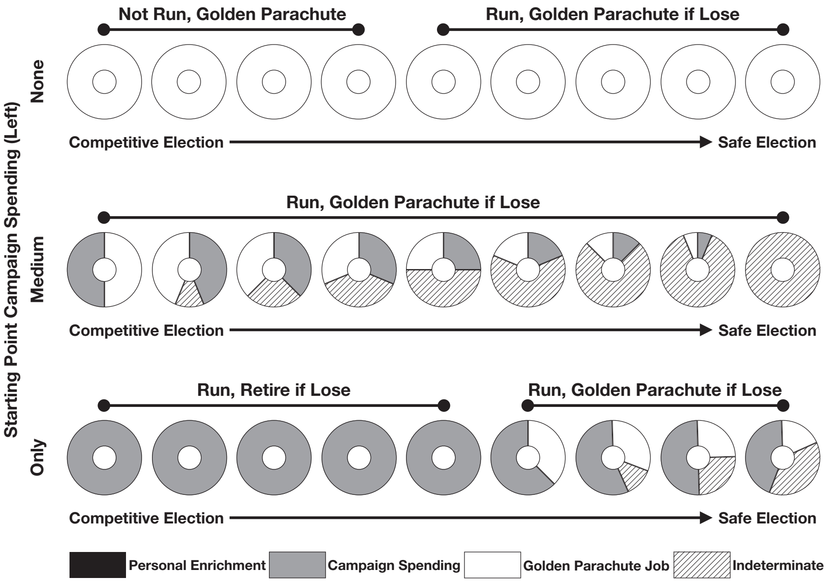

FIGURE 3.8 *Effect of expected election competitiveness on how money enters politics with strict regulation of self-enrichment.* Effect depending on how much the incumbent spends on their campaign with baseline expected election competitiveness (left of each row). The donut charts show how money is used, and the lines above indicate the corresponding career path

Instead, incumbents are more likely to run and take up a golden parachute job if they lose, but the latter becomes increasingly unlikely. The increased electoral security can also influence the behavior of an incumbent who starts out focusing entirely on winning reelection by soliciting money for their campaign, as in the third row. Because they face less risk, they can create an insurance option for themselves in the (unlikely) event that they lose.

If the incumbent runs for reelection and plans to take up a golden parachute job if they lose, the implications of greater electoral security for how much they spend on their campaign, and the salary they are offered for a private sector job, are less clear. This is because there are two opposing forces. On the one hand, a less competitive election makes campaign spending less effective, as discussed earlier. The incumbent therefore has an incentive to use less of it. On the other hand, a greater chance of winning means that the incumbent is increasingly unlikely to need their backup option (golden parachute job), which gives them an incentive to instead invest more in their campaign. Which of these forces wins out depends on factors such as how much the incumbent values holding office, how much they discount the future, and baseline campaign spending effectiveness. The theoretical prediction is therefore ambiguous, as shown by the shaded areas in the second and third rows.[20]

Thus, the straightforward first-order implication of this section is that most of the time, lower electoral competitiveness results in less campaign spending and a higher proportion of incumbents running for reelection, which has been shown in previous research (e.g. Golden and Chang, 2001; Chang, 2005). Yet, this does not mean that money disappears from politics in less competitive electoral races. Instead, there are second-order effects on the other forms of money, since more secure incumbents have greater leeway for self-enrichment in office or after leaving it. This has not been shown in the literature so far.

Empirical Implications

How does the electoral campaign environment influence how money enters politics? Again, the direct first-order impact of campaign spending effectiveness and electoral competitiveness on campaign money is relatively straightforward. Looking at the different forms of money together, however, reveals less intuitive second-order implications on self-enrichment in office or the extent to which politicians get golden parachute jobs. In subsequent chapters, I test the following empirical implications:

- Greater campaign spending effectiveness leads to less self-enrichment and less golden parachute employment.
- Greater electoral security leads to more self-enrichment for incumbents who run for reelection. It also makes it more likely that they run again, and thus less likely that they move directly into a golden parachute job.

3.6 STEALING STATE MONEY

Earlier, I distinguished between *external* money that is given to politicians by instrumentally motivated corporations, interest groups, or individuals and *internal* money, where politicians steal state resources. While the former can come in all three forms, the latter can only be used for self-enrichment or campaign spending. The discussion in this chapter has so

[20] This ambiguity is not problematic for the empirics in the later chapters, as data on the salaries of golden parachute jobs is not available.

https://doi.org/10.1017/9781009053952.003 Published online by Cambridge University Press

far focused on external money only. But my basic argument that pertains to the more general case in which all three forms are partially fungible also applies to the narrower case where only two of them are.

If an incumbent appropriates taxpayer money for themselves, they cannot spend that money on public goods such as schools or infrastructure that are popular with voters. They therefore pay an electoral penalty. Once they steal the money, they also face a very clear optimization problem: How much should they keep for themselves, and how much should they spend on their reelection campaign? The legal and electoral campaign environments influence this decision in the ways I outlined earlier.

The major difference between external and internal money is that the latter cannot come in the form of a golden parachute job. However, one of the insights discussed above was that, theoretically, it does not make sense for politicians to engage in self-enrichment while in office *and* take up a golden parachute job after leaving their elected position. In a given empirical context, politicians will thus usually choose between enrichment in office and campaign spending, or between campaign spending and golden parachute employment. For the former, the decision is the same no matter whether the money comes from external sources, state resources, or a mixture of the two. For the latter, the trade-off only exists for external money because internal money can only be spent on campaigning. In practice, however, countries that strictly regulate self-enrichment also tend to have stiff penalties for stealing taxpayer money. Thus, where the dominant forms of money in politics are campaign spending and golden parachute jobs, this money usually comes from external sources only.

3.7 CONSEQUENCES FOR DEMOCRACY

My argument so far has been that when we examine the different forms of money in politics using a common framework, we see that a change in one type has second-order effects on the other types: A decrease in one form leads to an increase in the others, and vice versa. But the implications do not stop there. Even though self-enrichment, campaign spending, and golden parachute employment are all part of a common system, the various forms have different effects on other aspects of politics. As a consequence, if money ceases to go through one channel and instead shows up in another, this has important *third-order effects*.

In the next two subsections I focus on two such effects: voters and winners. First, I argue that if politicians use money in different forms, this affects voters' attitudes toward them. Second, I make the case that how

https://doi.org/10.1017/9781009053952.003 Published online by Cambridge University Press

money enters politics affects electoral competition by systematically influencing who is more likely to win. I derive a set of empirical implications for both of these arguments, which I test in Chapter 7.

Voters

Citizens' level of trust in politicians plays an important role in the stability and health of a democracy. Prior studies have found that one of the major factors undermining this trust is the role of money in politics (see e.g. Della Porta, 2000; Anderson and Tverdova, 2003; Chang and Chu, 2006; Chong et al., 2015; Ares and Hernández, 2017; Solé-Ollé and Sorribias-Navarro, 2018).

However, I argue that voters perceive some types of money more negatively than others. An important difference between the three forms is that whereas enrichment in office and golden parachute jobs directly channel money to a politician, campaign spending only has an indirect effect by increasing the probability that they win reelection. Voters likely take a dimmer view of the former. After all, the classic definition of corruption entails using one's office for *personal* gain. By contrast, campaign spending leads to a *political* advantage, which may be seen as less problematic.

Furthermore, campaign spending has positive effects that self-enrichment (in or after leaving office) cannot have. For example, there is evidence that campaign advertisements can improve voters' information about politics (e.g. Zhao and Chaffee, 1995; Valentino, Hutchings, and Williams, 2004). If the money is used for voter mobilization, it can increase turnout (Green, McGrath, and Aronow, 2013; Green and Gerber, 2015). And in contexts with little programmatic competition, election spending in the form of cash handouts, support in times of adversity, or services such as education and health care have direct and tangible benefits for voters (e.g. Thachil, 2014; Chauchard, 2018; Nichter, 2018).[21]

Thus, I argue that when money enters politics, the public views it as more problematic if it personally benefits lawmakers. One implication of this hypothesis is that changes in how money enters politics can affect voters' overall view of politicians. For example, one of the arguments in

[21] Relatedly, Fernández-Vázquez, Barberá, and Rivero (2016) show that voters are more tolerant of self-enriching politicians when the policy concessions they make in exchange for a bribe have positive side effects for voters (e.g. construction jobs as a result of illegal building permits).

favor of stricter campaign finance regulation is that it would increase trust in politics. However, if the second-order effect of such a reform is that it leads to more self-enrichment, in office or thereafter, of which voters are more critical, then the third-order effect might be a counter-intuitive *decrease* in public confidence.

Winners

How money enters politics should also matter in relation to its effect on election results. Because campaign spending helps politicians win votes and stay in office, conditions that lead to more campaign expenditures can affect election outcomes. This has important implications for democratic competition, since some candidates and parties have systematically more access to money than others.

This differential access occurs for a variety of reasons. For example, incumbents generally find it easier to get special interest groups to give them money, whether in the form of enrichment in office,[22] golden parachute jobs,[23] or campaign contributions.[24] Politicians with more power or influence, such as ministers or members of important committees, also tend to raise more money.[25] Finally, parties have structural differences in their capacity to raise funds, since some have greater support from wealthy individuals and corporations than others. Politicians who belong to business-friendly parties thus have larger asset growth in office,[26] receive more campaign contributions,[27] and are more likely to take up golden parachute employment.[28]

If conditions are such that money is primarily used for self-enrichment or enters politics in the form of golden parachute jobs, some politicians will be better able to financially benefit from their position than others. But if the legal or electoral campaign environments change in a way

[22] Fisman, Schulz, and Vig (2014); Klašnja (2015).
[23] Eggers and Hainmueller (2009); Palmer and Schneer (2016).
[24] Krasno, Green, and Cowden (1994); Hogan (2000); Magee (2012); Fouirnaies and Hall (2014); Jacobson and Carson (2016).
[25] Fisman, Schulz, and Vig (2014); Powell and Grimmer (2016); Weschle (2021*b*).
[26] Bhavnani (2012) demonstrates a high number of "suspicious" rates of asset growth among politicians of the business-friendly BJP in India.
[27] See, for example, Samuels (2001*c*).
[28] Members of Parliament (MPs) from the British Conservative Party are more likely to take up politically linked outside employment than Labour MPs (Eggers and Hainmueller, 2009; Weschle, 2021*b*), and Republican members of the US Congress are more likely to become lobbyists after leaving office than their Democratic colleagues (Lazarus, McKay, and Herbel, 2016).

that increases the amount of money spent on campaigns, these asymmetries translate into *electoral inequality*. And as I have argued earlier, campaign spending can increase as a result of changes in *other* forms of money. This means that regulation which makes personal enrichment or golden parachute employment more difficult, and thus as a second-order effect increases campaign spending, has the third-order consequence of generating a systematic shift in who wins elections.

Empirical Implications

A change to one form of money in politics induces second-order changes to the other forms, which in turn should have third-order effects on certain aspects of democracy. I will test the following empirical implications of the preceding discussion:

- Voters are more likely to disapprove of politicians who enrich themselves in office or take up a golden parachute job compared to incumbents who use money for their reelection campaigns.
- If more money enters politics as campaign spending, parties and candidates who receive more money from financiers are more likely to win elections.

Of course, there are likely other third-order consequences. I focus on voter perceptions of politics and structural inequalities in who wins elections because these are among the most important factors when assessing democratic quality. In Chapter 8, I provide some conjectures about other potential third-order consequences of how money enters politics.

3.8 SUMMARY AND EMPIRICAL STRATEGY

In this chapter, I have laid out my theoretical argument, as summarized in Figure 3.9. I have focused on two factors that influence money in politics – the legal and electoral campaign environments that politicians operate in. A change in either has a first-order effect on the type of money to which it most closely pertains. For example, if stricter campaign finance legislation is implemented, campaign spending will decrease as a consequence. However, because the three types of money all serve important goals that politicians have, they are partially fungible and therefore constitute a common system. This means that the first-order effect is followed by second-order effects on the other types of money: The drop in campaign

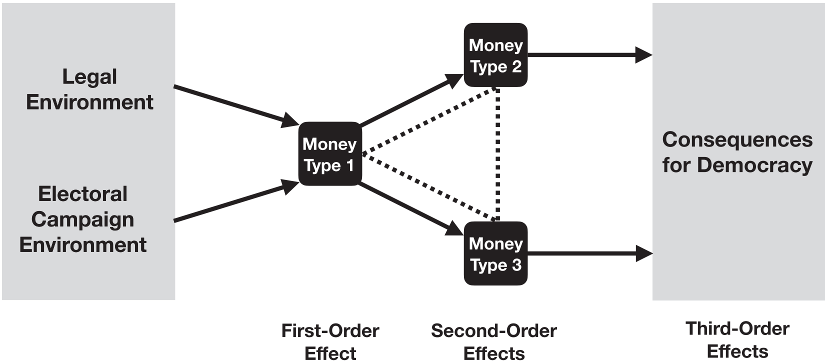

FIGURE 3.9 *Summary of the argument*

spending as a result of its stricter regulation leads to increases in self-enrichment and/or golden parachute employment. Finally, these first- and second-order effects lead to third-order consequences for democracy, such as how voters evaluate politicians and who wins elections. Most prior studies do not differentiate between different forms of money, or tend to examine them in isolation. This chapter has demonstrated that such a siloed approach can lead to an incomplete, and possibly misleading, understanding of money in politics.

In the next four chapters, I subject my theoretical argument to empirical scrutiny by testing the implications I have derived here. An important challenge is associated with the fact that, as this chapter has made clear, there are good theoretical reasons why it is rare for all three types of money to be present in the same context at the same time. In particular, self-enrichment in office and golden parachute employment should rarely coexist. I therefore cannot study the entire system in one empirical context.

This precludes the kind of case selection that is the norm in most contemporary political science books. I cannot focus on a single country, or on a small number of geographically proximate ones. Instead, I test my general equilibrium theoretical account in a series of partial equilibrium studies, situated in a set of countries that are not usually studied together. Each of them looks at a part of the system, but taken together they paint a larger empirical picture that matches the theoretical one outlined in this chapter. Figure 3.10 provides a schematic view of the empirical strategy used in the remainder of the book.

Chapters 4 and 5 test the second-order effects of the legal and electoral campaign environments using a series of within-country studies. In

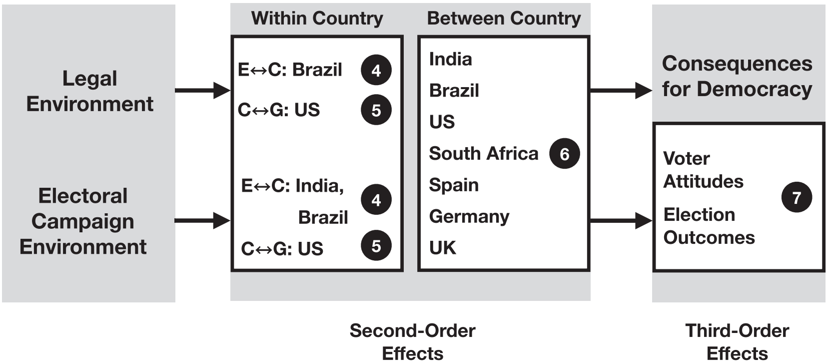

FIGURE 3.10 *Empirical strategy to test the argument.* Black circles denote chapters in which the tests are described. E↔C denotes the connection between enrichment and campaign spending, and C↔G the connection between campaign spending and golden parachute jobs

Chapter 4, I begin by focusing on the connection between self-enrichment in office and campaign spending in two contexts in which both types are common, India and Brazil. For the legal environment, I exploit changes in campaign finance regulation and examine its impact on politicians' self-enrichment. For the electoral campaign environment, I examine the effects of variation in the competitiveness of races on campaign spending and enrichment.

In Chapter 5, I turn to the United States to study the effect of the legal and electoral campaign environments on the link between campaign spending and golden parachute employment. For the legal environment, I examine the consequences of a relaxation of campaign finance laws on golden parachute employment. For the electoral campaign environment, I again exploit differences in competitiveness.

In Chapter 6, I move from within-country studies to between-country comparisons. I present short case studies from countries that vary in their legal and electoral campaign environments and test whether the dominant forms of money in those countries are as expected. In addition to India, Brazil, and the United States, I also study South Africa, Spain, Germany, and the United Kingdom. Note that in accordance with my theoretical focus, Chapters 4, 5, and 6 focus primarily on politicians and how they use the money they have access to. In each case I will briefly discuss where the money typically comes from, but this is not the main empirical focus.

Finally, Chapter 7 tests the empirical predictions related to the third-order consequences. I examine whether voters do indeed react differently to different forms of money using original survey experiments from India and the United States. Then, I explore the effects of how money enters politics on election outcomes, again using data from the United States.