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Campaign Finance and Political Polarization

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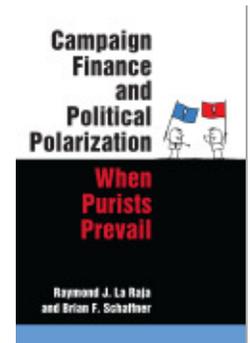
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Who Gets Campaign Money and Why Rules Matter

In American legislative elections candidates in all but a few states must raise their campaign funds from private contributors.¹ These funds are a vital resource for informing and mobilizing voters, especially in an environment with limited news media coverage of elections. The pool of donors from whom candidates must seek campaign money is of course limited. As the previous chapter illustrated, individual donors who provide the vast majority of contributions are rather unrepresentative of most Americans, in that they tend to be located at the ideological extremes. While candidates in states in which campaigning is relatively inexpensive can rely on friends and neighbors for their funds, candidates in other states need to reach out to a larger network of activist donors—those both within and outside a district who care deeply enough about particular issues to contribute to candidates they might not even know personally.

We are not the first to point out that relatively few citizens have the wealth to participate as donors in any significant way (Verba, Schlozman, and Brady 1995). If wealthy contributors had the exact same political preferences as the rest of the American electorate, this situation would be less problematic. But they often do not. One potential consequence of having immoderate partisan donors is gridlock in government on issues where most Americans might want compromise (Bonica et al. 2013). More critically, some scholars have speculated that the ideological bias of donors leads to the adoption of important policies that do not reflect the preferences of most voters, particularly lower-income voters (Gilens 2012). As Larry Bartels (2008) has demonstrated, the real driver of many important policy choices is elite ideology—not the interest group lobbyists (“rent-seekers”) that are

typically feared as corrupting the system. We would argue, like Bartels and Gilens, that the influence of such ideology-driven elites comes in part from their overrepresentation as donors in American politics.

It is natural that donors will exercise their influence by giving their money to candidates and policy-demanding groups who hold views like their own. Their influence is not so much in buying votes in the legislature as in shaping the policy agenda and influencing the choice of who gets into office. We expect donors to gravitate toward candidates with similar ideological perspectives. Given two experienced and qualified candidates for office, the one who shares an ideological affinity with the donors should be able to raise more money from them (Moon 2004). This is a form of candidate vetting on policies that takes place in an extended party network (i.e., party coalition) that includes partisan activists and interest groups (Bawn et al. 2012). Candidates, therefore, are more likely to succeed in winning office to the degree they earn the collective financial support of a dense core of partisan supporters in the partisan network (Desmarais, La Raja, and Kowal 2014).

This sort of ideological vetting of candidates is not the kind of corrupt behavior that most Americans fear. Instead, the primary concern of most Americans is the potential for a *quid pro quo* where officeholders receive campaign contributions in exchange for legislating in favor of narrow economic interests rather than for the public welfare. And yet, the influence of ideological donors is a strong form of resource dependency that biases political outcomes. Indeed, legislators may fear defying ideological donors more than economic interests because ideological activists are likely to mobilize in campaigns for or against candidates who betray them, whereas economic interests, particularly public corporations, tend to avoid public partisan battles that might roil relationships with their constituencies and customers.

We are not opposed normatively to this kind of activist influence within the parties. As we explained at the outset, the partisan purists are the backbone of political parties and make them stand for principles. Without the purist activists, the Hobbesian pragmatists who typically run the party organization might allow the party to shift its stance from position to position just to win elections. This situation would make it more difficult for less knowledgeable voters to know what the parties stand for and undermine electoral accountability. Nonetheless, we argue that a candidate-centered (as opposed to party-centered) finance regime has the potential to give too much power to the purists over the pragmatists if party organizations are overly constrained in efforts to support moderates and are unable to mediate the flow of ideological money to candidates.

This is the argument we will make in this chapter. Focusing at the *system level* on “who gets money” in politics, we show how the source of money varies depending on candidate ideology. Specifically, centrist politicians tend to receive more money from parties, while the more ideological elected officials tend to raise more money from individuals and ideologically oriented groups. We will also lay out the argument for our contention that campaign finance laws make a difference to election outcomes by privileging the flow of money to candidates who are ideologues versus moderates. We will show that such laws also affect the balance of funds going to incumbents versus challengers since the same incentive to win elections that causes party organizations to support moderates also induces them to support challengers. For this reason, campaign finance laws that privilege party organizations would not only have the potential to decrease polarization, but would also provide additional financing to challengers. And we argue that by financing challengers, parties would indirectly help to diminish polarization, because research indicates that greater competition causes candidates from opposing parties to move closer to the median voter (Burden 2004).

We begin by providing some background on why many American states have laws that confine political parties to a minimal financing role. We examine why this arrangement causes money to flow disproportionately to ideologues and incumbents, and we explain why a party-centered system might improve the situation by examining the unique ways in which political parties mediate the flow of campaign money. Finally, we provide a comparative analysis of the flow of contributions to moderates and challengers (as opposed to incumbents) in states that have no limits on party financing of candidates versus those that constrain parties. These findings suggest that party-centered laws might attenuate two major problems with the candidate-centered campaign finance system: that incumbents control most of the money and that ideological candidates benefit disproportionately from a system in which politically passionate donors give money directly to candidates.

The Emergence of the Candidate-Centered System in American Politics

The United States is unusual in its emphasis on making legislative candidates chiefly responsible for raising money for their own campaigns. Most democratic nations give the dominant role of financing elections directly to the political parties. Parties assemble the bulk of the money, often supplemented

by government grants, and choose how to allocate it. Indeed, most nations refer to money in politics as “party finance” rather than campaign finance because it is assumed that the money flows through the political parties.

The financing of politics in the United States started to devolve to candidates and away from political parties in the 1880s. Mugwump and Progressive reforms, such as the secret ballot and the direct primary, weakened the role of party organizations and gave candidates more autonomy to manage their own campaigns (McGerr 1986). Throughout the 20th century, the gradual demise of patronage made parties less attractive to partisan campaign workers (Wilson 1962) and opened opportunities for candidates to attract personal followings among different factions of voters (Cain, Ferejohn, and Fiorina 1987; Polsby 1983). Changes in technology also abetted decentralization by decreasing the importance of labor-intensive campaign strategies championed by parties and elevating the use of polling and mass media techniques made available through political consultants. These consultants could be hired to support individual candidates instead of the party organization. The 1970s and 1980s probably reflected the high-water mark of candidate-centered politics, which led some observers to claim that the “party was over” (Broder 1972; Wattenberg 1984).

Given the dynamics of party decline over the course of the century, it was not surprising that Congress crafted a set of campaign finance laws in 1974 that advanced the institutionalization of candidate-centered electoral politics. To avoid repeating the excesses of the Watergate scandal, reformers at the federal level made candidates chiefly responsible for raising and spending money (Sorauf 1992). Under the Federal Election Campaign Act (FECA), the party committees were treated hardly better than political action committees (PACs) in that they could contribute no more than \$5,000 per election to their candidates. However, unlike PACs, parties could “coordinate” additional party spending with candidates, but even these coordinated expenditures were limited because of fears that candidates would use the parties to circumvent the contribution limits.

Many states copied the candidate-centered model codified by the FECA. For this reason, among others, most state parties now play a relatively small role in financing their candidates. To illustrate the marginal importance of parties, figure 3.1 shows that only a fraction of the money candidates raise during election campaigns comes from parties. Specifically, in the 2005–2006 election cycle, party support ranged from close to zero in states like Arizona, with a public financing system that strictly limits private sources of funds, to a maximum of 43 percent in Indiana, where the parties appear fairly strong financially. Figure 3.1 is arrayed for states with smallest (at top)

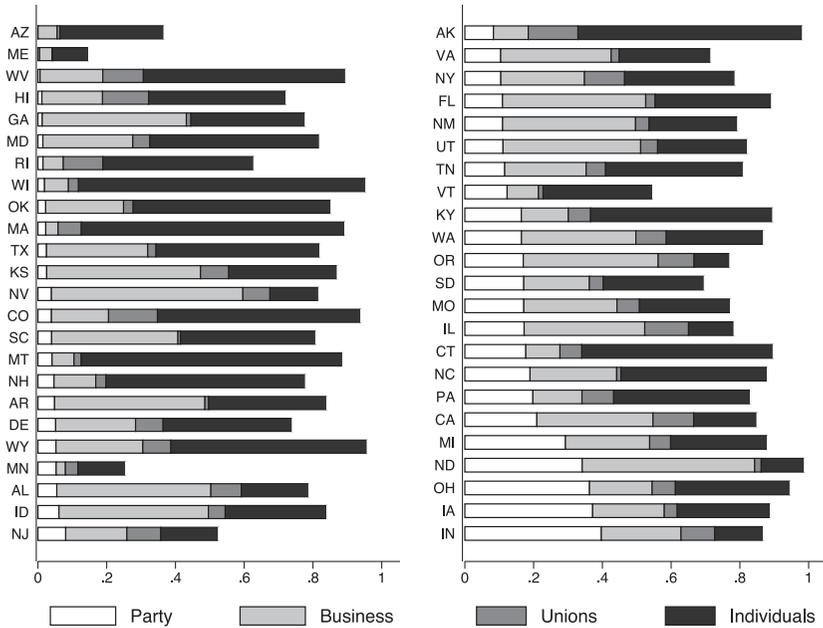


Figure 3.1. Source of State Legislative Candidate Funds for 2005–2006 Elections. (Note: Figure includes proportion of all candidate receipts that could be classified in one of these four categories using data from the National Institute on Money in State Politics.)

to largest proportion of candidate funds that come from the party committee. As the figure makes clear, individuals and business interests provide the vast majority of funds for campaigns in most states, and a small portion of financing comes from other sources.

To be sure, political parties do more than just contribute to candidates. Active parties help recruit candidates, advise them, mobilize voters, and produce mass media. As we indicated in chapter 1, political parties have tried to adapt to the candidate-centered nature of elections by providing a range of “service” activities on behalf of candidates (Aldrich 1995; Cotter 1989; Herrnson 1988). But party organizations, for the most part, remain at the margins in most states because they have lost control of nominations and, at the same time, must compete with incumbents and partisan factions in raising money. To some extent, legislative campaign committees (which we count as party committees in this study) have taken over some of the activities once performed by central state and local party committees (Shea 1995).²

As we show in the following analysis, the candidate-centered system that prevails in most states contributes to at least two adverse outcomes. First, it emphatically gives advantages to incumbents who can use the power of office to attract money. Second, it encourages the success of extreme candidates (extreme in comparison to the median voter in a district) because it allows ideological donors and factions to have disproportionate influence on which types of challengers and open-seat candidates run for office and win. To understand why candidate-centered laws have these consequences, we adopt a system-level perspective. Specifically, we look at the incentives and strategies of different types of donors.

Types of Donors in the Campaign Finance System

To illustrate how money flows into the political system, we begin by identifying how different types of groups tend to have different priorities when they invest in political campaigns. In our typology, there are four kinds of organizational donors—parties, business groups, unions, and issue groups. Table 3.1 describes how each of these groups prioritizes different goals in the political system.

The business sector—including firms and trade and professional associations—seeks selective *material benefits* from legislation, thereby reflecting narrow economic interests. The value of donations by business interests is that it allows these groups to build personal relationships with legislators and their staff on bread-and-butter matters that are highly specific to the interest group. Most of the time, such interests focus on shaping the technical aspects of policies (e.g., rules and regulations that might provide a competitive advantage), rather than changing the broad direction of policy. Considerable lobbying effort is simply spent on maintaining the status quo or tweaking it at the margins (Baumgartner 2009). These organizations invariably receive the most attention from the media because they are the biggest bloc of interest groups both in Washington and the state capitals, and because the pursuit of economic benefits through government lobbying raises suspicions about quid pro quo exchanges. Previous studies raised doubts about whether contributions change votes (Ansolabehere, deFigueiredo, and Snyder 2003), but there is consensus among practitioners and scholars that making contributions at the very least “gets your foot in the door” and that long-term relationships are valuable for having influence (Grossmann 2012). In our conceptualization, donors seeking material benefits use contributions to lubricate relationships with officeholders.

TABLE 3.1. Differing Priorities of Political Donor Groups

Ranking	Parties	Business	Unions	Issue Groups
1st	Win elections	Material benefits	Broad policy	Broad policy
2nd	Broad policy	Broad policy	Material benefits	Material benefits
3rd	Material benefits	Win elections	Win elections	Win elections

Unions and issue groups both tend to prioritize *broad policy* change. These actors want to fundamentally reshape government policies on key social and economic issues. While unions seek laws that protect workers, issue groups include single-issue advocacy organizations that focus on issues such as abortion, guns, taxes, and the environment. Most of these factional organizations take positions that diverge significantly from those of the median voter. Rather than try to persuade moderate incumbents who might compromise on their policy goals, they instead make strategic contributions to support incumbents who strongly believe in their goals and give money to like-minded challengers to expand the number of legislators who support their minority viewpoints (Brunell 2005). This category also includes numerous individual donors who give directly to candidates who espouse their policy views.

Finally, political parties are generally associated with the goals of winning elections and holding power by fielding candidates for office and organizing partisan officeholders into a legislative caucus. In seeking control of government against rivals, these organizations stir electoral competition and public accountability as a by-product of the desire to win. These organizations are found at every level of government. In the statehouses, the most important organizations are the state central party committee (often referred to as the “state party”) and the legislative campaign committee (often called the “caucus committee”) that is controlled by the party leadership in the House and Senate chambers of the legislature. Our analysis focuses on financing at the state level, which includes the state central party, legislative campaign committees, and local party committees (district, county, or town). Based on our theory about the electoral motive that drives the pragmatists, we believe that legislative campaign committees are most likely among the layers of party organizations to help moderates in competitive seats because of the limited role of activists on these committees and the overriding concern of the caucus leadership to control majorities.

Regardless of level, however, winning is typically the main preoccupation of the party organization. In a series of interviews by Hassell (Hassell 2014), several insiders expressed this sentiment. As one former Republican state

chair explained, “Higher up the [political] food chain, there’s less idealism. It’s more about winning. Not to say that there’s not idealism, but it becomes pragmatic idealism.” In the day-to-day activities of party organizations, insiders do not emphasize pursuing broad policy, even though “platforms” are useful for defining the identity of the organization. In fact, most policy development occurs outside U.S. party organizations through the work of partisan interest groups and think tanks.

We acknowledge that our typology of donor groups reflects stylized constructions of how different organizations behave. In reality, organizations may pursue several goals at the same time, and some groups blend across different categories of donors. Ideological interest groups, for example, behave like parties in that they tend to support candidates from just one party, and they invest in winning elections. Scholars currently refer to such groups as the extended party network (Bawn et al. 2012; Herrnson 2009), and we consider them the purist faction of the party because they push the party coalition to embrace their policy views. We also know that business firms can have strong preferences on broad policies (e.g., low taxes, minimal regulation) and may engage in partisan electioneering at times (Brunell 2005). Despite the mixing of goals for some groups, we see such goals as conceptually distinct and assign them to groups as their primary purpose in using campaign money.

Given this set of assumptions about donor goals, we can generate expectations about the types of contribution patterns we might expect to find among each donor group. Specifically, figure 3.2 indicates in stylized form how we expect the four types of organizations to distribute their money to candidates with varying ideologies. The *X*-axis displays candidate ideologies from liberal to conservative, while the *Y*-axis shows the proportion of group funds allocated to candidates based on their ideology.

In the first panel we expect political parties to send the greatest proportion of support to candidates in the middle of the ideological spectrum. This dynamic does not necessarily imply that party leaders naturally prefer moderate officeholders. In fact, all things equal, parties might very well prefer to elect noncentrist politicians to office. However, the overriding goal of the party organization is to win as many elections as possible and accrue power. To do this, parties will concentrate their resources on campaigns that are the most competitive, since their investments will have the highest pay-off in these races. Given that competitive districts tend to be ideologically balanced, strong candidates in such districts tend to be those who are able to appeal to moderate “swing voters” or to the median voter (Ansolabehere, Snyder, and Stewart 2001; Canes-Wrone, Brady, and Cogan 2002).

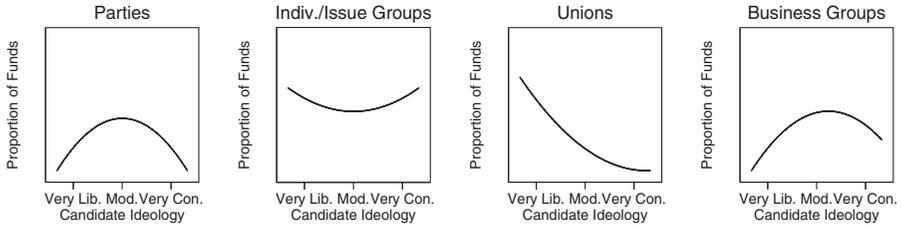


Figure 3.2. Expected Contribution Patterns among Four Types of Donors

Thus, when parties prioritize candidates running in competitive races, they also tend to be prioritizing an investment in candidates who are typically moderate.

Party organizations also are likely to fund challengers who have a shot at beating incumbents of the rival party. This is because party organizations want to gain seat share. In our framework, the emphasis on winning seats makes the party organization reflective of the pragmatist wing of the party. This faction will trim the sails of ideology to suit the median voter because its members reflect the pragmatists who want to gain and hold power. Such power confers status and the ability to dispense rewards to followers.

The second panel represents how we expect issue donors to distribute their funds across the ideological spectrum. These policy demanders will want to focus resources at the tail ends of the ideological distribution where candidates match their own preferences, depending on whether they are liberal or conservative policy groups. They ideally want to support a candidate who comes closest to their preferences but still has a good chance of winning. In choosing candidates who stray considerably from the median voter, policy donors are more risk-tolerant than party organizations, which put a premium on winning elections. The willingness of policy demanders to take electoral risks is precisely what contributes to the drift away from the median voter by the party coalition (to which they belong). Issue groups help to recruit and support candidates who agree with them despite their location relative to the views of the median voter. In doing this they help to create a party with a distinctive policy brand. Such groups are supported with contributions from highly ideological citizens who may also contribute directly to favored candidates.

Like parties, issue groups are also likely to finance challengers, so long as the challengers are like-minded on the issues that matter. They help

challengers as a way of increasing the ranks of officeholders who agree with them and getting the legislature to adopt their preferred policies. Again, in contrast to party committees, issue groups are more likely to push for challengers with extremist views relative to the electorate. For this reason, issue groups are often active in party primaries to ensure that the party candidate who is most proximate to their preferred position gets the nomination (whereas the party organization will favor the party candidate who is closest to the median voter in the general election). The most aggressive issue groups might even participate in party primaries to support challengers against incumbents who have been unfaithful to the group's cause (Boatright 2013). The capacity to withdraw support (potentially or actually) helps policy purists hold party members in the legislatures accountable for their actions in office. In our framework, such issue groups constitute the purist faction that promotes partisan principles and ideals.

The third panel shows that we expect union organizations to focus their funds largely on liberal Democrats. In this way, unions behave similarly to issue groups, preferring to focus their resources on candidates who support their preferred policies over more moderate Democrats. And we expect that unions will rarely provide support for Republican candidates.

Finally, among business donors we expect a distributional curve that gives most resources to moderates who are amenable to bargaining and persuasion. Strong ideologues on either side can threaten the kinds of compromise that donors seeking special favors would like from government. Consider, for example, how Democrats and Republicans in Congress on the outlying left and right wings of the parties respectively combined in 2008 to take strong positions against the financial rescue plan crafted by the Bush administration, which was strongly supported by business interests.³

Despite the tendency of benefit-seeking donors to give to moderates, the fact that this group comprises mostly business interests means they are likely to have a bias toward conservative candidates who are more business-friendly (favoring free markets, limited regulation, etc.). For this reason, we expect to observe political contributions to be somewhat asymmetrical across the ideological distribution with a larger portion of funds going to conservative rather than liberal candidates.

Regarding incumbency status, we expect material-seeking donors to focus contributions almost exclusively on current officeholders rather than challengers. Incumbents are known quantities. They have produced a record, and thus are a more certain investment for donors with economic interests. In contrast, challengers are risky investments, not only because they are likely to lose, but because they might have a limited record and thus

are not nearly as credible in their commitments as incumbents. Moreover, it would be risky for benefit-seeking donors to support challengers when such strategic behavior could incur the wrath of the incumbent who is more likely to win the next election.

Evaluating Our Expectations

To evaluate our stylized expectations about donor behavior we analyze how these four kinds of donors, as well as individuals, actually distribute their funds using campaign finance data from the National Institute on Money in State Politics (NIMSP). The NIMSP has collected data over several election cycles on donations to state legislative candidates. In the analyses that follow, we use all available data from the NIMSP for the period 1996–2010. Most contributions are categorized according to whether they originated from a political party, an issue group, a business organization, a union, or individuals.

The NIMSP data include information about whether each candidate is an incumbent, a challenger, or a contender for an open seat. This allows us to analyze which types of candidates are prioritized by different actors when allocating their resources. However, we have also formulated a set of expectations about contribution patterns based on the ideologies of candidates. While we cannot identify the ideologies of all candidates for state legislative office, Shor, Berry, and McCarty (2011) have created a set of ideological scores for incumbent officeholders over several years. Thus, we are able to examine which types of incumbent officeholders receive the greatest investment from parties, groups, and individuals. While we would preferably have data on all candidates for office, we believe the results would be similar if we had been able to include challengers as well.

Finally, it is important to note that the analysis that follows considers how each of these groups behaves in a context in which they are unconstrained in giving money (i.e., in states with no limits on their contributions). This allows us to examine how each actor would distribute funding under conditions where their decisions were not constrained by the legal regime.

Figure 3.3 demonstrates that our expectations about donor types (shown in figure 3.2) are generally quite accurate. The figure shows how parties, groups, and individuals allocated their funds across incumbents from different ideological backgrounds in elections held from 1996 to 2010. The line in each figure indicates the proportion of funds from that source being allocated to incumbents at each point in the ideological spectrum. In a sense, this is the ideological distribution of each sector's investment portfolio.

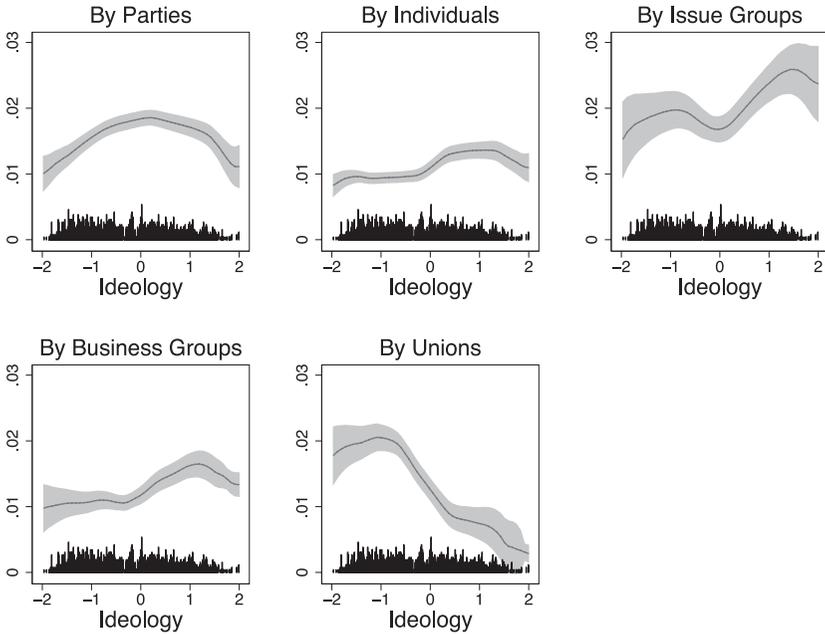


Figure 3.3. How Parties and Groups Distribute Their Funds across the Ideological Spectrum (1996–2010). (Note: Figure shows the proportion of funds given by each source to incumbent candidates for state legislative office from 1996 to 2010. X-axis ranges from most liberal [–2] to most conservative [2]. Grey shaded areas represent 95% confidence intervals and black bars show the distribution of candidates.)

The first panel shows the distribution of funds to candidates by political parties. Parties concentrate their funds on moderates rather than the extremes (we will examine subsequently whether this outcome results from parties putting money in the most competitive districts). The concave distribution clearly shows that parties give the most to moderates, with a sharp decline in giving to extreme candidates.

Individuals, on the other hand, contribute to candidates somewhat evenly across the ideological spectrum, though with a modest preference for more conservative candidates. The third panel shows how issue-based groups (what we call policy demanders) distribute their funding. The graph shows that these groups give a larger share of contributions at the liberal and, especially, conservative extremes. This convex distribution is counter to the pattern that political parties show.

The fourth and fifth panels also conform to our expectations. Business-related organizations tend to promote moderates with a decided tilt toward

TABLE 3.2. How Parties and Groups Distribute Contributions

	Parties	Business Groups	Unions	Issue Groups
Challengers	30%	5%	11%	27%
Incumbents	35%	77%	66%	43%
Open Seats	34%	18%	22%	30%

Note: Includes all contributions categorized by NIMSP from 1996 to 2008.

conservative moderates, but not the most extreme conservatives. Labor groups, on the other hand, demonstrate a strong preference for donating to candidates on the extreme liberal end of the spectrum.

Overall, the findings in figure 3.3 demonstrate that when parties and groups are unconstrained by electoral laws, they follow very different strategies with regard to ideology. Parties tend to favor moderates, while issue groups give more to extremists, and business groups favor conservatives. However, we also expect that these groups will pursue different strategies when it comes to the types of candidates they invest in. Table 3.2 shows the percentage of funds that different types of donors give to incumbents, challengers, and open-seat candidates. As we expected, of all groups, the parties give the largest share of funds to challengers (30 percent), which is nearly the same percentage as they give to incumbents. Open-seat candidates also receive a significant share from parties (34 percent). Not surprisingly, issue groups also give a large share of their funds to challengers (27 percent) and support open-seat candidates (30 percent). The groups that are clearly averse to supporting challengers are businesses and unions. Business groups give only 5 percent of their resources to challengers, while fully 77 percent goes to incumbents. Unions contribute just 11 percent of their funds to challengers and 66 percent to incumbents.

To summarize our findings thus far, we observe that parties, in their pursuit of electoral wins, give more than any other group to challengers and moderates. Issue groups, in pursuit of policy goals, give to challengers but prefer ideologues. Business groups (pursuing material benefits) strongly prefer incumbents—but focus on those who are moderately conservative. And unions (also pursuing policy) give largely to incumbents on the liberal end of the spectrum.

Incumbents Dominate in a Candidate-Centered System

Now that we have shown how different actors distribute their campaign funds, we will examine how the distribution patterns we have observed translate into the amounts of money raised from the different groups by incumbents versus

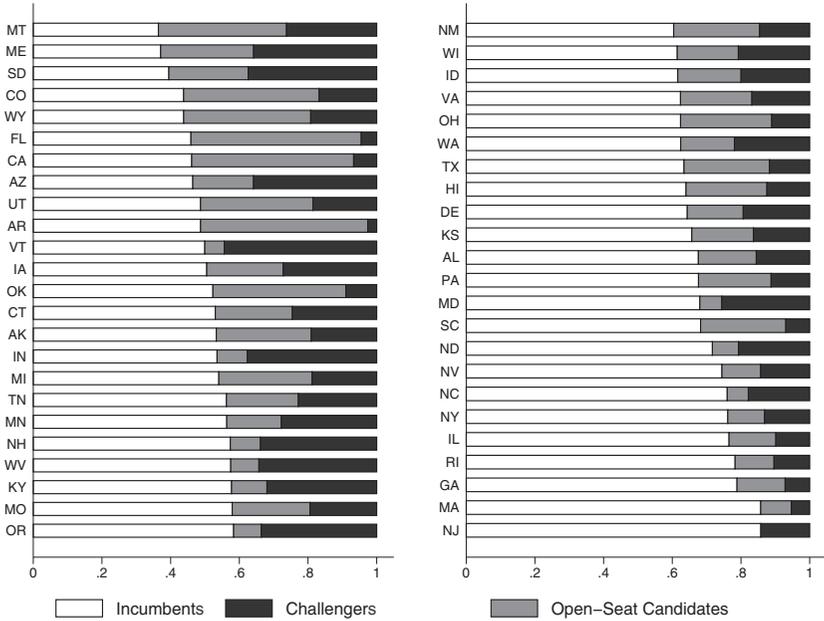


Figure 3.4. Proportion of All Funds Received by Different Types of Candidates (2005–2006). (Note: Based on authors' analysis of data from NIMSP)

challengers and moderates versus ideological candidates. We argue that the contribution process is affected by campaign finance laws, which privilege one set of donors over others. For example, if donors seeking material benefits dominate the campaign finance system—as they do in the candidate-centered system—then we would expect that incumbents should do extremely well relative to challengers. And if donors with policy priorities dominate relative to donors focused on winning elections, then we would expect ideological candidates to receive more contributions than moderate candidates.

It is not surprising that incumbents do extremely well raising money throughout the United States. Groups oriented toward material benefits are the largest set of organizational donors to legislative candidates in the states,⁴ and the candidate-centered system gives such groups a privileged position. At the federal level, in the wake of the 1974 reforms that institutionalized the candidate-centered system, business and trade organizations formed PACs at an explosive rate. It is reasonable to assume that this dynamic occurred at the state level as well where similar laws were adopted during this period.

Our analysis of the distribution of campaign money across the American states is unambiguous. Figure 3.4 shows the proportion of funds received by incumbents, challengers, and candidates for open seats in each state in

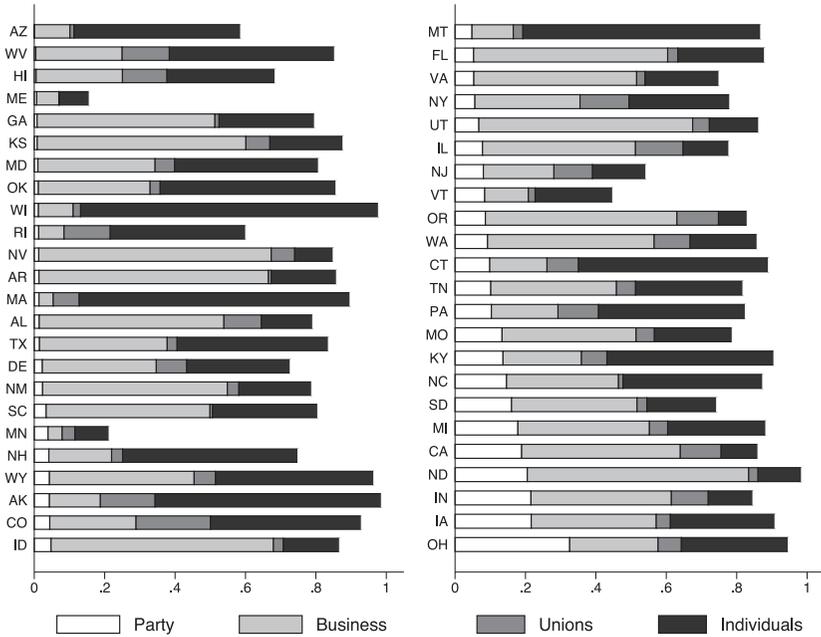


Figure 3.5. Fundraising Sources for Incumbents (2005–2006). (Note: Figure shows the proportion of incumbent funds that were categorized by NIMSP coming from each of four sources.)

2005–2006. We arranged the *y*-axis based on states in which incumbents received the smallest to largest share of contributions. Clearly, incumbents do extraordinarily well in the campaign finance system. The incumbent share of contributions ranges from a low of .38 in Maine to a high of .82 in New Jersey. If we compared only incumbents and challengers, an even starker difference in favor of incumbents would emerge. Nonetheless, this figure reveals strikingly how little money challengers receive across most American states. We should note that challengers tend to do better in less professionalized states, where elections are not as costly. In these states and in those with term limits, legislative turnover is above average, which increases the number of open-seat races.

Consider the next three figures that illustrate where each type of candidate gets campaign money. Starting with incumbents, figure 3.5 shows that in most states contributions come overwhelmingly from nonparty donors (businesses, individuals, unions, and various issue groups). In states where this is not true (e.g., AZ, WI, MA, MT) the numbers reflect very low contributions limits, which compel incumbents to seek contributions from individuals.

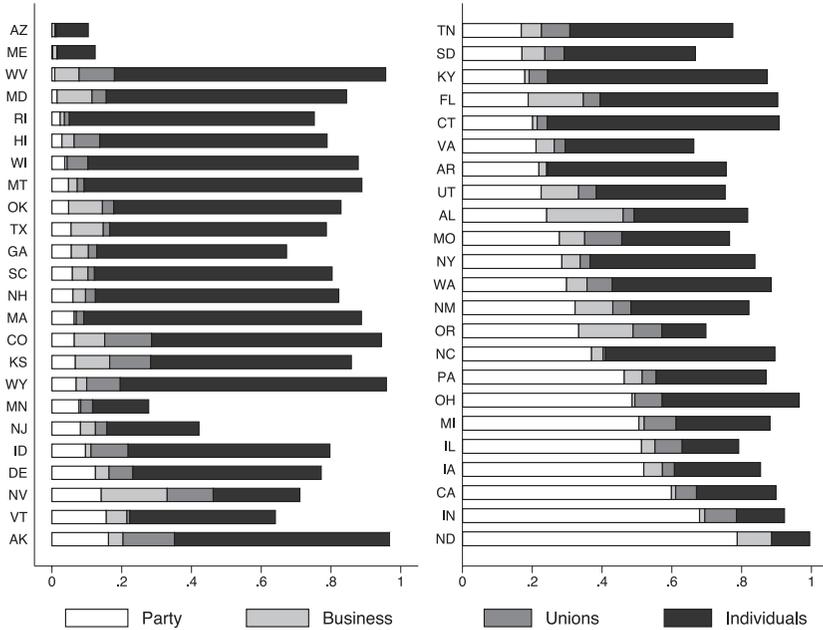


Figure 3.6. Fundraising Sources for Challengers (2005–2006). (Note: Figure shows the proportion of challenger funds that were categorized by NIMSP coming from each of four sources.)

A clear pattern that emerges from figure 3.5 is that incumbents do not rely heavily on political parties. The proportion that incumbents receive from parties is often close to zero, and only in Ohio does even one-fourth of an incumbent’s war chest come from party contributions. In fact, often the flow of money is in the opposite direction. Incumbents give money to party committees rather than the other way around. When parties face low contribution limits, the party leaders call upon incumbents to raise money and contribute it to the party. In this way, the party will have money to pursue the collective goals of winning majorities. Ironically, this anticorruption strategy (of limiting the size of contributions to the parties) makes the money chase more fervid for officeholders because they must simultaneously raise money for themselves *and* the party (Heberlig and Larson 2012).

Turning to challengers, we observe an entirely different dynamic. Figure 3.6 illustrates that parties play a much larger role in financing challengers in many states. At the top end of the scale is a strong party state, Indiana, where party organizations provide roughly 70 percent of challenger financing.

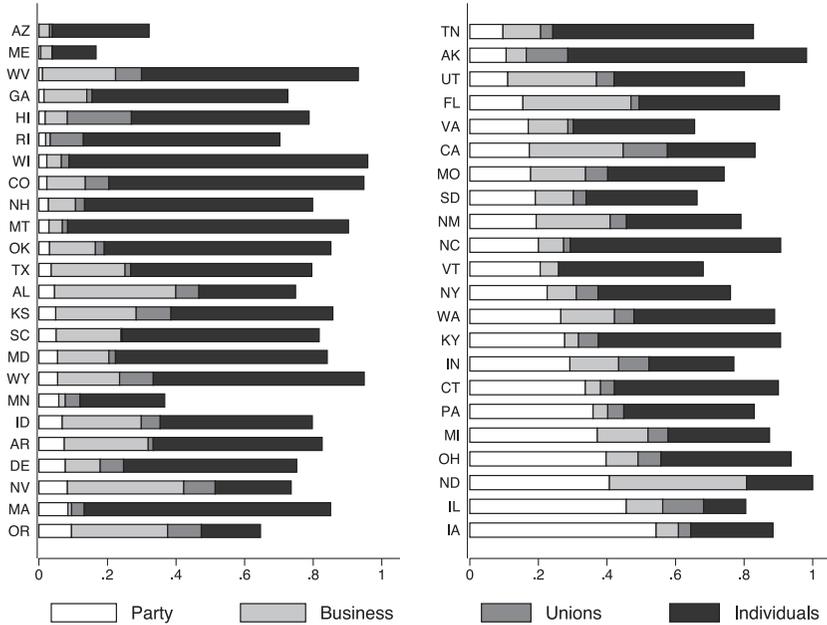


Figure 3.7. Fundraising Sources for Open-Seat Candidates (2005–2006). (Note: Figure shows the proportion of funds for open seats that were categorized by NIMSP coming from each of four sources.)

Other highly active party states include Iowa, North Dakota, Michigan, California, Illinois, Ohio, Oregon, and Pennsylvania. Individual donors, who, as we know, tend to be highly ideological, are an especially important source of funding for challengers in states where the party is not active. Noticeably, businesses, unions, and other groups make up a small fraction of financing to challengers in most states, and the groups that tend to give money are the issue advocacy organizations (not shown here).

Lastly, we show results for open-seat candidates in figure 3.7. This shows that the fund portfolios of open-seat candidates are similar to those of challengers, except that groups are more prominent for open-seat candidates. Groups that are too risk-averse to support challengers against sitting legislators are more willing to show partisan favoritism when the seat is openly contested (Brunell 2005). Note, however, that the party is a marginal participant in open-seat races for up to half the states. Some of this pattern is attributable to the fact that the party ignores open-seat races where one party is likely to win the district. It also reflects, however, the relatively weak position of parties in the campaign finance system within these states.

Ideological Candidates Benefit from a Candidate-Centered System

While we are not prepared to argue that candidate-centered campaign finance regimes drive polarization, we suspect that they serve as accessories because they give advantages to extremist donors in both major parties. Recall that we demonstrated previously the divergent incentives of donors and how differently they allocate their contributions. We can now show, from the candidates' perspective, which donors provide them with the bulk of their money.

Figure 3.8 shows how much of an incumbent's total campaign funds come from different sources, depending on the candidate's ideology. (Note that, because of the different sizes of the contributor groups, we have adjusted the scale of the vertical axis of each panel in order to "zoom in" on the different giving patterns.)

As with the earlier analysis of how different actors allocate their funds based on incumbent ideology, figure 3.8 includes incumbents running for reelection between 1996 and 2010. Beginning with party committees (top left), the data show that candidates who are moderates receive a larger share of their financing from the political parties. A candidate at the exact center of the ideological distribution relies on parties for about 8 percent of her funds, compared with much smaller amounts as candidates move left and right toward the ideological extremes. A distinct ideological asymmetry is also apparent in the data: highly conservative candidates show an uptick of support at the furthest right, approaching 7 percent for the most conservative candidates. This uptick is not mirrored on the left side of the graph, supporting the conclusion that highly ideological conservative donors are more ideological than their liberal counterparts.

The overall pattern is consistent with our argument that parties are a moderating force in electoral politics. Since incumbents typically get a smaller portion of their funds from parties than challengers, we expect the proportions that moderate challengers receive from parties to be even larger.

Now contrast this dynamic with the pattern for issue groups (top right), which is virtually the mirror opposite. Candidates at the extremes receive a larger share of their funds from issue advocacy groups. Note once again the ideological asymmetry: compared to liberals, conservative candidates tend to receive a greater proportion of their financing from such groups. To be sure, the sums are relatively small—the average amount never exceeds 2.5 percent. However, these groups tend to participate early in the campaign when money matters the most. Indeed, they are likely to become involved in the primaries when they can shape the candidate field (whereas parties and

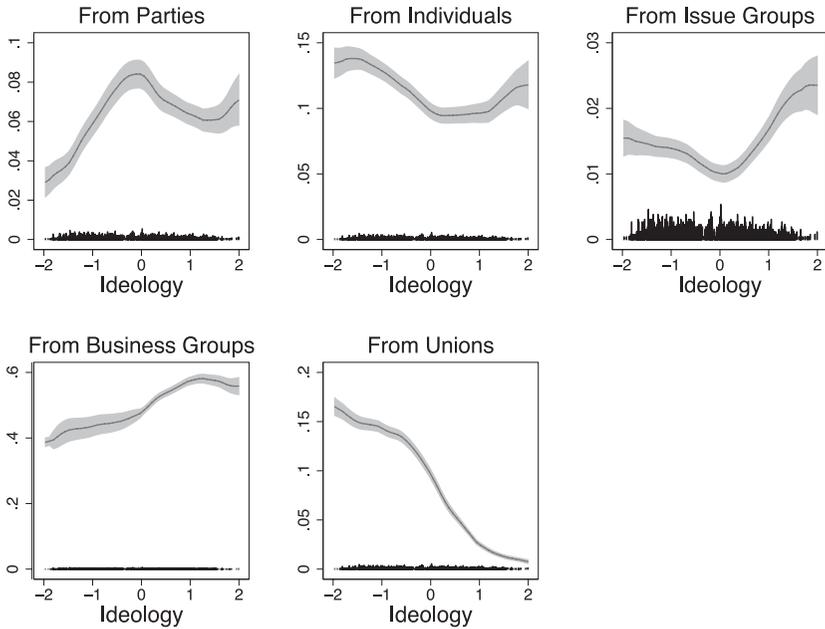


Figure 3.8. Relationship between Incumbent Ideology and Proportion of Funds Coming from Different Sources (1996–2010). (Note: Lines show the proportion of all funds raised by an incumbent depending on that incumbent's ideology. The scales of the vertical (y) axes have been adjusted to facilitate comparison of group contribution patterns.)

business groups rarely engage in contested primaries). In chapter 5 we will illustrate how these groups further expand their leverage through independent expenditures, a factor that is not captured here.

Additionally, the contributions by issue groups are likely to be indicative of a broader effort to mobilize individual contributions from like-minded citizens, who are often members of these issue groups (or, if not, who look to such groups for cues on giving contributions). We know that issue groups often advise their members on where to make individual contributions, using “scorecards” on voting records to indicate which officeholders are worthy of support. Because, as we noted in the previous chapter, individual contributors are ideological and favor giving to ideological candidates, it is not surprising that ideological incumbents also get a greater share of their funds from individual donors (top middle graph). Previous analyses showed an asymmetry, with conservative candidates being especially favored by extremist individual and issue donors. That pattern is not as clear here, because a

large share of donations for conservative candidates comes from business groups rather than issue groups.

Indeed, because we are looking at incumbents it should not be surprising that much of the money that is contributed comes from donors seeking material benefits. Given that business-oriented interests tend to want limited government and minimal regulations, candidates on the conservative side get more money than on the liberal side. However, it is important to note that the most extreme candidates do not get a greater share of business contributions than candidates who are moderates. In other words, material benefit donors are a moderating element in the campaign finance system compared to policy-oriented donors, including both issue groups and individual donors (Barber 2013).

The Difference That Party-Centered Laws Make

Thus far we have shown that the prevailing candidate-centered system tends to help incumbents and ideological candidates. The one type of donor group that might counter this dynamic is the political party, and yet parties play a marginal role in most states in financing candidates. The mismatch makes us wonder if party-friendly laws might improve the situation. In other words, if laws allowed parties to raise and spend money more freely, might we expect challengers and moderates to do better financially?

Our argument is straightforward, based on these proven assertions. One, laws affect which donor groups play sizable roles in the campaign finance system. Two, groups have distinctive preferences for allocating their contributions. Three, parties have incentives to help challengers and moderates. And four, laws that favor parties should enable the flow of money to precisely these kinds of candidates. In this section we examine the proposition that “pro-party” laws actually increase the party role in financing campaigns, particularly for challengers and moderates.

To see if this is so, we compare states that have no limits on party contributions to candidates and states that have such limits. Figure 3.9 shows how campaign finance laws affect the proportion of funds that candidates receive from political parties and other funding sources in states with contribution limits on parties versus states without such limits. The figure shows that pro-party laws make a difference, especially for challengers and open-seat candidates. The first panel in the figure shows the proportion of candidate funds that come from parties in the two kinds of states. Without party constraints, challengers receive 20 percent of their money from parties, while

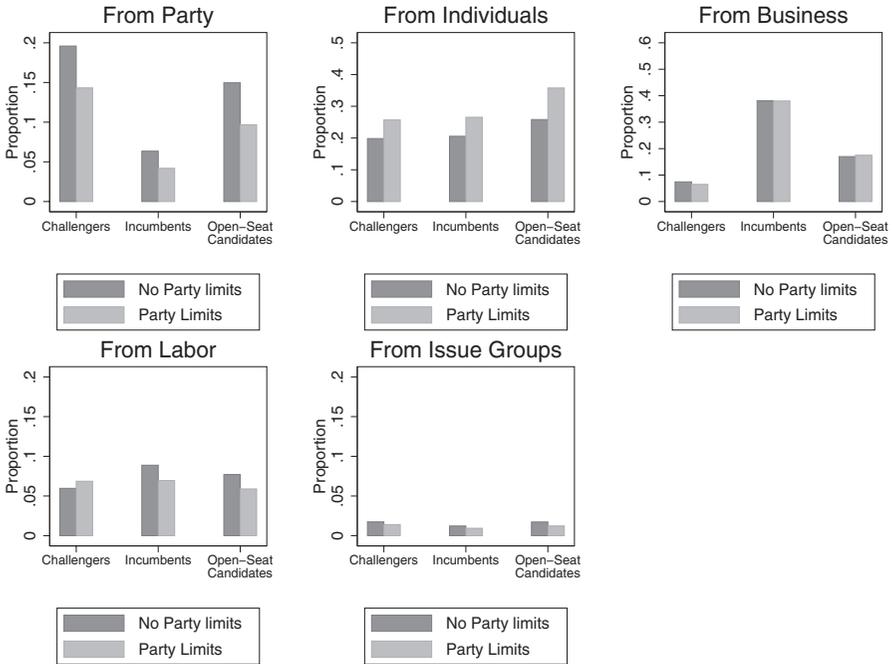


Figure 3.9. Effects of Party Contribution Limits on Candidates' Fundraising Portfolios. (Note: Based on authors' analysis of data from NIMSP. Y-axis is the proportion of funds received from each source.)

they receive less than 15 percent when parties are limited. Thus, removing limitations on political parties increases the share of funds that challengers receive from parties by a notable amount. Open-seat candidates see a similarly significant increase in support from parties in states where parties are unconstrained. However, note that incumbents' reliance on parties is less affected by limits on parties, a fact that is not surprising given that incumbents rely less on parties in general.

If parties can play a larger role in funding candidates because of laws that favor them, we logically expect other kinds of donors to play smaller roles. The data support our expectation. For example, the next panel in figure 3.9 (top middle) shows the proportion of candidate funds that comes from individual donors. Note that a high proportion of money that candidates receive comes from individuals across the board. With party limits in place, individual donors supply an even greater proportion of money to all kinds of candidates. Specifically, under party limits challengers receive 50 percent of funds from individuals, compared with 46 percent when parties can make contributions without restrictions. So when parties are constrained,

challengers rely more on individuals, who tend to donate more to ideological candidates. Note also that incumbents become even more reliant on individual donors when limits are in place for parties. This is because limits are always imposed on interest groups when they are also imposed on parties (which typically do not give much to incumbents).

The Impact of Laws on Financing Ideological Candidates

So far we have seen that pro-party laws tend to encourage the provision of more resources to challengers and open-seat candidates. At the same time, however, we are interested in understanding whether pro-party laws would help finance more moderates. Our expectation is that, without limits, parties will focus their resources on moderates. In contrast, placing limits on parties will compel the parties to spread their financing more to other candidates who are at the ideological extremes. In figure 3.10 we show how much candidates rely on party contributions in states with and without party limits. As expected, when parties are unrestricted, moderate candidates, compared with ideologues, receive a higher proportion of their funds from parties. Again, the likely reason is that moderate incumbents tend to be in the most competitive districts where voters are ideologically balanced.

In states with party limits, the parties, limited in how much they can contribute to candidates in competitive races, spread their financing to more ideologically extreme incumbents. As the right side of figure 3.10 shows, the pattern is asymmetric, with the conservative candidates getting a higher proportion of their funds from the party. On the liberal side this dynamic does not appear to happen. While giving to moderates flattens, the money does not necessarily go to more extreme liberal candidates. We believe this pattern results from the fact that states with party limits tend to be more liberal and thus contain more Democrats in the legislature. Therefore, liberal (incumbent) Democrats do not have to rely as much on the party for funds.

These analyses suggest that laws affect the hydraulics of campaign money. When laws favor parties, the parties use additional resources to finance challengers and moderates. In this situation, candidates need to rely less on ideological donors, which should help to lessen partisan polarization. One possible criticism of this analysis is that our results might be plausibly driven by other factors (electoral, partisan, etc.) that are correlated with the presence or absence of party limits. For this reason, in the next section we introduce some controls to assess the independent effect of specific party laws on candidate reliance on party funds.

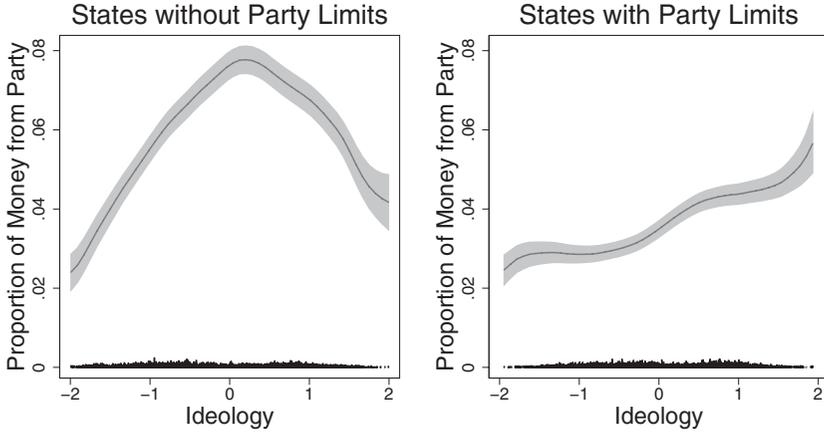


Figure 3.10. Relationship between Ideology and Candidate Reliance on Party Funds (2006–2010). (Note: Lines show the proportion of all funds raised by an incumbent that come from political parties depending on that incumbent's ideology.)

Explanatory Model

In this section, we provide a more complete investigation of the patterns we find above, using a multivariate analysis to examine the extent to which candidates rely on parties, individuals, issue groups, labor unions, or business interests for funding their campaigns. To do this, we include in our analysis 12,602 incumbent candidates for state senate in 39 American states across seven election cycles.⁵ We focus on incumbents from state senate chambers, since competing for a senate seat requires candidates to raise more funds than are needed for campaigns for the lower chamber.

The five dependent variables in our analysis are the proportion of a candidate's total funds that come from each of the five sources. The independent variables in our models capture the finance laws in place in a state during the election cycle, the competitiveness of the race in which the candidate was running, and the incumbent's ideology. For campaign finance laws, we include three dummy variables capturing whether the state limited party contributions to candidates, individual contributions to candidates, and group contributions to candidates. Competitiveness is measured as the percentage point margin of victory in the election (Klarner et al. 2013); thus, higher values are associated with less competitive races. Finally, we include two ideology-related measures. The first is the senator's raw ideological

TABLE 3.3. Factors Affecting Where Incumbent Senators Receive Campaign Funding

	Party	Individuals	Business	Unions	Issue Groups
Party Limits	-0.032* (0.003)	0.029* (0.004)	0.029* (0.004)	-0.018* (0.002)	-0.002* (0.001)
Org. Limits	0.010* (0.004)	0.107* (0.006)	-0.093* (0.006)	0.013* (0.003)	0.001 (0.001)
Individual Limits	-0.010* (0.003)	0.031* (0.005)	-0.021* (0.005)	-0.016* (0.003)	-0.005* (0.001)
Margin of Victory	-0.002* (0.001)	-0.001* (0.001)	0.002* (0.001)	0.001* (0.001)	-0.001* (0.001)
Ideological Extremism	-0.010* (0.003)	0.033* (0.004)	0.001 (0.004)	-0.004* (0.002)	0.002* (0.001)
Ideological Conservatism	0.001 (0.001)	0.004 (0.002)	0.086* (0.002)	-0.063* (0.001)	0.001 (0.001)
Intercept	0.151* (0.004)	0.137* (0.006)	0.371* (0.006)	0.087* (0.003)	0.017* (0.001)
<i>R</i> -squared	0.108	0.073	0.155	0.241	0.013

Note: $N = 12,602$ incumbent senators running with opposition. Analysis conducted using seemingly unrelated regression. * $p < .05$.

score, with lower values representing more liberal senators and higher values associated with more conservative ones. The second measure is the absolute value of ideology—it captures the extent to which each senator is moderate (lower values) or extreme (higher values) in his or her roll call voting in the legislature.

Since the proportion of funds a candidate attracts from one source is naturally related to the amounts he or she is able to raise from other sources, we estimate the five models using seemingly unrelated regression, which accounts for the fact that the error terms in the five equations are related. Table 3.3 presents the results from our models.

The first column in table 3.3 presents the estimates for the factors affecting how much incumbents receive from political parties. Several significant patterns emerge from this model. First, not surprisingly, candidates running in states that limit party contributions tend to rely less on parties for their financing. On average, the effect of party limits is to reduce an incumbent's reliance on party funds by nearly 3 percentage points. The model also reveals that parties are sensitive to the competitiveness of the contest in which the incumbent is running. For every 10 percentage points that the margin of victory is larger (i.e., less competitive), an incumbent can expect to receive 2 percentage points less of their funding from political parties. Notably, however, once we control for margin of victory, we find only a small relationship

between ideological extremism and reliance on party funds. This is because ideological extremism is correlated with competitiveness; that is, candidates in competitive races are much more likely to be ideological moderates. Thus, when parties invest in competitive races, they are typically investing in moderate candidates.⁶

The remaining models in the table show how these same factors affect the proportion of funding incumbents receive from other sources. For example, when a state limits party contributions to candidates, incumbent senators receive a higher proportion of funds from individuals and businesses, but slightly less from unions and issue groups. Incumbents in states with limits on other organizations tend to receive much more funding from individuals, but less from businesses. And candidates in states with limits on individuals actually receive less funding from all sources except individuals. The seemingly paradoxical fact that candidates in states with limits on individuals still tend to receive a higher proportion of funds from individuals can be at least partly attributed to the fact that all states that have limits on contributions from individuals also limit contributions from organizations.

The variable capturing a candidate's margin of victory is a significant factor that affects funds received from each source. Candidates in competitive races tend to receive more funds from individuals and issue groups, but those in less competitive contests tend to receive a higher proportion of their funds from businesses and unions.

Finally, ideology matters for most sources of funding. As incumbents vote in more ideologically extreme ways in the legislature, they tend to receive a higher proportion of their campaign funds from individuals and issue groups, but slightly less from unions. We found no significant effect for ideological extremism on funds received from business interests. The measure of ideological conservatism has a greater effect on funds from business interests and unions. More conservative senators receive a much higher proportion of funds from business interests, while more liberal senators receive a much higher proportion of funds from unions.

Overall, the findings presented in table 3.3 confirm the patterns we presented earlier in the chapter. Parties are largely unconcerned with ideology per se, but by investing in competitive races, they tend to support more moderate candidates. Individual donors are a more significant source of support for more ideologically extreme candidates. And business interests tend to support incumbents who are more conservative and who are running in less competitive districts, while unions tend to support only liberal candidates.

Summary of Findings

In this chapter we observed that political parties are fairly marginal players in financing candidates under the candidate-centered system that exists in most American states. The vast majority of money to candidates comes directly from either individuals or interest groups. We believe the source of money to candidates matters a great deal for the health of the political system. While most other studies examine whether the source of campaign money has a corrupting influence, in the sense of buying votes, we think that the source of campaign funding matters in other important ways. Specifically, we theorize that the source of money is tied directly to which kinds of candidates receive money in American politics.

We have adopted an institutional, system-level perspective to trace how the source of funds varies depending on the qualities of the candidates. We examined three types of donors that provide candidate financing, showing that these types have distinctive investment strategies. *Policy-oriented* donors (issue groups, unions, and individual contributors) tend to be ideological and prefer to back ideological candidates. Groups seeking *material benefits* (including economic interests such as business firms and trade associations) prefer to establish relationships with sitting officeholders, and so they support incumbents who tend to be slightly conservative. Finally, political parties primarily seek to *win elections*, and so they give money to challengers and moderates.

The candidate-centered system appears to privilege donors seeking either extremist policies or material benefits. The logical consequence of this system is that ideological candidates and incumbents do extremely well. Ideological candidates benefit because of the large role played by individual donors (and their affiliated issue groups), who tend to be ideological extremists. Incumbents dominate financing because of the large role played by business and trade groups seeking material benefits.

We cannot help but point out that these dynamics seem to be linked to widely perceived problems with the American political system. First, electoral competition is weak because incumbents rarely lose in legislative elections; this is in part because they dominate electoral financing (Abramowitz 1991). Second, officeholders are increasingly ideological and the major parties are deeply polarized. We believe this trend is related to the fact that highly ideological constituencies provide much of the financing in politics. We also believe that the lack of competition in legislative races, which is partially attributable to weakly financed challengers, allows officeholders to drift away from the median voter (Burden 2004).

For these reasons, we infer that a greater role for political parties might alter or at least attenuate these problems. As we demonstrated in this chapter, political parties are distinctive in that they choose to finance challengers more than other kinds of donors, and typically give money to moderates (largely because moderates are usually contesting the competitive races). Financing challengers could plausibly lead to greater competition, which should spur candidates in these contests to move toward the centrist median voter. And providing money to moderates should provide a counterbalance to a campaign finance system that stimulates the flow of money to ideological candidates.

The decision by parties to finance challengers and moderates is not due to the altruism of party leaders or their desire to improve the political system; it is because political parties put a premium on winning elections. As a by-product of their desire for power, party leaders will invest money in ways that could ameliorate what ails American politics. We have demonstrated that slight changes in campaign finance laws could improve the position of the political parties and allow them to pursue more intensively the strategies they are inclined to pursue. In the next chapter we will examine how these dynamics affect polarization in state legislatures.