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Elections with contribution-maximizing candidates

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Abstract. Analyses of campaign contributions usually follow the Downsian model to suppose that candidates seek contributions to win elections. This paper takes the opposite approach, by assuming that each candidate aims to maximize the contributions he collects. A citizen contributes to a candidate with the aim of increasing that candidate’s chances of winning. These assumptions generate several results: in equilibrium citizens make campaign contributions; the positions the candidates adopt differ; because the rich are willing to make larger contributions than the poor, the candidates adopt positions the rich prefer. A cap on political contributions reduces spending by voters and reduces the distance between the positions adopted by the candidates; public funding of campaign contributions causes aggregate spending to increase.

1. Introduction

The insightful Downsian model has generated a wealth of work built on the assumption that each candidate aims to maximize his chances of winning election. Most analyses of campaign contributions therefore also suppose that a candidate seeks contributions because he wants to increase his chances of winning. Our paper takes the opposite approach. We suppose that each candidate maximizes the contributions he collects, adopting a policy position accordingly.1 If the two candidates adopt the same position, then no citizen would contribute to either one. In equilibrium the candidates therefore adopt different positions.2

A candidate can use contributions for several purposes: to win votes, to support candidates in other elections (thereby increasing his own power), to build a war chest that will scare off future challengers, or for personal benefit. The non-electoral purposes can be important. The Campaign Study Group, a campaign finance research organization, reports that about half the campaign money spent in elections for the House of Representatives goes toward “traditional” campaign expenses such as advertising, mailings, signs, phone banks, and staff salaries. On average, each House member spends another 25 percent on raising campaign funds. The final 25 percent may be used for personal benefits.3 The Washington Post reports that during the five...
elections from 1986 to 1994, Congressman Shuster raised $2.4 million in campaign money, though he had no opponent in either the primary or the general elections. Over six election cycles the Shuster campaign spent on average $100,000 a year on hotels, airplane charters, restaurants, food, and alcoholic beverages. In 1989–90, the campaign spent $107,000 on meals alone. In 1991–92, it spent five times more for food and travel than it did to get out the vote. During the 1990 election cycle, congressmen Dickenson, Young, Hatcher, Leath, and Madigan were among those who bought themselves expensive new cars with their campaign funds. Congressman Solarz of New York, who retained $1.4 million in leftover campaign money after the 1990 elections, cited this rationale: “It’s kind of an insurance policy. There’s no way I could have raised that kind of money in one cycle. But it’s also a nest egg for any future race for higher office.”

Further evidence on the importance of non-campaign spending is provided from a natural experiment. Prior to 1980, House incumbents could legally convert excess campaign funds to personal use. A 1979 amendment to the Federal Election Campaign Act ended this practice, but also permitted incumbents elected before 1980 to convert excess funds upon their retirement from the House. This “grandfather” clause was eliminated in 1989, but this provision did not become effective until after 1992. Groseclose and Krehbiel (1994) and Milyo (1997) demonstrate that many incumbents retired rather than forfeit these funds.

2. Literature

Our explanation for policy divergence can complement existing explanations. An important explanation for divergence in the candidates’ positions arises from features of divided government, as in the United States. Alesina and Rosenthal (1995, 1996, 2000) and Fauli-Oller, Ok, and Ortuno-Ortin (2001) show that when policy reflects a compromise between the President and Congress, each party may choose a radical policy, with the aim of moving the adopted policy in its direction. Alesina and Rosenthal (1995) also find some support for this hypothesis. They compare estimates of the liberal-conservative positions of U.S. presidential candidates to the positions of senators. With the exception of the 1900 presidential election, all elections saw presidential candidates with ideological positions which lied more than one standard deviation away from the mean ideology in the Senate.

Additional explanations are well surveyed by Fiorina (1999). Candidates may diverge when they care about both election and policy. The policy motive was first analyzed by Wittman (1977). Calvert (1985), however, shows that policy-oriented candidates with perfect information about voters’ preferences