How Close Is Fundraising in Contested Elections in States with Low Contribution Limits?

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Abstract

This paper investigates the impact of contribution limits in campaign finance systems on the competitiveness of elections. Theoretically, contribution limits can have different and potentially opposite effects in an election: one effect could be that limits curtail the fundraising ability of incumbents, decreasing their campaign power; another could be that they limit challengers' ability to raise money, exacerbating the structural advantages of incumbents. In this paper, I examine the effect of low contribution limits on the gap in fundraising between incumbents and challengers, and between candidates in open seat races, using data from state house elections over a decade between 1996 and 2006.

Specifically, I consider individual and PAC contribution limits at three levels: (a) $500 and below, (b) $501-$1,000, (c) $1,001-$2,000, all of them evaluated against contribution limits greater than $2,000. The findings are that contribution limits diminish the relative difference in fundraising levels between incumbents and challengers, and increase the share of challenger spending as a percentage of total race spending. For example, $500 limits reduce the fundraising gap between incumbents and challengers by twenty percent. The data also show that limits narrow the contribution gap in open seat races. Individual and PAC contribution limits of $500 and below diminish fundraising gaps between the major party candidates by between twelve and fourteen percent.

I. Introduction

Incumbents have well-known structural advantages over challengers in elections. These advantages include name recognition and easier access to campaign funds, as well as access to government resources like the franking privilege. Measured in terms of chances of reelection, those advantages have increased in both state legislative and Congressional elections over the past fifty years. Computed as a percent of the popular vote, incumbents had a two-percent advantage over challengers in elections during the first half of the 20th century (Gelman and King 1990). Around the early 1960s, the incumbency advantage started to rise and reached twelve percent from the late 1960s to 1988, the end of the time period considered by Gelman and King (1990).[1]

Incumbents' electoral advantage includes the ability to provide constituent services and name recognition (King 1991), both of which allow incumbents to develop broader connections and a more elaborate network of contributors to fund re-election campaigns. In contrast, challengers typically do not have a large network from which to collect contributions, putting them at a fundraising disadvantage relative to incumbents. Logically, if these inherent institutional advantages make it easier for incumbents to collect contributions, laws that limit fundraising could primarily diminish the fundraising of incumbent candidates by dampening the benefits of these structural advantages. And if contribution limits adversely impact incumbents, then challengers, presumably, would be aided, making the electoral playing field more level.

However, it remains unclear whether limits more severely impact incumbents or challengers, because limits could also -- even at the same time -- constrain a challenger's ability to mount an effective campaign. To determine who is more greatly constrained, one must therefore consider for whom the limits are most binding, that is, whether limits reduce

[1] Jewell and Breaux (1998) report a large incumbency advantage at the state level.

incumbents', challengers', or both candidates' fundraising abilities. Until now, the net effect of limits remained unknown. To date, there was little evidence that shows whether contribution limits give either candidate an advantage in fundraising. This study fills this gap in the literature.

The impact of fundraising restrictions is not limited to its effects on candidates' fundraising capabilities. Assuming that contribution limits require contributors to reduce how much they might otherwise give to a candidate, limits also impose constraints on political donors. Moreover, these limits may reduce the ability of donors to obtain access to, or favors from, candidates.

Whether or not limits narrow the fundraising gap between incumbents and challengers also depends on the objectives of contributors. If the goal of donors is to participate in the political process by donating small sums, and political contributions are consumption goods rather than investment goods, then it is not obvious that limits reduce the discrepancy in candidates' fundraising. Donations are consumption goods when contributions are given to increase one's utility, as that utility is derived from giving to a cause one considers worthy. Contributions are investment goods when contributors have an instrumental reason to contribute; namely, to get a return for one's contribution in terms of, for example, favorable regulation or tax breaks (Ansolabehere et al. 2003). When contributors give large amounts to incumbents in order to obtain large favors, limits can reduce the discrepancy in candidates' fundraising because the contributor can no longer give large contributions to office holders.

To my knowledge, only one paper has addressed this issue, using data from gubernatorial elections. Employing an empirical model that identifies the effect of limits by comparing the relative fundraising success in states with high versus low limits, Eom and Gross (2006) suggest that limits do not increase the disparities in fundraising between challengers and incumbents, and

that, in some cases, limits help challengers. They examined limits on contributions from individuals, PACs, parties, unions and corporations taken together, and conclude that these limits have no statistically significant effect in closing the fundraising gap between incumbents and challengers, but that a sub-group of limits containing just PAC, labor, and corporate contribution limits narrows the fundraising gap between incumbents and challengers in a statistically significant way.

In this paper, I do not examine, as Eom and Gross (2006) did, whether the *level* of limits is correlated with the *level* of the fundraising gap between incumbents and challengers. Instead, I focus on the effects of *changes* in limits on *changes* in this gap within each state. This removes that bias that occurs because a state's political and cultural characteristics may determine both the fundraising gap between candidates and whether a state has a contribution limit. In this study, I analyze datasets of contributions to candidates running for seats in state houses between 1996 to 2006, testing for the effect of individual and PAC contribution limits on fundraising gaps in races involving incumbents and in open seats.

II. Research Design and Methods

To analyze the effect of campaign finance laws on the gap in fundraising between candidates, I use a state house single-member district as the unit of analysis. The empirical model is:

$$Y_{ijt} = \beta LAW_{it} + \mathbf{X}_{ijt}\,\boldsymbol{\gamma}_i + \mu_i + \nu_t + \varepsilon_{ijt} \qquad (1)$$

where Y_{ijt} is a measure of the fundraising gap between the two major party candidates in state i, district j, and election year t. In one set of regressions, I will estimate equation (1) using only races with incumbents, and in another set, I will examine open seat races.

I measure differences in fundraising between incumbents and challengers by: a) the absolute difference in spending between both candidates as a percentage of total spending; and b) the share of challenger spending as a percentage of total spending. For open seat races, the measures for the dependent variable Y_{ijt} are: a) the absolute difference in spending between Democrats and Republicans as a percent of total contributions to both candidates; b) contributions to a Democrat minus contributions to a Republican as a percent of total contributions to both candidates; and c) a Democrat's percent of total major party candidate contributions. The latter two measures allow one to examine whether limits benefit one political party or another in open seat races.

The LAW variable in equation (1) measures the stringency of the state campaign finance law. I will investigate the effects of two campaign finance laws: restrictions on individual contributions and restrictions on PAC contributions. Both limits are highly correlated. Nearly all of the states that do not limit individual contributions also do not limit PAC contributions. Only one state in this sample, Wyoming, limits individual contributions but allows unlimited PAC contributions. For all other states in the sample, the correlation coefficient between the log PAC and log individual contribution limit amounts is 0.82, showing that the dollar amounts of both limits are highly correlated. Since PAC and individual limits are highly correlated, I will not include both measures in one regression, but estimate one specification with individual limits, and another specification with PAC limits.[2]

[2] In some states, limits differ depending on the type of PAC. In these cases, I used the lower PAC limit. For example, in California, the limit is $3,300 per election for PACs generally, but $6,700 per election for small contributor committees, which are committees that receive contributions from 100 or more persons; make contributions to five or more candidates; and have not received more than $200 from one person in a calendar year. In Connecticut, the limit is $250 per election for labor PACs, but $500 per election for corporate PACs. In Michigan, the limit is $500 per election cycle for most PACs; and $5,000 per election cycle for independent

In one specification, the measure for the LAW variable in equation (1) is the logarithm of the real contribution limit amount. In another specification, it is a set of indicators for whether the contribution limit is up to $500, between $501 and $1,000, and between $1,001 and $2,000 (all in 2006 dollars).[3] The estimated coefficients on these variables measure the effect of the various contribution limit categories relative to states with contribution limits that are higher than $2,000.

The X_{ijt} vector includes the incumbent's party affiliation and an indicator for those states that implemented term limits. I include term limits because they reduce the opportunity for incumbents to develop reputational capital, and therefore may affect their ability to raise contributions. Term limits also may give potential challengers an incentive to enter the race, thereby reducing incumbents' advantages (Carey *et al* 1998, Mince and Haeckel 2003). As several previous studies did (for example, Milyo, Primo and Groseclose 2006), I also control for the socio-economic characteristics and political leanings of the state. Included in the regression analysis are the fraction of the state's population that is black, the fraction that is Hispanic, the fraction of the population that is less than eighteen years of age, and the fraction that is comprised of people who are 65 years of age or older.

I also include in the regressions per capita personal income, because wealthier states may favor one party as opposed to another party, and whether or not the state has election-day registration, because election-day registration may measure an aspect of the state's political culture which may also influence the fundraising gap between candidates. For example, if election-day registration leads to more voter turnout, the decisions of candidates to conduct

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committees.

[3] In the remainder of the paper when I refer to these indicators, I will refer to $500 limits, which are limits of $500 and below, $1,000 limits, which are limits of $501 to $1,000 and a $2,000 limits, which are limits of $1,001 to $2,000

advertising and collect campaign contributions may be affected. High expected voter turnout, for example in a strongly Republican district, may reduce the Republican candidate's incentive to spend many resources on advertising. As a measure for partisanship, I include the percentage of the state vote received by that presidential candidate with the same party affiliation as the state house incumbent.[4] Finally, I include a measure for the majority or minority size of the incumbent's party in the state house, using the majority or minority generated by the previous election to the state house.[5] I include this additional partisanship measure because, for example, in Republican-leaning states, Republicans may generally have more fundraising success than Democrats.

Previous work also included an examination of the absolute difference between the two major party candidates' vote shares in the regression as one of the control variables (Eom and Gross 2006). The rationale for this was that the gap in spending is narrower in elections that are close. However, the strictness of contribution limits may also influence the closeness of an election. For example, Stratmann and Aparicio-Castillo 2006 find that limits lead to more competitive elections. If limits affect competitiveness, including competitiveness and a measure of the strictness of the contribution limit would essentially "double-counts" the limit. Therefore, I do not include the vote margin in the election. However, as mentioned above, I account for the competitiveness between the two major parties at the state level by including a measure of the majority size in the state house.

[4] For Democratic incumbents, the presidential vote share is the vote share obtained by the Democratic candidate in the presidential general election that precedes or occurs at the time of the House elections. The same assignment rule is used for Republicans and Republican Presidential candidates.

[5] For example, to match the House majority to a Republican incumbent, I subtract the number of Republican seats in the House from the number of Democratic seats in the House and divide by the size of the legislature. For Democrats I use the number of Democratic seats minus the number of Republican seats divided by the size of the legislature.

I control for time-invariant state characteristics, such as the state's cultural leanings with state fixed effects μ_i , and control for changes in national laws and national events that affect local elections, such the Bipartisan Campaign Reform Act of 2002, via year fixed effects v_t. State indicators capture the fact that population differs greatly across districts, which in part explains differences in campaign spending across states (Gierzynski and Breaux 1991, Hogan 2000), and differences in political culture (for example that some states are left- and others are right-leaning) between the states in campaign technology. State dummies also control for state population and the number of districts. Lastly, μ_i controls for potentially omitted time invariant state characteristics that simultaneously determine vote shares and the campaign finance regulations, such as a shift in political sentiment. By including these state indicators, I measure how changes in limits affect changes in fundraising gaps.

Fundraising in races within a state may be correlated within a year and may even be correlated over time. When this is the case, the standard Ordinary Least Square ("OLS") estimator will underestimate the standard errors. To address this issue, I allow for clustering the observations at the state level.

III. Data Issues

I examine election outcomes in general elections for state houses from 1996 to 2006. I focus on single-member districts, since over 80 percent of all state legislators are elected to these districts, allowing for a straightforward analysis of fundraising gaps. I focus on races with only Democratic and Republican candidates. A focus on races in which there are only two candidates makes it straightforward to compute the fundraising gap between candidates and allows for more precise comparisons because races between a major party candidate and an independent

candidate are excluded. To examine the fundraising gap, I will focus on races that are contested, as measured by whether candidates received contributions. Therefore the analysis includes only races when both candidates received at least some contributions.

Contribution limits can be applied to individuals, parties, PACs, corporations, or unions. As documented previously, different types of contribution limits tend to be highly correlated among the states (Stratmann and Aparicio-Castillo 2006), and using all of the types of limits in the regression would make it difficult to identify each limit's specific effect. Therefore, this study correlates campaign contribution gaps to individual contribution limits in one set of estimates. In a second set of estimates, I relate campaign contribution gaps to PAC contribution limits.

The starting point of this analysis is 1996, since from this year forward campaign contribution data were collected in a systematic manner for a large sample of states. Contribution data come from the National Institute on Money in State Politics. Comprehensive data on all states are not available for the early years of this study. For example, in 1996 there are 14 states in the data set. This number increases to 38 in 1998. As mentioned before, all together, this analysis includes 42 states. These data indicate when an incumbent runs and faces a challenger, or when the race is an open seat race. In this study, I analyze open seat races separately from races in which an incumbent runs for reelection and faces a challenger.

Contribution limit data were taken from Stratmann and Aparicio-Castillo (2006) for the 1980s and 1990s, and were initially collected from the 1980 to 2000 publication *Campaign Finance Laws* and state statutes. For the elections from 2002 to 2006, I obtained data on state campaign finance regulations from Campaign Finance Law 2002,[6] Professor Keith Hamm of

[6] Feigenbaum, Edward D. and James A. Palmer, Campaign Finance Law 2002, published by the

Rice University (2003-2004), the Brennan Center (2005-2006), and state Web sites.

I focus on single-member districts, since over 80 percent of all state legislators are elected to these districts and these districts allow for a straightforward analysis of the fundraising gap between the two major party candidates. The analysis includes states that only have single-member districts and states that have both single-and multi-member districts. Of the latter type of states, only single-member districts are part of the analysis. The data set includes forty-two of the fifty states. Since the empirical analysis focuses on single-member districts, Arizona, Maryland, New Jersey, and North Dakota are omitted from this data set. Their state legislators are elected in multi-member districts. Nebraska is omitted because it is unicameral and nonpartisan. Louisiana is omitted because, there, the relevant competition occurs in primaries, and sometimes there is no general election, depending on the outcome of the primary. I did not include New Hampshire and South Dakota in the analysis because the vast majority of its seats are multi-member districts.

IV. Results

In 2006, in states with individual limits over $2,000, incumbents in this data set collected contributions of $172,000, on average, and challengers received $37,000. But in states with limits of $500 or less, incumbents collected on average $48,000 in contributions and challengers received $11,000. These averages show that contributions to both incumbents and challengers are lower in states with stricter limits, and that the ratio of incumbent-to-challenger contributions is similar in both high- and low-limit states (4.7 vs. 4.4). I will now turn to a more sophisticated statistical analysis that controls for a host of factors in order to examine whether the fundraising

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Federal Election Commission. http://www.fec.gov/pubrec/cfl/cfl02/cfl02.shtml

gap between two candidates narrows, and whether the relative positions of challengers are improved, when states implement strict limits.

Table 1 shows descriptive statistics for races with major party candidates in which an incumbent runs for reelection and in which both the incumbent and challenger collected campaign contributions. The first two rows of Table 1 show two of the variables to be explained. The first row contains the share of challenger contributions as a percent of incumbent and challenger contributions. When challenger contributions are large and incumbent contributions small, this variable takes a value close to one, and when challenger contributions are large and incumbent contributions are large, this variable takes a value close to zero. The second row contains a measure which has the absolute difference between incumbent and challenger contributions in the numerator and the sum of incumbent and challenger contributions in the denominator. The variable in row 2 of Table 1 equals zero when challenger contributions equal incumbent contributions and the value is close to one if the difference between the two candidates' contributions are large. Focusing on these relative spending measures in the first two rows of Table 1 has the advantage that these measures are bounded between zero and one, thereby reducing the influence of outliers. For example, Antonio Villaraigosa, speaker of the California assembly in 1998, collected over $10 million in contributions, but was facing a rival who raised less than $500. In this example, the value for the variable measuring the absolute difference in contributions between the two candidates as a percentage of total contributions equals one.

Table 1, row 1, shows that when a funded incumbent meets a funded challenger in states with contribution limits, challengers account for 30 percent of total campaign contributions (the sum of challenger and incumbent contributions), implying that incumbents raise 70 percent of

total contributions. For example, a challenger may collect $4,200 while an incumbent collects $9,800. The margin by which incumbents outspend challengers is slightly higher when the data include states with no contribution limits. In that sample, incumbents raise 71 percent of all contributions. Table 1, row 2, also shows that the mean absolute difference in fundraising between the two candidates (considered as a fraction of the sum of both candidates' spending) is close to 0.49 in states with contribution limits. This indicates that one of the candidates (presumably, the incumbent) raised about 3 times more contributions than the opposing candidate, which is consistent with the finding in the first row of Table 1 that incumbents raised between 70 and 71 percent of all contributions. Further, the fraction raised by incumbents differed by whether the state has limits of $500 or less, or higher limits. In states with limits of $500 or less, challengers raised 39 percent of total contributions while in states with higher limits challengers raise 28 percent of total contributions.

In this data set of all 42 states, the average total contribution to incumbents was $117,000; and to challengers was $45,000, expressed in 2006 dollars. The reason the contribution amounts are relatively high is that this data set includes races in which both incumbents and challengers have raised campaign contributions, and therefore excludes races in which one of the candidates raised no funds.

Table 1 further shows that among states with individual contribution limits, 13 percent of the races were in states that have limits of $500 or less, 24 percent were in states that have limits between $501 and $1,000, and 21 percent were in states that have limits between $1,001 and $2,000 dollars in 2006 dollars. The remaining 43 percent of races were in states that have limits over $2,000 or no limit at all. The latter races are the reference group against which the impact of low limits will be evaluated. The results of the analysis show that limits between $501 and

$1,000 reduce the fundraising gap between incumbents and challengers by 11 percent, and limits between $1,001 and $2,000 reduce the fundraising gap between incumbents and challengers by 10 percent.

Table 2 shows the effect of individual contribution limits on the fundraising gap between incumbents and challengers. The dependent variables in Table 2 are the absolute difference in incumbent and challenger spending, relative to total spending by both candidates in the district election (columns 1, 2 and 3), and challenger spending as a fraction of total spending (columns 4, 5 and 6). Columns 1 and 4 use the logarithm of the contribution limit in states with limits, and the remaining columns substitute the log contribution limit amount for the three different types of individual contribution limit categories: (a) $500 or less, (b) $501-$1,000, and (c) $1001-$2,000).

Table 2, column 1, shows that stricter contribution limits close the fundraising gaps between incumbents and challengers by a statistically significant margin. Turning to the contribution limit indicators, in columns 2, the results show that limits of $500 or less have the largest impact in closing the fundraising gap, followed $501-$1,000 and $1001-$2,000 limits. The point estimate on the $500 indicator is 0.20 (table 2, column 2), indicating a reduction of the fundraising gap between the two candidates by 20 percentage points relative to states with limits above $2,000. Given that the mean of the dependent variable is 0.49, the 0.2 point estimates on $500 limits or less implies a reduction of the gap to, on average, 0.29, which is a decrease of 20 percentage points relative to the states with limits above $2,000. Relative to states with limits between $501 and $2,000, limits of $500 and below decrease the fundraising gap by approximately 10 percent. Column 3 also uses the three indicators, but now the data also include states without any limits. In the specification in column 3, the point estimates on the contribution

limit indicators are statistically significant, as they were in column 2, and are of similar magnitude, but are slightly lower (by one percentage point).

In Table 2, column 4, the dependent variable is the fraction of funds raised by the challenger. The point estimate on the log individual contribution limit dollar amount is negative, indicating the degree to which incumbents out-raise challengers when the individual contribution limit is higher. However, this point estimate is not statistically significant. The next two columns help explain why this is the case. Individual limits are most effective in helping challengers when they are low, and have little effect when they are over $1,000, which is the case for over 70 percent of these data points.

Individual contribution limits of $500 or below lower the amount by which an incumbent outspends the challenger by 7 percentage points (Table 2, column 5), a statistically significant drop. This is a large effect given that challengers account for only 30 percent of total spending in a race. Given that, on average, a challenger's share of total spending is 30 percent (Table 1), the 7-percentage-point drop indicates that low limits increase this share to 37 percent, implying a more than 25-percent increase-in a given race relative to states with limits above $2,000. This is true for states with contribution limits (column 5), as well as in the sample that includes states with and without limits (column 6). In the latter sample, individual contribution limits of $500 and below increase the share of challenger spending by a statistically significant 6.6 percentage points.

Column 6 of table 2 shows that individual contribution limits between $501 and $1,000 increase the challenger's share of total contributions by more than 3 statistically significant percentage points relative to no limit and limits above $2,000. Individual limits in this range also reduce an *incumbents'* fundraising advantage, but by a lesser degree than $500 limits do.

However, individual contribution limits that are greater than $1,000 have no effect on the share of *challenger* spending.

Table 3 repeats the regressions in Table 2, but uses PAC contribution limits instead of individual contribution limits as the explanatory variable. The results regarding PAC contribution limits mirror the findings for individual contribution limits, in that the fundraising gap between incumbents and challengers is smaller in states with more stringent PAC contribution limits. This finding is not surprising, given the high positive correlation between individual and PAC limits. The point estimates are of similar magnitudes, but the estimate on limits between $501 and $1,000 that was not statistically significant in Table 2 is statistically significant in the findings on PACs. Limits that are $500 or less have the largest impact on increasing the share of challenger spending, although the point estimate of a 5.1 percent increase in the challenger share of total spending when limits are $500 or less is not statistically different from the 4.7 percent increase in the challenger's share when limits are between $501 and $1,000 (Table 3, column 5). One noteworthy difference is the significance level of the $500 contribution limit indicator in column 5 of Table 3, which was statistically significant at the five percent level in Table 2, column 5, but as to PAC contribution limits is statistically significant at the 10-percent level. However, the significance level increases to 5 percent when including all races, as in column 6.

Table 4 presents results from regressions based on open seat races with only major party candidates when both candidates have raised some contributions. Columns 1, 2 and 3 explain the absolute difference in spending between the two major party candidates in states with individual contribution limits. Thus, this variable measures the gap in spending between the two candidates. Columns 4 and 5 examine whether limits give an electoral advantage to Democrats

or Republicans. Columns 5 explains the difference in fundraising between a Democratic and a Republican candidate (contributions to the Democrat minus contributions to the Republican) as a percentage of both candidates' total fundraising, and column 6 explains a Democratic candidate's fundraising share as a fraction of total fundraising.

Table 4 examines the fundraising disparity in open seat races. Column 1 of Table 4 shows that the log individual contribution limit amount has a positive coefficient, suggesting that stricter limits lower the fundraising gap between open seat candidates, although the point estimate is not statistically significant. In Table 4, column 2, all three contribution limit indicators have a negative effect, indicating that limits also narrow the fundraising gap in open seat races. For the set of data including only states with limits the point estimates on the individual contribution limit indicators between $501 and $1,000 and between $1,001 and $2,000 are both statistically significant, while the point estimates on the limit indicator for $500 limits is not. The estimates for all three contribution limit indicators are statistically significant when examining all states (including those both with and without contribution limits), as in column 3. In that analysis, limits of $500 and below reduce the fundraising gap by 12 percent, $501 to $1,000 limits by 11 percentage points, and limits between $1,001 and $2,000 reduce the gap by 9 percentage points. These estimates are not statistically different from each other.

The fact that limits of $500 and below, $501-$1,000 and $1,001-$2,000 have a similar effect (Table 4) in reducing the fundraising gap may suggest that in states with these limits, on average, neither Democrat nor Republican candidates have an inherent fundraising advantage in open seat races. This is because when both candidates are equally capable of raising funds, moving, for example, from $1,000 limits to $500 limits will affect both, and reduce fundraising

activity by both, while the percentage difference in fundraising between the two candidates remains similar.

The remaining two columns of Table 4 estimate whether limits benefit Democrats or Republicans in open seat races. In column 4, which considers only races in states with contribution limits, none of the categories, whether $500 and below, $501-$1,000, or $1,001-$2,000, give Democrats or Republicans an advantage. The point estimates on these contribution limit indicators are not statistically significant.

Table 4, column 5 adds races without limits to the specifications estimated in column 4 of the same table. Once these are added, the point estimate on limits of $500 and below is marginally statistically significant at the 10-percent level, suggesting that the share of spending of a Democrat relative to total spending (*i.e.*, the sum of spending by the Republican and the Democratic candidate) is five percent lower in states with the lowest limits relative to those states with unlimited contributions. The point estimate on $500 and below limits in Table 4, column 5 should be interpreted with caution. This is because when I examine the effect of PAC contribution limits, no evidence is found that limits benefit either party, as discussed below (Table 5, columns 4 and 5).

Table 5 presents regressions with PAC contribution limits. PAC limits are more effective in closing the fundraising gap between open seat candidates than individual limits. In states with low PAC contribution limits of $500 or less, the gap in fundraising is narrowed by the most -- 15 percentage points -- compared with states that have PAC limits over $2,000. In states with $1,000 PAC limits, the gap is narrowed by 12 percentage points; however, that estimate is not significantly lower than the 15-percent estimate for $500 limits. The last two columns of Table 5 show that neither Democrats nor Republicans are disadvantaged by stricter PAC contribution

limits: all point estimates on the three contribution limit indicators in columns 4 and 5 are not statistically significant.

V. Conclusion

This paper studies the effects of individual and PAC contribution limits on fundraising gaps between incumbents and challengers and between major party candidates in open seat races. The findings are that low limits of $500 or less for individuals and PACs narrow the fundraising gap between challenger and incumbents. Limits of $500 or less for individuals and PACs have the strongest effect on narrowing the fundraising margin between such candidates. Overall, limits of $500 or less reduce fundraising gaps in incumbent races by 20 percent relative to states with limits above $2,000, regardless of whether we examine PAC limits or individual contribution limits.

In open seat races, PAC limits of $500 or less have the largest impact on fundraising gaps, although the effect of these limits is not statistically different from PAC limits that are $1,000 or below $2,000. When considering all states, individual limits of $500 or less reduce fundraising gaps in open seat races by 12 percent and PAC limits of $500 or less reduce fundraising gaps by 14 percent.

Previous work theorized that contribution limits curtail the fundraising ability of incumbents, decreasing their campaign power, or that contribution limits may prevent challengers from mounting an effective challenge. Measured by the fundraising gap between two major party state house candidates in this study, it appears that the first hypothesis is correct and that the second is not. Limits do not prevent challengers from mounting an effective campaign because, on average, the limits studied here actually improve the relative standing of

the challenger, and the stricter the limits, the more there is improvement in the relative position of challengers. In fact, individual limits increase challengers' share of total spending by between 5 and 7 percent, depending on the specification used in the regression and whether individual or PAC contribution limits are considered.

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Table 1

Means and Standard Deviations

Races with Incumbents

Table 2, column 1,2,4, and 6 States with contribution limits	Mean	Std. Dev.
C/(I+C)	0.296	0.203
|I-C|/(I+C)	0.486	0.309
Individual Contribution Limit in 2006 dollars	$2,642	$3,124
Indiv. Limit<=500	0.132	0.339
500> Indiv. Limit<=1,000	0.235	0.424
1,000>Indiv. Limit<=2,000	0.206	0.405
Table 2, column 3 and 6 States with and without contribution limits		
C/(I+C)	0.284	0.204
|I-C|/(I+C)	0.505	0.312
Indiv. Limit<=500	0.097	0.296
500>Indiv. limit<=1,000	0.172	0.377
1,000>Indiv. Limit<=2,000	0.151	0.358

"I" refers contributions to the incumbent, and "C" refers to contributions to the challenger.

Means and standard deviations for the regressions using PAC contribution limits in Table 3 instead of individual limits as in Table 2 are very similar to those reported in this table.

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Table 4, column 1 and 2	Mean	Std. Dev.
abs(D-R)/(D+R)	0.420	0.297
Table 4, column 3		
abs(D-R)/(D+R)	0.430	0.301
Table 4, column 4		
(D)/(D+R)	0.482	0.257
Table 4, column 5		

D/(D+R)	0.473	0.261

"D" refers to contributions to the Democratic candidate, and "R" refers to contributions to the Republican candidate in open seat races. For Table 4, columns 1, 2, and 4, N=1,970. For columns 3 and 5, N=2,530.

Means and standard deviations for the regressions using PAC contribution limits in Table 5 instead of individual limits as in Table 4 are very similar to those reported in this table.

Table 2:
Races with Incumbents and Challengers
Individual Contribution Limits Candidate Fundraising

	(1)	(2)	(3)	(4)	(5)	(6)
I=incumbent contribution C=challenger Contribution	|I-C|/(I+C) States with limits	|I-C|/(I+C) States with limits	|I-C|/(I+C) All States	C/(I+C) States with limits	C/(I+C) States with limits	C/(I+C) All States
Log contribution limit	0.061**			-0.018		
	(0.024)			(0.012)		
Limit<=500		-0.200***	-0.185***		0.071**	0.066***
		(0.041)	(0.033)		(0.028)	(0.019)
500>limit<=1,000		-0.106***	-0.097***		0.040	0.039*
		(0.036)	(0.031)		(0.025)	(0.021)
1,000>limit<=2,000		-0.100***	-0.091***		0.037	0.033
		(0.026)	(0.024)		(0.023)	(0.021)
Term limit =1	0.059**	0.047**	0.020	-0.029*	-0.027	-0.016
	(0.025)	(0.019)	(0.024)	(0.016)	(0.016)	(0.010)
Incumbent is a	0.017	0.017	0.004	-0.014	-0.015	0.001
Democrat	(0.014)	(0.014)	(0.012)	(0.012)	(0.012)	(0.010)
Observations	5,687	5,687	7,763	5,687	5,687	7,763
R-squared	0.18	0.18	0.16	0.19	0.19	0.16

"All States" refers to the 43 states examined in this study. Standard errors clustered at the state level. Robust standard errors in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%. Time and state effects included but not reported. These regressions also include socio-economic and partisan variables as discussed in the text.

Table 3:
Races with Incumbents and Challengers
PAC Contribution Limits and Candidate Fundraising

	(1)	(2)	(3)	(4)	(5)	(6)
I=incumbent contribution C=challenger Contribution	|I-C|/(I+C) States with limits	|I-C|/(I+C) States with limits	|I-C|/(I+C) All States	C/(I+C) States with limits	C/(I+C) States with limits	C/(I+C) All States
Log contribution limit	0.049***			-0.015*		
	(0.009)			(0.008)		
Limit<=500		-0.196***	-0.178***		0.051*	0.049**
		(0.041)	(0.030)		(0.030)	(0.020)
500>limit<=1,000		-0.109***	-0.091***		0.047**	0.039***
		(0.028)	(0.021)		(0.019)	(0.014)
1,000>limit<=2,000		-0.083***	-0.075***		0.020	0.018
		(0.027)	(0.026)		(0.024)	(0.021)
Term limit =1	0.063***	0.046**	0.020	-0.031*	-0.032*	-0.015
	(0.023)	(0.020)	(0.022)	(0.016)	(0.016)	(0.011)
Incumbent is a	0.016	0.016	0.003	-0.014	-0.015	0.001
Democrat	(0.014)	(0.014)	(0.012)	(0.012)	(0.012)	(0.010)
Observations	5,571	5,571	7,779	5,571	5,571	7,779
R-squared	0.18	0.18	0.16	0.19	0.19	0.16

Standard errors clustered at the state level. Robust standard errors in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%. Time and state effects included but not reported. These regressions also include socio-economic and partisan variables as discussed in the text.

Table 4:
Open Seat Races
Individual Contribution Limits and Candidate Fundraising

	(1)	(2)	(3)	(4)	(5)
D=Democrat Contribution R=Republican Contribution	abs(D-R)/(D+R) States with limits	abs(D-R)/(D+R) States with limits	abs(D-R)/(D+R) All states	D/(D+R) States with limits	D/(D+R) All states
Log contribution limit	0.029				
	(0.043)				
Limit<=500		-0.087	-0.115**	-0.030	-0.052*
		(0.066)	(0.048)	(0.048)	(0.028)
500>limit<=1,000		-0.113**	-0.134***	-0.008	-0.035
		(0.042)	(0.036)	(0.044)	(0.036)
1,000>limit<=2,000		-0.093*	-0.116**	-0.016	-0.026
		(0.049)	(0.057)	(0.042)	(0.034)
Term limit =1	-0.146***	-0.123**	-0.047	0.079	0.026
	(0.051)	(0.049)	(0.034)	(0.065)	(0.034)
Observations	1,970	1,970	2,530	1,970	2,530
R-squared	0.19	0.19	0.16	0.08	0.06

The abbreviation "abs" refers to absolute value. Standard errors clustered at the state level. Robust standard errors in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%. Time and state effects included but not reported. These regressions also include socio-economic and partisan variables as discussed in the text.

Table 5:
Open Seat Races
PAC Contribution Limits and Candidate Fundraising

	(1)	(2)	(3)	(4)	(5)
D=Democrat Contribution R=Republican Contribution	abs(D-R)/(D+R) States with limits	abs(D-R)/(D+R) States with	abs(D-R)/(D+R) All states	(D-R) /(D+R) States with limits	D/(D+R) All states
Log contribution limit	0.046***				
	(0.013)				
Limit<=500		-0.153**	-0.135**	-0.001	-0.034
		(0.058)	(0.059)	(0.047)	(0.029)
500>limit<=1,000		-0.118***	-0.108***	0.005	-0.027
		(0.042)	(0.033)	(0.042)	(0.027)
1,000>limit<=2,000		-0.125**	-0.129***	-0.029	-0.049
		(0.055)	(0.045)	(0.043)	(0.030)
Term limit =1	-0.112**	-0.130**	-0.041	-0.088	0.021
	(0.052)	(0.049)	(0.036)	(0.067)	(0.034)
Observations	1,920	1,920	2,530	1,920	2,530
R-squared	0.19	0.19	0.17	0.08	0.08

The abbreviation "abs" refers to absolute value. Standard errors clustered at the state level. Robust standard errors in parentheses * significant at 10%; ** significant at 5%; *** significant at 1%. Time and state effects included but not reported. These regressions also include socio-economic and partisan variables as discussed in the text.