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Campaign finance regulations and policy convergence: The role of interest groups and valence

Monika Köppl-Turyna *

ISCTE-IUL, Department of Economics, Avenida das Forcas Armadas, 1649-026 Lisbon, Portugal

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ABSTRACT

Regulation of campaign finance of political parties and candidates is intended to decrease the political influence of special interest groups and enhance the public interest in electoral outcomes. I investigate empirically the consequences of campaign financing regulations and find that public funding leads parties' platforms to diverge whereas ceilings on individual contributions lead to platform convergence to the median voter outcome. I relate these consequences to differences in valence or intrinsic popularity of parties. I also show that platform divergence is associated with a ban on corporate donations and with requirements of public disclosure of parties' income statements.

1. Introduction

In the archetypical democracy, public policy is guided by the will of the people and the "one man, one vote" principle. In reality, policies are diverted away from the will of electors toward the interests only of certain groups of the society. Parties need to spend large amounts of money on campaign activities and the incentive to receive financial means from various sources is strong. The main aim of campaign finance regulation is to make parties' income and expenditure more transparent for both the regulatory authorities and the public, and to decrease the incentive to seek financial sources that could distort the political agenda of parties. Two stylized facts can be observed in campaign financing. Firstly, campaign advertisements are paid by groups whose objectives differ from the median voter's objectives. Secondly, campaign advertising contains very little hard information. It is focused on persuasion, possibly by using non-credible information (Prat, 2002).

In this paper I make a first attempt to empirically test the effect of different campaign financing institutions on the location of parties in a spatial model of competition. I link different strands of literature: theoretical predictions about party positions, literature on campaign finance regulations, and empirical studies that have found that campaign expenditures do have an effect on vote shares. The link is known by the term "valence", which, loosely speaking, comprises all the non-policy characteristics of parties. I use the terms "valence", "non-spatial" and "non-policy" characteristics interchangeably. Some of these characteristics remain unaffected by campaign activity (e.g., looks of candidates), whereas others might be altered during campaigns, in which parties aim to affect the views of voters with regard to, for example, their competence. Intuitively, valence is a concept similar to goodwill in accounting — it comprises the characteristics of a party, other than its policy, which account for electoral success. I believe that access to financing sources has a crucial effect on how effectively parties are able to build their popular image. The fact that empirical studies on the link between campaign finance provisions and policy positions are lacking, provides the main motivation for this study.

*Tel.: +351 962528698.
E-mail address: monika.turyna@iscte.pt.

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I find that caps on individual contributions are associated with the convergence of platforms, whereas other commonly found measures, such as direct public funding, public disclosure of income statements, and a ban on corporate donations lead to adoption of more polarized positions. I also consider possible welfare implications of my results.

I base the analysis of policy convergence on the theoretical predictions of Ashworth and Bueno de Mesquita (2009) and Schofield (2007), who find that greater differences in non-policy characteristics among competing parties should result in more divergent positions, as well as on the broad literature analyzing the influence of special interests on parties' platforms.

The theoretical literature on different campaign finance institutions is vast. With regard to public funding, it is usually argued that replacing "tainted money" from interest groups with tax-financed "clean money" leads to welfare improvement by decreasing the incentives to offer policy favors to contributors. Moreover, it encourages better representation of voters' preferences, unlike the private funding system, in which parties need to satisfy ideological preferences of only certain groups of the society (Ashworth, 2006; Coate, 2004a; Prat, 2002). However, public financing may freeze competition between parties and exclude new competitors, which is crucial for preference representation (Coate, 2004b; Scarrow, 2006). The above suggestions are intuitive, but are yet to be tested in a formal way.

Most of the theoretical work assessing the effect of campaign expenditure has stressed the informational aspect of campaigning (Coate, 2004b). Coate (2004b) assumes that campaign activity provides voters with truthful information about the quality of a candidate. Giving qualified candidates an electoral advantage potentially benefits all citizens, as it results in better leaders. In this study, the crucial assumption is that campaigning can persuade voters, even if the quality of the candidate is poor. Given the adopted view on campaign activity, there is no potential for welfare improvement by providing financial means to better quality candidates. This crucial difference between the assumptions of Coate (2004b) and ours does not allow us to refer to informative campaigning.

For the purpose of this study important theoretical insights have been provided by Coate (2004a), who finds that the evaluations of candidates are influenced by voters' beliefs about the sources of income at politicians' disposal. More precisely, a rational voter would evaluate the quality of a candidate (or a party) as lower if he expects that he (it) is involved in bargaining with interest groups. These findings have also been confirmed by recent experimental results of Houser and Stratmann (2008), who find that voters react negatively to campaigns funded with private money. In particular, the probability of voting for a candidate (even one with the same political affiliation as the voter) decreases in the number of advertisements that the voter has seen.

There also exists a well-established empirical literature on how diverse campaign financing rules affect election outcomes. Stratmann (2006a) analyzes the role of contribution limits on the closeness of election and finds that contribution caps narrow the margin of victory. Moreover, Stratmann (2006b) tests whether campaign expenditures by the House of Congress candidates are more productive in increasing vote shares when candidates run in the states that limit contributions. The results show that campaign expenditures are more productive when candidates run in states with campaign contribution limits, which suggests a positive influence of the transparency of income sources on valence creation. As explained by Stratmann (2006b) contribution limits can make a candidate's campaign advertisement more productive because voters attach more credence to advertisements financed without an exchange of money for policy favors. Furthermore, in states with contribution limits, incumbent and challenger spendings are equally productive, and spending by both candidates is quantitatively important in increasing their vote shares. This does not mean that the entrant necessarily wins in states with contribution limits, but the results show that each dollar spent on campaign activities by both incumbents and entrants yields a significantly higher increase in the vote share in those states.

The number of empirical studies on the relationship between party positions and non-spatial characteristics is limited. Recent work by Stone and Simas (2010) finds that incumbents with a greater valence place themselves closer to their district medians, while disadvantaged challengers take the more extreme policy positions. This is consistent with the theoretical findings of Schofield (2007). Clouse (2007) analyzes the 2004 US presidential primaries and similarly finds that the difference in candidates' valence varies positively with political polarization. Thus, if candidates differ widely in terms of the non-policy characteristics, we can observe a divergence from the center of the electoral distribution. I am not aware of any empirical work of this nature for multiparty systems.

In the next section, I briefly describe the findings of Schofield (2007) and Schofield (2006) as well as other theoretical studies related to the subject of this study. I also formulate hypotheses on how diverse campaign finance institutions affect policy convergence. In Section 3 I describe the data and the empirical approach, concentrating in particular on the practical aspects of campaign finance law. In Section 4 I report the results. Section 5 briefly discusses the welfare implications of my results. Section 6 concludes and discusses methodological concerns.

2. Theoretical predictions

2.1. The role of valence and special interests

Let us briefly restate the assumptions and findings of Schofield (2007). Each of the parties in the set $P = \{1,\ldots,j,\ldots,p\}$ chooses a policy, $z_j \in X$ and declares it to the electorate prior to the election, where X is an open convex subset of the Euclidean space, R^w, with w finite. Formally, the utility of a voter is given by

$$u_{ij} = \lambda_j - \beta||x_i - z_j||^2 + \varepsilon_{ij}, \tag{1}$$

where λ_j is the valence of party j, x_i is the ideal point of the voter, z_j is the party's policy (declared before the election takes place), and ε_{ij} is the stochastic error (for each voter assumed to be drawn from the same probability distribution). That is, the basic framework is a probabilistic voting model. It is assumed that valences are exogenous and can be ranked $\lambda_p > \lambda_{p-1} > \cdots > \lambda_1$. The