

**Omer Gokcekus**

Ph.D. in Economics, Professor

Whitehead School of Diplomacy and International Relations, Seton Hall University, South Orange, NJ 07079, USA.

omer.gokcekus@shu.edu. r

**Justin Myzie**

M.A. in International Relations

Department of Homeland Security, USA.

justin.myzie@gmail.com.

UOT 336.221:574

ARE POLITICAL CONTRIBUTIONS IN THE US PURE CONSUMPTION GOODS?

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Abstract

Purpose – we checked the validity of the “political campaign contributions as consumption goods argument.”

Methodology – we examined the changes in political contributions of 59-groups in the 2006 and 2008 election cycles and conducted statistical analyses.

Findings - our t-tests and regression analysis indicated that while there was no significant change in Americans’ income, political views, or party affiliation between these two election cycles, there was a statistically significant change in the way groups allocated their contributions, shifting more towards the Democratic Party which was expected to gain the majority of seats and, hence the legislative power in the Congress. Furthermore, the “most sensitive groups” to the legislative process were making bigger adjustments in allocating their contributions between the two parties based on the expected new Congressional configuration.

Practical implication – these findings refute the validity of “contributions as consumption goods” argument and accordingly we recommend that in the future studies, modeling political contribution as a function of both consumption and investment motives, and taking into account the intervening effects during each election cycle might be a better strategy.

Originality – we constructed a sensitivity index (based on experts’ opinion) and used it to empirically check the validity of the “political contributions as consumption goods argument.”

Keywords: *Political Campaign Contributions, Interest Groups*

1. Introduction

“The role of large-scale contributors in politics is frequently emphasized in the press. It seems reasonable to believe that the contributors to the parties and to such individual candidates as McGovern, Lindsay, and Nixon aim at a profitable return on their investment. Granted the market is competitive, however, there is no reason why they should receive a return which is markedly higher than the return on any other investment. Thus, if potential return through political favors on a gift of \$50,000 to a party which had a 50-50 chance of winning was greater than about \$120,000, one would expect much greater resource investment in political investment until the return fell to a normal return again.” Tullock (1972: 354)

If political contributions are seen as political investments to influence legislators in the US, then these are investments with astronomically high returns. Yet, the amount of money used for political investment does not match these high returns. Seeing this, in 1972 Tullock concluded that this was an unsolved puzzle. (For the relationship between campaign contributions and various “favors” such as lower effective tax rates, temporary duty suspension, and support prices, among others, see Gokcekus and Barth (2007) and Gokcekus et al. (2004), Richter et al. (2009), and Tower and Tosini (1987); for variations of contributions as investment models, see Ben-Zion and Eytan (1974), Snyder (1990) and Welch (1980).)

To address this puzzle, Ansolabehere et al. (2003: 117-118) have put forward a different motivation, namely political consumption rather than political investment to explain these contributions:

“Instead, individuals give because they are ideologically motivated, because they are excited by the politics of particular elections, because they are asked by their friends or colleagues and because they have the resources necessary to engage in this particular form of participation. In short, people give to politics because of the consumption value associated with politics, rather than because they receive direct private benefits.”

Thus, after 31 years, in 2003 Tullock’s puzzle was solved. Or was it? Assuming that individuals’ political views, party affiliation, and their resources do not change significantly within a short period of time, e.g., from one election cycle to the next, the consumption goods argument implies a steady flow of contributions from certain groups to political parties. Yet, as it was widely reported in daily newspapers during the election cycle of 2006, there was a significant change in the composition of political contributions; specifically there were more contributions towards the minority party – the Democratic Party – which had a good chance to become the majority in Congress. (Birnbaum (2006); Cummings (2006); MacKinnon (2006) and Mullins (2006)). After reading these newspaper articles, which provided some selective evidence, we decided to check the validity of the claim that, rather than being an in-

vestment, political contributions are consumption goods; and to find out whether the Tullock puzzle still remains unsolved.

Accordingly, we examined the changes in contributions in the 2006 and 2008 election cycles and conducted statistical analysis, t-tests and regression analysis, to check the validity of the consumption goods argument. As will be detailed in the following sections, our findings refuted the idea that contributions are pure consumption goods. Therefore, we concluded that Tullock's puzzle remains unsolved.

2. Party affiliation, perceptions about the country and Congress

First, we hypothesized the following: If contributions are indeed consumption goods, as long as the people's party affiliation or political views remain the same, there should be no significant difference in the way contributions are allocated between different political parties. This should hold regardless of the level of satisfaction and approval of the job done by Congress and/or whether the country is moving in the right direction. Of course, among other reasons, we should expect to see changes in the amount of the total contributions by different groups as a function of changes in income levels and whether or not there is a presidential election during a particular election cycle.

Based on the New York Times/CBS Polls, Table 1 shows that between 2004 and 2008 there was no significant change in the percentages of the Americans identifying themselves as either Republican or Democrat, and no significant change in the percentages considering themselves either conservative or liberal. (Specifically, we considered the following questions from the New York Times/CBS Polls: Question 99: Generally speaking, do you usually consider yourself a Republican, a Democrat, an Independent, or what? How would you describe your views on most political matters? Generally, do you think of yourself as liberal, moderate, or conservative?) For instance, 29% considered themselves a Republican in 2004 and 30% in 2008; similarly the same number of Americans (22%) considered themselves to be a liberal both in 2004 and 2008. We interpret these percentages as an indicator of unchanged party affiliation and political view motivation to give to either the Republican Party or the Democratic Party.

During the same time period however, as presented in Table 1, the polls indicated that there was a significant change in Americans' perception regarding whether the country was going in the right direction or not. (Specifically, we considered the following questions from the New York Times/CBS Polls: Question 2: Do you feel things in this country are generally going in the right direction or do you feel things have pretty seriously gotten off on the wrong track? Question 6: Do you approve or disapprove of the way Congress is handling its job?) The percentage of Americans who felt the country was moving in the right direction dropped from 30% in 2004

to 24% in 2006, and 14% in 2008. Furthermore, Congress' approval rate dropped from 33% in 2004 to 23% in 2006 and 22% in 2008. It is important to note that between 2000 and 2006, the Republican Party held the majority of seats in Congress.

To summarize, while Americans' party affiliation and political views remained unchanged, there was a significant change in their feelings regarding whether the country was moving in the right direction and whether the Republican controlled Congress was handling its job properly. Despite the unfavorable perceptions of the Republican controlled Congress and the Republicans' slim ruling margins, we would expect groups motivated predominantly by consumption concerns to make no significant changes in their contributions towards the potential winners, i.e., the candidates from the Democratic Party. (Aranson and Hinich, 1979)

3. Contributions

From opensecrets.org, the website of The Center for Responsive Politics, we assembled the total contributions made by all groups for whom data was available – fifty-nine groups – to Democratic and Republican candidates during the 2006 and 2008 election cycles (contributions made between January 1st 2005 and December 31st 2006 count for the 2006 election cycle; and between January 1st 2007 and December 31st, 2008 count for the 2008 election cycle). We accessed www.opensecrets.org and downloaded the contributions made by all of the groups listed on September 27, 2011; and Table 2 includes the names of all 59-groups.

Table 3 shows that in the 2006 cycle, the average contribution to the Democratic Party by each one of these fifty-nine groups was 11.1 million dollars (in 1990's dollars). Most importantly though, was that on average, 41% of each group's total contributions were made to the Democratic Party. In 2008, the average group contribution was 17.2 million and 51% of donations were given to the Democratic Party. Not only did the average total contribution by each group go up by 56% (perhaps mainly due to presidential election in 2008), the Democratic Party's share was increased by 24%. Based on a two-sample assuming unequal variances t-test, the increase in the Democratic Party's share from 2006 to 2008 election cycle is statistically significant among the 59 groups. (t-statistics = 2.86; degrees of freedom 116; therefore the difference was statistically significant at .01 level (two-sided).) We interpreted this test result as evidence to refute the claim that contributions are consumption goods. To further examine the reliability and robustness of this result, we will put forward and test a second, more meticulous hypothesis in the following section.

4. "Sensitivity" to legislation and contributions

The second hypothesis is the following: If contributions are consumption goods then, we shouldn't expect to see even the groups which are the most sensitive to le-

gislation making reallocation of their contributions towards the Party expected-to-be-the majority. Even if an increase in the majority of a Democratic controlled Congress was expected in the 2008 elections; we shouldn't see a particularly large change in the allocation of contributions from the most sensitive groups.

In addition to our own evaluation we asked seven public choice scholars, including two presidents of the Public Choice Society, to rate the sensitivity of the fifty-nine groups (their contributions are listed at opensecrets.org) to a change in control of one or both houses of Congress. They used a scale from 1 to 5, with 1 = very sensitive; 2 = somewhat sensitive; 3 = neither sensitive nor insensitive; 4 = somewhat insensitive; 5 = not sensitive at all. Cronbach's alpha was calculated as 0.833, which indicates a "good internal consistency" among the eight ratings by us and the seven public choice scholars. Therefore, we used the arithmetic mean of these ratings as the sensitivity score for each group.

Table 3 lists the 10 most and the 10 least sensitive groups based on ours and these seven scholars' average ratings. The 10 most sensitive groups have an average sensitivity score of 1.46 (median 1.38) with 1.13 minimum and 1.88 maximum scores. The 10 least sensitive groups have an average sensitivity score of 3.56 (median 3.44) with 3.25 minimum and 4.25 maximum scores.

In 2006, the most sensitive groups' average total contribution was \$15.3 million, of which 39% was given to the Democratic Party. The least sensitive groups' average total was \$6.7 million and they allocated 35% of their contributions to the Democratic Party. Put simply, the 10 most sensitive groups were giving more, and the 10 least sensitive groups were contributing less than the average group contributions in 2006; and both were allocating less than half of their total contributions to the Democratic Party. Furthermore, in 2006 there was no statistically significant difference between these two groups' allocations of their contributions between the Democratic and Republican Parties. (This was based on a two-sample assuming unequal variances t-test, where degrees of freedom = 18, t-statistics = 0.711.)

In 2008, the most sensitive groups' average total contribution was \$25.5 million, of which 54% was given to the Democratic Party. The least sensitive groups' average total was \$10.8 million and they allocated 44% of their contributions to the Democratic Party. In other words, in 2008 too, the 10 most sensitive groups were giving more, and the 10 least sensitive groups were contributing less than the average group's contributions. Moreover, while the ten least sensitive groups increased their share given to the Democratic Party by 9 percentage points, they continued to allocate less than half (and also less than the average contributions by all fifty-nine groups). Meanwhile, the 10 most sensitive groups added 15 percentage points, i.e., increasing the Democratic Party's share from 39% to 54%, from one election cycle to the next. (Based on a two-sample assuming unequal variances t-test, where degrees of freedom = 18, and t-statistics = 1.761, there was a statistically significant

difference between these two groups' 15 and 9 percentage points increase in their contributions to the Democratic Party at a two-tailed 0.10 significance level.)

Finally, to further check the validity of the argument that **sensitivity should not matter if there were only consumption motive in political contributions, we conducted regression analysis.**

Specifically, we estimated regressions with “percentage cut in Republican Party’s share,” as the dependent variables and “ln(sensitivity)” —natural logarithm of sensitivity score as independent variable. The following is the OLS regression results (where number of observations=59, and $R^2 = 0.09$):

$$(\% \text{ cut from contributions to Republicans}) = 0.278 - 0.104 \ln(\text{Sensitivity})$$

The estimated coefficient for ln(sensitivity) is -0.104 and statistically significant at level 0.05 (two-tailed) or better. In other words, sensitivity did matter: Given the estimated intercept term of 0.278, while a group which is “not sensitive at all” to a potential change of who is in charge of altering the rules of the game in Congress (with a sensitivity score of 5) cuts its contributions to the party that lost its majority in Congress by 11%; the “extremely sensitive” group (with a sensitivity score of 1) cuts its contributions by a whopping 28%. For instance, if an extremely sensitive group was contributing 60% to Republicans and 40% to Democrats, after the shift in power in Congress, this group would start contributing 43% to Republicans and 57% to Democrats.

6. Concluding remarks

We examined contributions by fifty-nine different groups in the 2006 and 2008 election cycles. Our analyses indicate that while there were no significant changes in Americans’ income, party affiliation, and political views between these two election cycles, there was a statistically significant change in the way groups reallocated their contributions, shifting more towards the Democratic Party which was expected to gain the majority of seats and, hence the legislative power in the Congress.

Furthermore, the most sensitive groups to the legislative process were making bigger adjustments in allocating their contributions between the two parties based on the expected new Congressional configuration.

Tullock (1972) assumed that firms’ contributions to politicians are intended to “purchase” them and thus was puzzled by why firms contributed so little. Ansolabehere et al. (2003) argued that firms’ contributions are for consumption. Our findings refute the idea that contributions are *pure consumption goods*; therefore, we conclude that Tullock’s puzzle remains unsolved. Consequently, based on these findings, for future research, perhaps rather than modeling political contributions as

consumption goods alone, modeling them as a function of both consumption and investment motives, and taking into account the intervening effects during each election cycle might be a better strategy.

Table 1. Americans' Party Affiliations, Political Views and Perceptions: 2004-2008

Year	Country moving in the right direction	Republican Congress doing a good job	Considered			
			Republican	Conservative	Democrat	Liberal
2004	30%	33%	29%	30%	35%	22%
2006	24%	23%	31%	33%	33%	20%
2008	14%	22%	30%	33%	37%	22%

Source: Various CBS/ABC Polls.

Table 2. List of the 59-groups

1. Agricultural Services/Products	2. Defense Miscellaneous	3. Insurance	4. Trucking
5. Crop Production & Basic Processing	6. Building Materials & Equipment	7. Real Estate	8. Beer Wine & Liquor
9. Dairy	10. Construction Services	11. Savings & Loans	12. Gambling
13. Food Processing & Sales	14. General Contractors	15. Securities & Investment	16. Chemical & Related Manufacturing
17. Forestry & Forest Products	18. Home Builders	19. Health Professionals	20. Food & Beverages
21. Livestock	22. Special Trade Contractors	23. Health Services/HMOs	24. Steel
25. Poultry & Eggs	26. Alternative Energy	27. Hospitals/Nursing Homes	28. Textile
29. Tobacco	30. Oil & Gas	31. Pharmaceutical Manufacturing	32. Retail Sales
33. Computers / Internet	34. Electric Utilities	35. Health Products	36. Recreation/Live Entertainment
37. Printing & Publishing	38. Mining	39. Lawyers/Law Firms	40. Public Sector Unions
41. Telephone Utilities	42. Waste Management	43. Lobbyists	44. Industrial Unions
45. TV/Movies/Music	46. Accountants	47. Air transport	48. Transportation Unions
49. Telecom Services & Equipment	50. Commercial Banks	51. Auto Industry	52. Building Trade Unions
53. Defense Aerospace	54. Credit Unions	55. Railroads	56. Unions Miscellaneous
57. Defense Electronics	58. Finance & Credit Companies	59. Sea Transport	

Source: www.opensecrets.org.

Table 3. Total, “most sensitive,” and “least sensitive” groups’ contributions

	2006 contributions		2008 contributions		% changes	
	Amount (in \$1,000)	% to Democrats	Amount (in \$1,000)	% to Democrats	Amount	% to Democrats
59 groups’ average:	\$11,063	41%	\$17,233	51%	56	24
Most sensitive 10 groups:						
Defense Aerospace	\$4,410	40%	\$5,990	51%	36	28
Alternative Energy	\$342	46%	\$1,523	75%	346	63
Defense Miscellaneous	\$3,931	34%	\$4,722	48%	20	41
Defense Electronics	\$4,367	42%	\$5,616	55%	29	31
Lobbyists	\$19,120	44%	\$25,982	57%	36	30
Oil And Gas	\$15,275	18%	\$25,019	23%	64	28
Pharma Manufacturing	\$8,022	30%	\$10,672	50%	33	67
Tobacco	\$2,524	27%	\$2,811	39%	11	44
Lawyers/Law Firms	\$89,049	72%	\$163,176	77%	83	7
Health Services/HMOs:	\$6,299	42%	\$9,750	61%	55	45
<i>Average:</i>	<i>\$15,334</i>	<i>39%</i>	<i>\$25,526</i>	<i>54%</i>	<i>66</i>	<i>38</i>
Least sensitive 10 groups:						
Special Trade Contractors	\$5,330	27%	\$8,178	31%	53	15
Construction Services	\$9,992	47%	\$16,037	53%	60	13
General Contractors	\$14,184	28%	\$21,078	33%	49	18
Livestock	\$3,614	30%	\$5,809	33%	61	10
Poultry & Eggs	\$814	23%	\$1,026	26%	26	13
Food & Beverages	\$8,101	28%	\$11,562	40%	43	43
Railroads	\$3,416	28%	\$4,905	44%	44	57
Recreation/Entertainment	\$2,763	34%	\$5,014	52%	82	53
Printing & Publishing	\$8,200	64%	\$18,213	77%	122	20
Retail Sales	\$10,300	42%	\$15,812	52%	54	24
<i>Average:</i>	<i>\$6,672</i>	<i>35%</i>	<i>\$10,763</i>	<i>44%</i>	<i>61</i>	<i>26</i>

Source: www.opensecrets.org.

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