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Contribution Limits and Competitiveness

An analysis of how state campaign finance laws affect challengers and incumbents

U.S. PIRG Education Fund

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For more information about the U.S. PIRG Education Fund, please contact:

U.S. PIRG Education Fund
218 D St SE
Washington, DC 20003
202-546-9707
uspirg@pirg.org

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Executive Summary

For years, academics, political theorists, and campaign finance reformers have debated the causal relationship between campaign contribution limits and the outcome of elections. Some argue that limiting campaign contributions amounts to "incumbent protection"; others contend that limits make challengers more competitive. This study is the first of its kind to comprehensively examine the states with contribution limits and empirically measure changes in competitiveness. Based on an analysis of 30,000 elections in 45 states, this study found that campaign contribution limits slightly favor challengers by reducing the incumbent margin of victory. The chief findings are:

- Placing limits on individual contributions reduces the vote margin in state House races for all candidates first elected after the limits have gone into effect by 7.6%. Incumbents who were first elected prior to the enactment of contribution limits see their races become closer by 3.1% due to contribution limits. Placing contribution limits on PACs, corporations, labor unions, and parties also reduces margins of victory.
- The lower the limit, the tighter the election. When controlling for the number of candidates in a race, lowering the contribution limit by $1000 leads to a decrease in the margin of victory by 3 percentage points for races involving incumbents, and 2.6 percentage points for all races.
- Because most incumbents win by very large margins, reducing contribution limits by $2000 in every state would have led to just 4% of successful incumbents losing their re-election bids. So while contribution limits do make elections closer, they do not dramatically reduce incumbent re-election rates.

INTRODUCTION

Academics and politicians have argued over the past 25 years about the impacts of campaign contribution limits on competitiveness in elections, most recently during the congressional debate on campaign finance reform. In March 2002, Congress decided to increase federal limits on contributions to candidates from $1000 to $2000 for both primary and general elections as part of the McCain-Feingold legislation. Politicians who favored the increase in contribution limits often justified their support on the basis that it would help challengers. Senator Fred Thompson co-authored the amendment to McCain-Feingold that doubled the contribution limits, arguing that the current limits make it hard for challengers to raise money to compete with well-funded incumbents. "Let the challengers have a fighting chance," he said.[1] President George W. Bush called for an increase in contribution limits during his presidential campaign and expressed his belief that the increases in the McCain-Feingold bill would help challengers when he signed the bill. "As much as I now love incumbency, I think it's important to encourage challenges in the system," he said.[2]

In March of 2001, the Campaign Finance Institute (CFI) conducted a study of the fundraising practices of congressional candidates. It found that donations at the current maximum allowed $1000 level represented a greater percentage of funds raised by challengers than incumbents, concluding that "raising individual campaign contribution limits would benefit non-incumbents more than incumbents."[3] CFI Executive Director Michael Malbin issued a similar report three months later and claimed that "the study should put to rest claims that raising the $1000 cap would hurt challengers and open seat candidates - Democrat or Republican."[4] However, CFI's analysis also found that while challengers raised a larger percentage of funds from amounts at $1000, incumbents raised more dollars overall from $1000 donors. CFI's conclusion that raising the limits would help challengers was based on the unproven assumption that the percentage of funds raised from $1000 donors was more important than the total amount of money raised from these donors.

Like the CFI approach, most past studies have attempted to answer this question by analyzing the amount that federal challengers and incumbents currently raise, correlating this with their levels of success, and then extrapolating how changes in existing federal contribution limits would affect these candidates. These models produce different results depending on which controls are used and which forms of regression analysis are employed.[5]

Not surprisingly, past studies show that challengers who spend a lot of money are more successful than challengers who don't. This tends to lead observers to the conclusion that anything that would give challengers more money would increase their level of success, ignoring the fact that incumbents might also have more money under a different set of rules. Most past studies thus suffer from the need to project how both challengers and incumbents will fare under a different set of rules by looking at how they perform under the current federal rules.

But, there is another way to approach this question. By turning to the states, the traditional laboratories of democracy, we can compare states that have no contribution limits with those that have them. If contribution limits amount to "incumbent protection," then challengers should do comparatively well in states with no limits, and fare more poorly as contribution limits get lower in other states. We also can study states that have changed their contribution limits and see what the actual effect, if any, has been on competition.

It is difficult to measure and define competitiveness. Even if it were the case that a system of unlimited contributions promoted tighter margins of victory in general elections, they still could potentially reduce overall competition by discouraging some candidates from entering primaries and running in the first place. Those candidates who did not want to spend time raising money, or found their political positions inconsistent with most donors' views might never run. If they did run, they might themselves as fairly unviable candidates facing opponents who had raised large amounts from big donors. Imagine scenario A, where candidate Smith runs unopposed in a Democratic primary and defeats candidate Jones who ran unopposed in a Republican primary by a margin of 51% to 49% with both candidates taking moderate positions on most issues. Is this more or less competitive than scenario B, where Smith and Jones first face three challengers in their respective primaries but then see a margin of victory of 55% to 45% in the general with Smith taking more liberal positions and Jones taking more conservative positions? If we had to choose between a system where margins of victory were slim, but all candidates took similar positions because they became viable only with the support of a small group of wealthy donors, and a world where some candidates won by landslides but the overall slate of candidates represented a greater level of diversity and choice to voters, it is not clear which is more competitive.

Nor is it necessarily accepted that tighter elections are inherently more democratic. For example, it is not obvious that the landslide elections of 1984 when Ronald Reagan soundly defeated Walter Mondale or 1964 when Johnson defeated Goldwater were any more or less democratic than the much more competitive elections of 1960 when Kennedy beat Nixon or 2000 when George W. Bush defeated Al Gore. The latter elections were certainly more competitive, but that may simply have reflected the mood of the electorate at the time, not a defect in the election or campaign finance system.

Further, there may be other positive or negative aspects of contribution limits that should be taken into account beyond their impacts on competitiveness. Proponents of limits believe that they reduce the influence of large donors on election outcomes while opponents see them as a restriction on free speech. Many people would hold to these positions regardless of the impacts on competitiveness.

Finally, even if the issue of competitiveness could be proven beyond all doubt, there is still a policy debate to be had. There is not necessarily a consensus that high incumbent re-election rates are contrary to the public welfare or anti-democratic. Some observers, particularly those opposed to term limits, believe that incumbents have valuable experience that can lead to better government.

Nonetheless, many observers place a high value on competitiveness in elections. Fortunately, there are empirical results to definitely measure the impact of contribution limits on competitiveness. This is the goal of this report.

Three theories on how contribution limits affect competitiveness

There are three main schools of thought regarding the role contribution limits play in elections.

Incumbent protection

This theory holds that contribution limits are damaging to challengers as a class because they prevent them from getting their message out and competing against an incumbent with strong name recognition. While contribution limits may reduce the spending of incumbents more than challengers, each dollar is marginally more important to challengers so reductions in contributions hurt challengers overall.

Bradley Smith, a current Commissioner at the Federal Elections Commission (FEC), is a major proponent of this theory. While he was a scholar at the Cato Institute, Smith wrote that, "while money can help buy votes, it buys far more votes for challengers than for incumbents. This being the case, money is an equalizer in the system, helping challengers to overcome the otherwise tremendous advantages of incumbency."[6] Smith goes on to assert that "although limits on campaign contributions increase candidate reliance on small contributors, such limits are undemocratic if, by "democratic," we mean a political system that is open to challenge by outsiders and that allows challengers to compete on relatively equal footing. The undemocratic nature of campaign finance limitations is most readily seen in the way such limitations favor incumbents over challengers." [7]

A task force of academics compiled by the Citizens Research Foundation in 1997 similarly rejected "the drive to decrease limits on individual contributions because we believe that electoral competitiveness is the major issue here, and lower contribution limits will make it harder for challengers to gather the funds they need to contend against well-known, entrenched incumbents. In contrast, higher contribution limits with special provisions to make it easier to raise initial seed money will encourage challengers."[8]

Help for challengers

Others claim that contribution limits are helpful to challengers as a class because they reduce the amount by which incumbents can outspend challengers. As the League of Women Voters points out on its website, "an overwhelming proportion of special interest contributions goes to candidates who already are in office, especially those whose seniority and influence can make them important individuals to have on your side. In 1996 general election contests, Republican incumbents in the House of Representatives outspent their challengers by nearly an eight-to-one margin. For Democrats, the margin was four-to-one. Critics of the current system believe that the huge war chests built up by sitting lawmakers stifle competition and scare away potential challengers who can't afford the TV time they need to become known among voters. The incumbent advantage can have a particularly harmful effect on the candidacies of minorities and women seeking to break through the "glass ceiling" that traditionally has stood in the way of their political involvement."[9]

Incumbents usually have stronger name recognition than challengers, but it isn't always favorable, and they have voting records to defend that are not always popular. However, incumbents' ability to amass large amounts of campaign contributions may succeed in deterring challengers from even getting into the race. Larry Makinson of the Center for Responsive Politics notes that by July 1, 1999, the average incumbent had $300,000 in the bank well over a year before the next election. "There are a lot of incumbents raising a lot of money and setting it aside for the next campaign, and the moat they build around the castle of incumbency becomes even deeper." [10]

It depends on the candidate

It also is possible that contribution limits are harmful to some challengers (those who have few donors who can give large amounts), and helpful to others (those who have many small contributors), but that contribution limits neither help nor hurt challengers as a class.

Demaris Miller, an unsuccessful candidate for the U.S. Congress, testified before the Senate Rules Committee that "without contribution limits, I could have raised more money, and reached more people with my message. I had well over a hundred contributors who gave me the maximum allowed under the so-called 'current' law. One retired gentleman from Texas sent me a check for $5000, not because he wanted any special favor, but because he agreed with my stands on the issues. Many others inquired whether they could give more and were told they could not."[11]

However, for every Demaris Miller, there is a candidate who does not take positions that attract a large number of wealthy donors. For example, Gary Harrison lost the Democratic Primary in the 5th Congressional District of Texas after his opponent had raised ten times as much as he had. "The system is unfair to people on a limited income," says Harrison. "As much as you think this is a democracy, there is no question that if you can't pay, you can't play." He noted that his supporters were not as financially able to contribute as the supporters of his opponent. Harrison says, "if you are a senior on a limited income, you don't have a lot of money to contribute to those candidates who are going to fight for you. They'll give five dollars, but can't compete with the doctors or trial lawyers who can afford to give $1000 to elect the people who will vote in their direction."[12] Clearly these two challengers believe that they would fare differently under contribution limits.

Thus, a third hypothesis is that contribution limits will enhance the competitiveness of some candidates but decrease the competitiveness of others. Legal scholar Cass Sunstein, while not offering any statistical evidence, suggests that this may be the case.

> *"Whether campaign finance limits in general do entrench incumbents is an empirical question. There is some evidence to the contrary. Usually the largest amounts are spent by incumbents themselves; usually incumbents have an advantage in accumulating enormous sums, often from people who think that they have something to gain from a financial relationship with an officeholder. In these circumstances, one of the particular problems for challengers is that they face special financial barriers by virtue of the ability of incumbents to raise large sums of money. Probably the fairest generalization is that campaign finance limits in general do not entrench incumbents, but that there are important individual cases in which such limits prevent challengers from mounting serious efforts."*[13]

Others have suggested that "high quality" candidates are able to raise large contributions under systems with no contribution limits, whereas "low quality" candidates cannot. Thus, contribution limits would again affect different candidates to varying degrees.

In any case, this school of thought would tend to move the debate away from the question of challengers vs. incumbents, and more toward other characteristics of candidates that might be advantaged or harmed by contribution limits such as the candidates skill in fundraising, positions on the issues, desire to work hard at the task of raising funds, etc.

Measuring Competitiveness

One value of having competitive elections is that it can help ensure that elected officials accurately reflect the views of voters. If an incumbent strays too far from public opinion in his district, then another candidate can successfully challenge him by taking a position closer to the belief of the majority of voters. If incumbents know that the campaign finance system will allow challengers to mount strong campaigns, they are likely to behave in accordance to the wishes of voters while in office. Conversely, if they believe that they will not face a strong challenge, they may feel free to depart from the will of the voters while legislating.

Not all challengers run with the same goals in mind. Many run because they want to win. In this scenario, the challenger often takes positions very close to the positions of the incumbent but marginally closer to the voters in areas where the incumbent's views depart from public opinion in the district. Other challengers run to raise issues that they feel are important and move public opinion, perhaps knowing that their position is in the minority and they are unlikely to win but hoping to win converts to their cause. For example, imagine a district with 30% liberal Democratic voters, 20% swing independent voters, and 50% conservative Republican voters and with a Republican incumbent Jones. A Democratic challenger, call him Smith, could take moderate positions close to those of Jones and hope to hold onto the 30% Democratic base while picking up the 20% swing independents. Alternatively, a Democratic challenger, White, might champion liberal causes, hoping to raise issues he feels strongly about. Smith might run a lackluster campaign, raising little money, gaining few endorsements, and come in with 41% of the vote just based on the positions he staked out. White might run a vigorous campaign, raising lots of money, and come in with 40% of the vote, but his effort might have actually changed the opinions of 10% of the voters. Looking only at vote margins, we would conclude that Smith was more "competitive" even though this doesn't necessarily capture the goals of competition.

With this caveat in mind, this study measures competitiveness by examining electoral margins in winner-take-all elections that are dominant in U.S. elections. We look at the margin of victory of the winning candidate to measure "closeness" of elections and at the percentage of races won by challengers to measure how often incumbents get re-elected. This inherently presumes that these numbers do indeed capture the values espoused by competition. But, even if this presumption does not always bear out, we can still investigate the impacts of campaign contribution limits on these measures, which give reliable results about the impact of limits on competitiveness generally. So, we take no position on the inherent value of these metrics, but do believe that they are useful in measuring the competing claims that contribution limits protect incumbents or help challengers. We also look at the number of candidates in each general election, which should be a good indicator of the ability and willingness of challengers to mount a campaign either for the purposes of winning or for the purposes of raising important issues that may not yet have majority support.

Case Studies Between States

Perhaps the most straightforward way to assess whether contribution limits enhance or detract from competitiveness is to look at states that have the lowest contribution limits and compare them to states that have no limits at all. If the opponents of contribution limits are correct, then the states with no limits should have challengers succeeding at a higher rate. Conversely, if the second theory is correct, states with the lowest limits should have greater challenger success rates.

The following two charts show states that had the lowest contribution limits in the country as of the November 2000 election and states with no limits at all. The charts contain the average number of races, the average margin of victory, and the incumbent re-election rate for recent state House elections. [14]

Based upon this analysis of one election cycle, contribution limits appear to tighten margins of victory although they are clearly

States with the lowest limits

State	Contribution Limit/Cycle	Cycle	Avg # of Candidates	Avg Victory Margin	Incumbent Re-election Rate
Montana	$200	2000	2	34.5%	90%
Vermont	200	2000	2	34.0	87
Connecticut	500	2000	1.8	58.4	98
Maine	500	2000	1.9	39.1	92
Michigan	500	2000	2	39.8	100
Missouri	550	2000	1.7	59.8	97
Arkansas	600	2000	1.3	74.7	100
Minnesota	600	2000	2.1	34.1	96
Combined average			**1.8**	**46.8**	**95**

States with no limits

State	Contribution Limit/Cycle	Cycle	Avg # of Candidates	Avg Victory Margin	Incumbent Re-election Rate
Alabama	none	1998	1.6	60.7%	93%
Mississippi	none	1999	1.3	77.0	95
California	none	2000	2.9	36.3	100
Iowa	none	2000	1.8	47.1	94
Idaho	none	2000	1.7	60.9	96
Illinois	none	2000	1.5	67.3	99
Indiana	none	2000	1.8	55.7	100
New Mexico	none	2000	1.7	52.4	91
Oregon	none	2000	2.1	35.3	100
Pennsylvania	none	2000	1.7	64.7	99
Texas	none	2000	1.4	76.4	99
Utah	none	2000	2.3	38.5	93
Virginia	none	2001	1.7	55.1	95
Combined Average			**1.8**	**56.0**	

not the only factor involved in competitiveness. Montana and Vermont have the lowest limits and are among the most competitive states, but Arkansas has lower limits than most states yet is comparatively uncompetitive. Likewise, Mississippi and Texas have no limits and are very uncompetitive, but California has mixed results, with the greatest number of candidates per race and comparatively low margins of victory even though its incumbent re-election rate is 100%. When looking at the combined averages, the states with lower limits have lower margins of victory, but only slightly lower incumbent re-election rates and the same number of candidates per race.

Case Studies Within the Same State

The comparison between states shows that states with lower contribution limits tend to have elections that are at least as competitive as those that do not, if not more so. However, there could be many other factors that vary between states, such as the existence of term limits, the way districts are drawn, legislator pay, etc., which could explain the variation rather than it being caused by contribution limits. One way to isolate the impact that contribution limits have is to look at the effect of a change in contribution limit law on competitiveness. For example, in 1997 Vermont dramatically lowered its individual contribution limits from $2000 per cycle to $200 per cycle for legislative candidates. In the corresponding elections, Vermont saw a decrease in its incumbent re-election rate, although the number of candidates per race and the average margin of victory did not change.

Similarly, when Oregon established contribution limits of $100 per election (allowing up to $200 per candidate per election cycle if donors gave both in the primary and general elections), the incumbent re-election rate dipped and then went back up when the Oregon Supreme Court ruled that contribution limits were impermissible under the Oregon

Vermont

Year	Contribution Limits	# of Candidates	Margin of Victory	Incumbent Re-election Rate
1986	$2000	2.6	44.7%	92%
1988	2000	2.7	43.6	96
1990	2000	1.7	43.3	87
1992	2000	2.0	31.5	90
1994	2000	1.8	41.7	94
1996	2000	1.9	36.8	92
1998	200	1.9	36.1	87
2000	200	2.0	34.0	87

Kansas

Year	Contribution Limits	# of Candidates	Margin of Victory	Incumbent Re-election Rate
1980	$1000	1.6	52.5%	97%
1982	1000	1.8	47.1	93
1984	1500	2.0	54.0	98
1986	1500	1.5	61.3	97
1988	1500	1.8	42.2	93
1990	1000	1.8	35.1	89
1992	1000	2.0	32.5	92
1994	1000	1.7	46.5	91
1996	1000	1.8	49.8	95
1998	1000	1.6	61.3	100
2000	1000	1.6	61.5	98

Oregon

Year	Contribution Limits	# of Candidates	Margin of Victory	Incumbent Re-election Rate
1980	None	2.8	34.6%	93%
1982	None	2.8	28.6	100
1984	None	2.7	35.7	95
1986	None	2.8	29.3	94
1988	None	2.7	35.2	85
1990	None	2.0	32.8	88
1992	None	2.0	36.8	93
1994	None	2.2	31.0	97
1996	$200	2.1	34.8	95
1998	None	2.1	37.8	100
2000	None	2.1	35.3	100

Kentucky

Year	Contribution Limits	# of Candidates	Margin of Victory	Incumbent Re-election Rate
1981	$6000	1.6	66.3%	93%
1984	6000	1.5	63.3	97
1986	6000	1.8	72.0	97
1988	8000	1.6	77.4	98
1990	8000	1.5	60.9	92
1992	8000	1.4	71.0	99
1994	1000	1.4	73.9	96
1996	1000	1.6	57.0	97
1998	2000	1.5	61.6	95
2000	2000	1.4	73.9	97

Constitution. Note however that the margin of victory increased when the contribution limits were in effect, but increased again when they were removed.

Similar results in Kansas and Kentucky suggest that sometimes the incumbent re-election rate goes up when limits are increased and goes down when limits are lowered. Margin of victory goes up in Kansas when limits increase and down when they decrease. However, in Kentucky, margin of victory goes up in 1988 and 1998 when limits go up, but also goes up in 1994 when limits decrease.

THE GENERAL CORRELATION

The above examples show some interesting observations. However, they do not by themselves allow us to draw definitive conclusions according to accepted statistical principles. Any given state example in any given year could be subject to particular oddities or simply randomness in its results. In fact, all of the above examples demonstrate some years with lower incumbent re-election rates both before and after contribution limits have changed. Based on these state case studies, it would be difficult to conclude if contribution limits had any effect at all on competitiveness, although one would suspect that any effect would be fairly small.

However, through a process similar to that above, we can combine data from many states over many years and observe a general connection between contribution limits and competitiveness. Our data set looked at 45 states over a period from 1980 to 2001, encompassing some 30,000 different races.[15] Analyzing this large number of races and using statistical regression techniques to control for other influences besides contribution limits will allow us to draw definite conclusions. Of this large set of data, we find the following baseline averages:

Overview of 30,000 Races Analyzed

Average Margin of Victory	54%
Incumbent Vote Share	78%
Number of Candidates (Avg)	1.8
% of Uncontested Races	36%
Incumbency Re-election Rate	95%

Some form of contribution limit applied in a majority of races studied, with specific breakdowns as follows:

Existence of limits	*% of races studied*
Individual Contribution Limits	56%
PAC Contribution Limits	50%
Corporate Contribution Limits	70%
Labor Contribution Limits	56%

One thing is clear. Whether there are contribution limits or not, incumbents win the overwhelming majority of elections in America.

The multi-state, multi-year analysis shows that states with contribution limits have closer elections. The existence of a contribution limit has the following effect on the closeness of all elections:

Existence of Contribution Limits on Margin of Victory for All Races

Limits on Contributions for:	Reduction in margin of victory
Individuals	3.5%
PACs	3.4
Corporations	0.8[16]
Unions	1.7[17]
Parties	2.5

Contribution limits may affect candidates differently, depending upon if they were already in office when the limits first went into effect. Incumbents who are in office when campaign contribution limits are passed may not experience the full effect of those limits because they have had years of campaigning under the old limits to build up their brand name recognition. They also have had the chance to build up large reserves of campaign funds under the old limits that they may use for future campaigns even after new limits have gone into effect. To isolate this effect, we can look separately at incumbents who first ran for office prior to the limits going into effect, and those who ran after (both incumbents and open seat races).

Existence of Contribution Limits on Incumbent Margin of Victory for Post-Limit Candidates and Pre-Limit Incumbents

Limits on Contributions for:	Post-limit candidates	Pre-limit incumbents
Individuals	7.60%	3.10%
PACs	9.40	1.80
Corporations	4.10	0.90[18]
Unions	6.50	0.80
Parties	6.90	2.20

The charts show that all forms of contribution limits have a negative impact on incumbents' margin of victory, although they have a lesser impact on incumbents who are already in office when the law takes effect.

Regression results also indicate that the presence of contribution limits results in a 0.1 (or 5%) increase in the number of candidates, taking the average from 1.8 to 1.9 candidates in a race.

The data further indicate that the lower the contribution limit, the greater the increase in competitiveness overall. Lowering a contribution limit by $1000 when controlling for factors such as term limits and election-day registration, time invariant state characteristics and national tides, reduces the margin of victory for incumbents by 5.4%. When this is further controlled to account for the number of candidates in the race, then a $1000 decrease in contribution limits yields a 3% decrease in incumbent margin of victory. When all races are included, not just incumbents, a $1000 decrease in contribution limits results in a 2.6% reduction in the margin of victory, so lowering a limit appears to have a slightly larger impact on incumbents than open seat candidates.[19]

Given that incumbents, on average, win elections with 78% of the vote, the decrease in vote margins from contribution limits is not large enough to cause most incumbents to lose. When the estimate on incumbent vote loss is applied to the actual margins of victory by incumbents, we find that approximately 4% of successful incumbents would have lost had the contribution limits in their races been lowered by $2000. The presence of individual contribution limits results in a 1.1% reduction in likelihood of incumbent victories, and limits on contributions from individuals, PACs, corporations, unions, and parties reduce the likelihood of incumbent victory by 2.1%.

CONCLUSIONS

The empirical evidence does not support the first theory that contribution limits amount to incumbent protection. If anything, the opposite hypothesis is true, that they tend to encourage more challengers who are more competitive as the limit is lowered. But, the data do not rule out the third hypothesis: that changes in campaign finance law will hurt or help different types of candidates, and that whether or not these candidates are incumbents or not may vary over time and circumstances. It is possible that the types of candidates who benefit from contribution limits happen to include more challengers than incumbents during the years we studied, but that in other circumstances the types of candidates who would benefit from contribution limits would include more incumbents. In any case, we can say with certainty that contribution limits are not neutral, they help some candidates relative to others, and at least at the moment those who they help happen to be challengers.

Contrary to the claims of Senator Thompson and President Bush, this analysis would also suggest that the recent increase in individual contribution limits passed by the Congress is most likely to benefit incumbents at the expense of challengers.

METHODOLOGY

Election outcomes from 45 states were compiled into a multi-state database. The study involved only single-member districts, which comprise about 80% of all state legislative districts. The study did not include Arizona, New Jersey, and North Dakota because they use multi-member districts. Nebraska and Louisiana were also omitted because their election processes are not similar to other states.

Data for the years 1980-1989 and 1993-1994 came from the Inter-University Consortium for Political and Social Research. Data from 1990-1992 and from 1995- 2001 were collected from each state Board of Elections or official Elections Division. Data on campaign finance laws was obtained from the FEC Publication Campaign Finance Law.

The main equation tested was:

> Electoral Outcome (of all candidates, or incumbents only) =
>
> Presence of contribution limits (or amount)
>
> + control factors (open seats, presence of term limits, use of election day registration)
>
> + control for time invariant state factors (legislative salaries, full time legislatures, district size, differences in campaign technology, etc)
>
> + control for changes in national laws and events that impact state competitiveness (for example, redistricting.)

The analysis controls for states with term limits because they reduce the lifespan of a legislator and thus may reduce the incentive to run for office. Only 5% of the races studied were subject to a term limit (they were just beginning to take effect in the later years of the data set in most states that have them). Term limits did show a correlation with tighter elections, in general leading to a 4.4% decrease in the margin of victory for incumbents compared to a 6% reduction due to the presence of contribution limits.

We also control for states that use election-day registration because voters face lower barriers to voting and thus candidates who appeal to infrequent voters might have greater chances of success. Other control variables are time-invariant state controls and election cycle controls which capture effects such as redistricting, district size, and the professionalism of the legislature as measured by legislative salaries and whether it was a full or part time legislature.

The results shown in the case studies between states and within the same state over time are simple averages of raw data.

The results shown in the first chart in the general correlation section (p. 13) were drawn from Ordinary Least Square (OLS) regressions of the main equation where the existence of a contribution limit was given a value of one and absence of any limit given a value of zero. Results in the second chart (p. 13) were drawn from OLS regressions using a value of one for incumbents in office after limits took effect and zero for those who were in office prior to the limits taking effect.

Further controls to make sure that the contribution limit correlations were robust and not subject to an endogeneity bias were accomplished using several Two Stage Least Squares (2SLS) regressions. The first 2SLS regressions used a rank instrument, dividing states into quartiles based on their level of contribution limits. The instrument in the 2nd 2SLS regressions are the margins of control between political parties for state Houses. The 3rd set of 2SLS regressions employs Democratic and Republican control of lower state Houses as the instruments. These 2SLS regressions confirmed the initial correlation between lower contribution limits and greater electoral competitiveness, and once these factors that may confound the causality were taken account, the impact of the contribution limit increased, as noted.

Appendix: Ranking of states in measures of competitiveness

Another interesting angle made possible by this study is to compare states generally in terms of their competitive measures. This does not cleanly correlate with contribution limits, as the limits changed in many states over the years studied, and because other factors are involved, but it does show significant variation between states.

Overall, the ten states with the lowest average margin of victory over all election cycles studied were:

MN	31.4%
WA	32.9
NV	33.1
OR	33.8
AK	34.9
CA	35.6
UT	38.8
VT	38.8
OH	38.8
CT	39.3
ME	39.5

The ten states with the highest average margin of victory over all election cycles studied were:

AR	80.8%
MA	79.1
GA	76.9
MS	74.7
SC	74.1
TX	71.0
TN	68.2
KY	67.7
AL	66.3
OK	62.2
FL	61.2

The ten states that had the greatest number of candidates per race over all election cycles studied were:

CA	2.65
AK	2.43
NY	2.42
OR	2.37
MI	2.34
UT	2.18
NV	2.14
VT	2.07
WI	2.07
OH	2.04
IA	1.99

The ten states with lowest number of candidates over all election cycles studied per race were:

AR	1.27
GA	1.38
MS	1.38
TX	1.49
KY	1.52
OK	1.52
FL	1.53
NH	1.57
MA	1.58
NM	1.59
SC	1.60

The ten states with the lowest incumbent re-election rate over all election cycles studied were:

AK	84%
MT	87
NV	90
UT	90
VT	90
WY	90
NH	91
ME	91
WA	92
CO	92
CT	92

The ten states with the highest incumbent re-election rate over all election cycles studied were:

MA	99%
AR	99
PA	98
TN	97
NY	97
SC	97
GA	97
OK	97
TX	97
CA	96
MO	96

Endnotes

[1] Senator Fred Thompson quoted in the *Washington Post*, March 28, 2001.

[2] President George Bush quoted in the *Boston Globe,* March 25, 2002 saying he intends to sign the bill and is pleased with the contribution limit increases.

[3] Campaign Finance Institute Press Release, March 26, 2001.

[4] CFI Press Release, June 27, 2001.

[5] See American Political Science Review, June 1998 v92 n2 p401(11), *Estimating the effect of campaign spending on Senate election outcomes using instrumental variables* by Alan Gerber: "Ordinary least-squares (OLS) and two-stage least-squares (TSLS) estimation of a standard model of Senate election outcomes produce very different results. OLS estimation confirms the conventional view that incumbent spending has a lower marginal effect than challenger spending, while TSLS estimation shows the marginal effects of spending by challenger and incumbent to be both statistically equivalent and substantively important." These studies have implications for spending limits, not contribution limits directly. But, because contributions limit impact the amount that candidates can raise and therefore spend, contribution limits should have a similar effect.

[6] *Policy Analysis: Campaign Finance Regulation, Faulty Assumptions and Undemocratic Consequences*, September 13, 1995, p. 9.

[7] Ibid. page 16.

[8] *New Realities, New Thinking – Report of the Task Force on Campaign Finance Reform*, published by the Citizens Research Foundation, University of Southern California, March 1997, p. 11.

[9] *Make the Link: Questions and Answers about Campaign Finance Reform*, posted on LWVwebsite http://www.lwv.org/elibrary/pub/cfr_qanda.htm on May 20, 2002.

[10] *Most Races for Congress Over Before They Start*, Monday, October 30, 2000 by John Whitesides, Reuters.

[11] Statement before Committee on Rules and Administration, United States Senate, March 24, 1999.

[12] *The Best Elections Money Can Buy*, U.S. PIRG, November 2000, p. 30.

[13] "Political Equality and Unintended Consequences," *Columbia Law Review*, vol. 94.

[14] For Mississippi and Alabama, data is from the most recent year available.

[15] Data does not include Arizona, New Jersey, and North Dakota since they do not use single-member districts, Nebraska because its elections are staggered, or Louisiana since its main competition occurs during the primaries.

[16] This result is in the expected direction, but is not statistically significant.

[17] This result is in the expected direction, but is not statistically significant.

[18] This result is in the expected direction, but is not statistically significant.

[19] An ordinary least square regression analysis reveals that a reduction in individual contribution limits by $1000 leads to a 0.9% reduction in the margin of victory of incumbents. Part of this reduction may be because more candidates choose to enter the race when limits are lower. When controlling for the number of candidates, a $1000 decrease in contribution limits leads to a 0.6% decrease in margin of victory. One issue when analyzing these laws is that legislators may chose to change the campaign finance laws when they are in tight races. This circumstance makes it difficult to determine whether the causation runs from laws to closeness of elections or vice versa. Using common statistical methods we can overcome this issue and isolate to which extent laws effect closeness of elections. When doing so we find that lowering contribution limits have the greater impacts, namely a 3% decrease in incumbent margin of victory, and a 2.6% decrease in margin of victory for all races.