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Bankruptcy reform and congressional action: The role of organized interests in shaping policy

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ABSTRACT

This paper tests the degree to which PAC contributions can influence voting outcomes on legislation that disproportionately influences the poor. Using passage of the Bankruptcy Abuse and Consumer Protection Act of 2005 in the House of Representatives, the results show an association between PAC campaign contributions from the financial industry and support for final passage of bankruptcy reform. The findings suggest that one source of underrepresentation of the poor may be donations made by interest groups during campaigns.

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1. Introduction

One of the most pressing questions in a representative democracy is whether elected officials respond to citizens' interests. As equality is also a core democratic value, the continued responsiveness of elected officials toward citizens, who are to be considered as political equals, remains a chief concern (Dahl, 1971). Recent scholarship calls equality in responsiveness into question as multiple studies find biased responsiveness toward the wealthy and the interests of those in low-income situations to be vastly underrepresented in policy outcomes (e.g. Bartels, 2008; Carnes, 2012, 2013; Flavin, 2012; Gilens, 2012, 2015).

Why are the interests of the poor underrepresented in American politics? One prominent explanation for a lack of responsiveness toward the poor is the difficulty faced by groups without large financial resources in influencing the policy process through political donations (e.g. Gilens, 2015). If the poor are unable to support legislators through political giving, well-organized and well-funded interest groups might sway elected officials.

This study tests this explanation (as well as others) by examining efforts in Congress to reform the bankruptcy system. Bankruptcy disproportionately affects those in low-income situations as studies show that individuals (or families) are most likely to declare bankruptcy after job loss, during a major illness due to a lack of health insurance (Sullivan et al., 1989; Retsinas and Belsky, 2009), or as a result of revolving debt (White, 2007). Thus, this is an issue that affects the poor and the ‘near poor’ (those living paycheck to paycheck) to a high degree (e.g. Sullivan et al., 1989). Thus, the issue of bankruptcy reform is an example of ‘risk privatization’ (Hacker, 2004; Krugman, 2005), where the government has taken steps to rescind protection against social risk (e.g. bad luck), which often disproportionately affect those in low income situations. As this socioeconomic group has far fewer resources to contribute to political campaigns, interest groups may be better poised to

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sway elected officials to vote contrary to the interests of the poor. Thus, the issue of bankruptcy reform allows for the test of a prominent explanation for why the poor are underrepresented in the policy process—because campaign contributions from groups with large financial resources far outpace those that might represent the poor. In the case of bankruptcy, while previous efforts by the industry to reform the system failed in multiple congressional sessions, the industry launched an intense campaign to sway legislators. In fact, some estimates put the total amount of money spent on lobbying and campaign contributions by the financial industry on bankruptcy reform at around $100 million, while groups advocating on behalf of the poor were largely absent or vastly outspent (Egan, 2005). Thus, bankruptcy reform is an issue that pits individuals (and families) with limited resources against large-scale efforts from industries with vast resources—such as large financial institutions.

The findings of this study provide support for an important explanation for why the poor often lose out in policy—because of a lack of financial resources to donate to campaigns. Moreover, the results show some evidence of a relationship between the personal net worth of individual legislators and roll call voting behavior on bankruptcy reform. These findings provide important implications for the study of representation and Congress in a time of rising economic inequality.

2. Unequal responsiveness

With growing attention to economic inequality in the United States, scholars have begun to examine inequality in political representation (see Erikson, 2015 for a review). Studies examining legislator responsiveness to various underrepresented groups, such as the working class or low-income constituents find biased responsiveness in favor of wealthier constituents. Bartels (2008) documents a number of governmental policies (such as tax cuts) that disproportionately benefit the wealthy, while many others fail to respond to the needs of those in low-income situations (such as a stagnant minimum wage). Bartels finds Senators to be responsive to upper-income constituents, while not at all responsive to low-income constituents. This finding is supported by subsequent research for Senators in a more recent time period (Hayes, 2013), the House of Representatives (Ellis, 2012), and at the state legislative level (Flavin, 2012).

2.1. Campaign contributions and roll-call voting

An important area of research that speaks to biased responsiveness is the role that organized interests may play in influencing legislator behavior through PAC contributions. The literature on political donations and lobbying is vast (e.g. for reviews see Ansolabehere et al., 2003; Stratmann, 2005; de Figueiredo and Richter, 2014). Research on the topic of donations and legislative outcomes are often complicated by the endogenous nature of spending. On one hand, interest groups may be attempting to persuade members to change their position (or adopt a group's preferred position), but on the other hand they may simply be rewarding legislators who already have a favorable position on an issue.

Perhaps because of this, research often finds mixed or little evidence for a relationship between political donations and legislative influence (e.g. Wright, 1985; Wawro, 2001). In a review of the literature Ansolabehere et al. (2003) find campaign contributions generally have little impact on roll call votes. However, Stratmann (2005), reviewing the same literature, finds that while many individual studies do not find a statistically significant influence on voting outcomes, the combined evidence that campaign contributions influence roll call voting is strong. In a meta-analysis, Roscoe and Jenkins (2005) find that PAC contributions have an impact on roll call voting in about a third of cases examined. Many studies examine specific votes (or a series of votes), and again find mixed results. In examining trade policy, Baldwin and Magee (2000) find contributions from labor and business influenced congressional roll call votes on NAFTA and GATT, but not on a 1994 vote to renew most-favored nation status for China. Witko (2006) finds PACs are able to influence roll call voting mainly on non-ideological and non-visible issues.

An alternative view of the relationship between donations and legislator behavior suggests that interest groups donate in order to gain access to public officials, not necessarily to buy votes. Research finds that interest groups tend to donate to members who will advocate their interests effectively over time, thus creating an incentive for members to enhance their analytical capacity for policymaking (Esterling, 2007). Studies also find support for the idea that interest group donations can have a positive effect on access to elected officials or staff, which can influence legislation, especially during formative stages (e.g. Hall and Wayman, 1990; Langbein, 1986). A recent field experiment (Kalla and Broockman, 2015) finds evidence that campaign contributions can ease access to elected officials and their staffs. Research also suggests that access motivates donors to engage in political giving (e.g. Francia et al., 2003).

Despite the mixed literature on the relationship between donations and roll call voting, the influence of money on the political system is an important explanation for biased governmental responsiveness. For example, Bonica et al. (2013) suggest one reason the government may not be responding to reverse trends of rising inequality is due to increasing political donations, disproportionately made up of the wealthy. Martin Gilens (2012) argues that parties are captured by activists and interest groups and that as political campaigns have become increasingly expensive, they have become more responsive to those that supply the resources necessary to fund campaigns. Others argue that while both major political parties have shifted in this direction, the Democratic Party's efforts to capture donations from business have led to a change in policy representation away from the Party's traditional representation of working or middle class interests (Hacker and Pierson, 2010b).