# DEMAND FOR DURABLE AND NON-DURABLE POLITICAL GOODS

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## Abstract

Election participants include candidates, interest groups aligned with specific direct-vote ballot measures or referenda and political parties. Armed with a budget of resources, these participants consume a variety of political goods designed to produce the utility associated with a successful election outcome. However these various participants have very different political life cycles: in most cases special interests will participate in only one election or generation in a given jurisdiction; candidates for office can expect a limited number of elections or generations in which they are candidates for a particular office (and perhaps only two of three if term limits are in force); where as political parties can be thought of as infinitely lived. These different political life cycles will impact the choice of political goods by the participants with longer lived participants being more likely to consume durable political goods such as data bases and grass roots organization structures.

**Key Words:** Interest-groups, campaign budget, political goods

**JEL Classification Codes:** P16

## Introduction

Elections in the United States usually present voters with complex, multi-part ballots including a host of contests for elected federal, state, and local offices as well numerous direct-vote ballot measures and

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referenda. Individual voters cast their ballots (and even decide whether or not to cast ballots) armed with an array of ideological preferences, personal prejudices, the opinions of others, and exposures to campaign materials via broadcast and print media, direct mail, telephone, and the internet. The campaign materials important to voter decisions are in turn the output of the various parties, candidates, special interests, and advocacy groups that are election participants.

These election participants either as individuals or as the agents of others must decide how to allocate their scarce resources over various kinds of campaign materials in order to optimally achieve the election outcomes they desire. They choose from among a variety of political goods including voter mobilization efforts, data base construction, building grass roots organizations, hosting events, media advertising, direct mail and direct phone contacts, and other activities. Importantly, some of these political goods, like building a grass roots organization, are likely to have durable impacts over time, while others, like media advertising are likely to be ephemeral in impact. The choices among political goods that election participants make depend upon various characteristics of those participants.

In this study we examine the expenditure patterns of certain advocacy groups to determine if their allocation choices vary in systematic ways based upon characteristics of the groups. Specific group characteristics include ideology, nature of the organization and duration of political activity. By examining the reported expenditures of large "527 groups" that have been active in state elections over three elections cycles we determine that these characteristics and the spending patterns associated with them can be associated differentially with issue versus candidate advocacy groups.

**Political Activity of Advocacy Groups**

The extent of the election landscape in the United States combined with the complexity of tax and regulatory law relating to political advocacy groups has created an extensive list of organizational forms for such groups. Groups are classified as PACs (Political Action Committees), 527s, 501(c)s, and non-federal groups. A fundamental issue in the distinctions among these classifications relates to the locale of the political activity of an advocacy group. Groups that engage in activity that expressly advocates for the election or defeat of a candidate in a federal election are subject to more rules and regulations than those who advocate for a specific issue or position, especially with regard to the level of fund raising and giving to candidates. Non-federal groups as well as 527s in their non-federal

activity (and certain 501(c)s) are less regulated with regard to their fund raising and spending. Needless to say, however, the money trails between advocacy groups are interwoven, complicated and purposely convoluted.

PACs, and to a lesser extent the more recently created 527s, have been subject to a great deal of academic analysis. Ansolabehere, de Figueiredo, and Snyder (2003) examine both the reasons individuals make campaign contributions and the evidence that political influence is a result of those contributions. They separate the investment motives of contributors from consumption motives. Contributions as investments suggest that contributors seek a political return from their contributions while consuming contributors are identified as not necessarily seeking a political return but rather the consumption utility of voluntary participation in a public good activity or association with a specific candidate or issue.

Ansolabehere, de Figueiredo, and Snyder also enumerate a large number of studies that test for the effects that PAC contributions have on Congressional votes. In general these studies conclude that PACs have only a weak impact on legislative outcomes. "Overall, PAC contributions show relative few effects on voting behavior." (p. 114) However, since spending limits are not imposed on advocacy groups engaging in non-federal political activity, the potential impact of advocacy groups at the state level may be different.

A separate issue, however, is how advocacy groups allocate the resources they have raised for political activity in order to attain the election outcomes they seek. In non-federal elections groups can not only advocate for candidates but for specific issues, constitutional changes, referenda, tax issues, and so forth. Thus, an issue oriented group like the National Rifle Association is not limited to supporting or working against candidates but can work for or against direct vote issues on the ballot. Similarly, political parties not only seek the election of their own candidates but can offer support for or against specific ballot issues. In other words, advocacy groups can not only supply funds to candidates and their election committees, but they can also engage in campaign activities themselves on behalf of issues or candidates.

Observations during the 2008 election in the state of Colorado formed the stylized facts that led to this inquiry. Colorado has fairly weak restrictions governing access to the state ballot. Consequently all sorts of different interests are able to get ballot initiatives under consideration ranging from Electoral College reforms to political activity by vendors to the state. It is not unheard of to have internally inconsistent measures brought before the voters on

the same ballot. During the 2008 election campaign we observed that different kinds of message media could be associated with different types of advocacy groups. For instance, groups advocating for and against a set of labor law measures tended to rely heavily on broadcast media messages. Meanwhile messages broadcast through phone calls typically on behalf of candidates were inevitably sponsored by groups affiliated with political parties. This suggested that different advocacy groups were solving their optimization problems in different ways. In particular, certain kinds of political goods are likely to be more durable in nature than others and will consequently be preferred by advocacy groups with more permanent purposes. There are number of studies in the marketing literature on the duration of advertisements effect, e.g., Naik (1999), Pauwels (2004), and Tellis and Franses (2006). For instance, Naik estimates the lifetime of advertisements for the Dockers brand about three months. For political advertisement, Hill et al. (2008) estimate that 80 to 90 percent of the advertisement effect dissipates within two or three days in a sample of voters in gubernatorial, Senate, and House races in 9 Midwest media markets in the 2006 elections. Accordingly, we assert that marketing campaigns like direct mailings and media spending are likely to have short run impacts on political outcomes.

On the other hand, when advocacy groups use campaign contributions to build a relationship with a candidate for office or a party they are attempting to construct a political outcome with impacts that last long beyond election day.

Consequently, in the paper we test for differences in the expenditure patterns of advocacy groups relative to the type of group, the ideology of the group, and the permanence of the group. Group types identified are party groups, union groups, and others that might be identified with specific issues. Ideologies are liberal and conservative and permanence relates to the persistence of the groups over three election cycles versus activity in only one.

Table 1: List of the State-focused 527s in Our Data Set

| | **Name** | **Type** | **Ideology** |
|---|---|---|---|
| 1 | Americans for Free Speech | 1 | 1 |
| 2 | And for the Sake of the Kids | 1 | 1 |
| 3 | California Labor Federation AFL-CIO | 3 | 2 |
| 4 | Coalition for a Better Colorado | 1 | 2 |
| 5 | Coalition for Smaller Smarter Government | 1 | 1 |
| 6 | Communications Workers of America | 1 | 2 |
| 7 | Floridians Uniting for a Stronger Tomorrow | 1 | 1 |

| | | | |
|---|---|---|---|
| 8 | Save Proposition 13 | 1 | 3 |
| 9 | State Capitol Media Project | 1 | 2 |
| 10 | West Virginia Consumers for Justice | 1 | 2 |
| 11 | Greater Wisconsin Political Fund | 1 | 2 |
| 12 | Heartland PAC | 1 | 2 |
| 13 | Main Street Colorado | 1 | 2 |
| 14 | Moving Colorado Forward | 1 | 2 |
| 15 | North Carolina Conservatives United | 1 | 1 |
| 16 | Operating Engineers Union | 3 | 2 |
| 17 | Protect Our Homes Coalition | 1 | 3 |
| 18 | Trailhead Group | 1 | 1 |
| 19 | All Children Matter | 1 | 1 |
| 20 | Bluegrass Freedom Fund | 1 | 3 |
| 21 | California Republicans Aligned For Tomorrow | 2 | 1 |
| 22 | Conservation Strategies | 1 | 2 |
| 23 | EPEC New York Education Fund | 1 | 3 |
| 24 | NAR STATE EXCHANGE ACCOUNT | 1 | 3 |
| 25 | Oklahoma Freedom Fund | 1 | 3 |
| 26 | Political Outgiving | 1 | 2 |
| 27 | Service Employees Intl Union Local 880 | 3 | 2 |
| 28 | Change to Win | 1 | 3 |
| 29 | AFL-CIO | 3 | 2 |
| 30 | American Fedn of St/Cnty/Munic Employees | 3 | 2 |
| 31 | Democratic Attorneys General Assn | 2 | 2 |
| 32 | Democratic Governors Assn | 2 | 2 |
| 33 | Democratic Legislative Campaign Cmte | 2 | 2 |
| 34 | Progressive Majority | 1 | 2 |
| 35 | Republican Governors Assn | 2 | 1 |
| 36 | Republican State Leadership Cmte | 2 | 1 |
| 37 | UNITE HERE | 1 | 2 |

Notes: Type: 1 = independent; 2 = party; 3 = union; Ideology: 1 = conservative; 2 = liberal; 3 = unknown; For American Fedn of St/Cnty/Munic Employees and UNITE HERE, there is more than one record for the same cycle.

Source: Center for Responsive Politics.

**State-focused 527 Groups**

According to the Center of Responsive Politics, 527 Groups can be categorized as state-focused or federal-level. To keep our sample homogenous, in this study we focus solely on 37

different state-focused groups in three election cycles.[2] Table 1 lists these groups. These advocacy groups can be divided into three categories based on their type, namely independent, political party affiliated, and union affiliated.[3] The same groups can also be classified as conservative, liberal, or unknown according to their ideologies.[4]

Table 2: Composition of the State-Focused 527s in Our Sample

| | **ALL** | **1-shot** | **3-cycle** |
|---|---|---|---|
| **Appearance (in 3 cycles)** | | | |
| One-time | **0.73** | | |
| Twice | 0.03 | | |
| Three times | 0.24 | | |
| | | | |
| ***Type:*** | | | |
| Independent | **0.53** | **0.85** | 0.23 |
| Party | 0.27 | 0.04 | **0.48** |
| Union | 0.20 | 0.11 | 0.29 |
| | | | |
| ***Ideology:*** | | | |
| Conservative | 0.23 | 0.30 | 0.19 |
| Liberal | **0.63** | **0.48** | **0.81** |
| Unknown | 0.13 | 0.22 | 0.00 |

Source: Center for Responsive Politics and authors' calculations.

As Table 2 summarizes 73 percent of these groups appear during one election cycle only. This observation is in line with the main reason why these groups exist, namely to influence voters on a specific ballot issues in a particular election and frequently specific to a particular state. As this table shows, although independent groups constitute 53 percent of the sample, 85 percent of the groups which were active in one election cycle are independents. Similarly, 48 percent of the groups which are active in three election cycles are affiliated with political parties, i.e., Democratic or Republican parties. These observations are also in line with the main reason why party-type advocacy groups exist. Although they may have partisan interest in many of the referenda issues on a ballot in a given election cycle at a particular state, their primary agenda is to promote continuing party control of state legislatures and executive positions.

[2] We downloaded the information from the web page of the Center for Responsive Politics, www.opensecrets.org on January 15th, 2009.

[3] A group not affiliated with a labor union and neither Republican nor Democrat in its name is classified as independent.

[4] The ideology classifications come from the Center for Responsive Politics. For instance, according to this classification, Labor union and Democratic Party affiliated groups are liberal, Republican Party affiliated groups are conservative.

Table 3: Break-down of the 527s' Expenditures

| Category | Sub-category |
|---|---|
| **Administrative** | Miscellaneous Administrative |
| | Travel |
| | Salaries & Benefits |
| | Postage/Shipping |
| | Administrative Consultants |
| | Rent/Utilities |
| | Food/Meetings |
| | Supplies, Equipment & Furniture |
| **Campaign Expenses** | Materials |
| | Polling/Surveys/Research |
| | Campaign Events |
| | Political Consultants |
| | Campaign Direct Mail |
| **Fundraising** | Fundraising Events |
| | Fundraising Consultants |
| | Fundraising Direct Mail/Telemarketing |
| **Other** | Charitable Donations |
| **Media** | Miscellaneous Media |
| | Broadcast Media |
| | Print Media |
| | Internet Media |
| | Media Consultants |
| **Contributions** | Parties (Fed & Non-federal) |
| | Candidates (Fed & Non-federal) |
| | Committees (Fed & Non-Federal) |
| | Contribution Refunds |
| **Unknown** | Insufficient Info |
| **Transfers** | Federal Transfer |
| | Non-Federal Transfer |

Source: Center for Responsive Politics.

Table 2 also allows us to make an observation about the ideological composition of these groups: First, most of these groups, i.e., 63 percent are liberal. Second, 82 percent of the groups that were active throughout three election cycles are liberal. Incidentally, liberals are putting more emphasize on advocacy groups, and they utilize them on a regular basis.

As presented in Table 3, a break-down of 527 advocacy group spending decisions by the expenditure category is available in a detail. There are twenty nine specific expenditure lines;

and there are eight main categories: administrative, campaign expenses, fundraising, other, media, contributions, transfers, and unknown.

In our analyses, we combined the unknown and other into one category. Also, to better address the issues in hand, we focused on administrative expenses, campaign expenses, polling and survey research, campaign direct mailing, media, fundraising, and contributions.

**Political Expenditures by 527 Groups**

In this section, we examine the composition of political expenditures by advocacy groups. Specifically, we conduct analyses to determine whether groups' ideology and type, in addition to whether they were active in one or multiple election cycles, make a difference in the way groups consume political goods. We have two claims. Our first claim is that the groups that solely exist to inform and influence voters on a particular issue would be spending more on short term, non-durable goods. For instance, they would be spending more on media, and they would be allocating more on campaign expenses such as polling and direct mailing. If indeed this claim is valid, we should expect to see a kind of magnification effect by observing independent one-cycle groups spending even more on these political goods.

Our second claim is that unions and political party advocacy groups with a multiple-cycle presence are likely to take a longer view of election campaigns. It makes sense for union groups (and obviously party affiliated groups) to have their own selected agents to represent and advance their interests. By this token, we expect to see unions and parties allocate relatively more of their contributions to candidates and committees (including parties) than the things identified as non-durable political goods.



Table 4: Break-down of the 527s' expenditures

| **Cycle** | **Total** | **Administrative expenses** | **Campaign expenses** | *Polling/ Surveys/ Research* | *Campaign Direct Mail* | **Media** | **Fund raising** | **Contributions** | **Others** |
|---|---|---|---|---|---|---|---|---|---|
| ***ALL THREE*** | ***$ 435,800,415*** | ***0.17*** | ***0.13*** | ***0.02*** | ***0.02*** | ***0.05*** | ***0.10*** | ***0.45*** | ***0.10*** |
| **Cycles:** | | | | | | | | | |
| 2004 | $ 123,281,258 | 0.14 | 0.11 | 0.01 | 0.01 | 0.02 | 0.15 | 0.56 | 0.02 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2006 | $ 174,974,695 | 0.16 | 0.12 | 0.02 | 0.02 | 0.03 | 0.12 | 0.38 | 0.18 |
| 2008 | $ 137,544,462 | 0.21 | 0.16 | 0.03 | 0.03 | 0.10 | 0.03 | 0.45 | 0.05 |
| **Affiliation:** | | | | | | | | | |
| Independent | $ 76,763,951 *($ 2,398,873)* | 0.21 | **0.14** | 0.03 | **0.06** | **0.09** | 0.23 | **0.23** | 0.10 |
| Party | $ 277,155,501 *($ 17,322,219)* | 0.20 | 0.15 | 0.02 | 0.01 | 0.05 | 0.08 | 0.44 | 0.08 |
| Union | $ 81,880,963 *($ 6,823,414)* | 0.01 | **0.07** | 0.01 | **0.00** | **0.00** | 0.03 | **0.73** | 0.15 |
| **Ideology:** | | | | | | | | | |
| Conservative | $ 168,278,564 *($ 12,019,897)* | 0.21 | 0.16 | 0.04 | 0.02 | 0.07 | 0.16 | 0.39 | 0.00 |
| Liberal | $ 246,821,480 *($ 6,495,302)* | 0.14 | 0.10 | 0.01 | 0.00 | 0.01 | 0.06 | 0.52 | 0.16 |
| Unknown | $ 20,700,371 *($ 2,443,596)* | 0.15 | **0.24** | 0.06 | **0.14** | **0.27** | 0.02 | **0.23** | 0.09 |
| **Frequency:** | | | | | | | | | |
| One-shot | $ 49,358,082 *($ 1,828,077)* | 0.15 | **0.14** | 0.02 | **0.05** | **0.13** | 0.35 | **0.19** | 0.05 |
| Three-cycle | $ 379,939,025 *($ 11,710,374)* | 0.17 | 0.13 | 0.02 | 0.01 | 0.04 | 0.07 | 0.49 | 0.10 |

Note: Numbers in parentheses are the averages.
Source: Center for Responsive Politics and authors' calculations.

As Table 4 shows, advocacy groups in our sample spent about 436 million in three election cycles; 17 percent as administrative expenses, 13 percent as campaign expenses, 5 percent on media, 10 percent on fundraising, and almost half of the money were contributions to parties, candidates, or committees. In each cycle, more or less equal amounts were spent, i.e. $145 million. Political party-affiliated groups spent almost two-thirds of the money, $277 million; union and independent spent around $80 million each. On average, each political party affiliated groups spent $17.3 million; unions $6.8million; and independents $2.4 million. It is interesting to note that the independents spent much less than the other two types of groups. This reflects a pattern of single-issue, single-state involvement. Moreover, independents spent 23 percent of their money on fund raising.

Each conservative group spent $12 million, almost twice as much as the average liberal group ($6.5 million each). Groups with unknown ideological designation spent the least -- $2.4 million each. Furthermore, independents spent 27 percent of their money on fund raising. Finally, when we divide the groups based on the frequency of their appearance, either in one cycle or in three cycles, we observe that the one-shot groups spent $1.8 million each compared to $11.7 million for three-cycle groups. One-shot groups also spent 13 percent of their money on fund raising (compared to only 4 percent of three-cycle groups). Clearly, one-shot, independent, unknown groups are spending much less than the others; and they have big fund raising

expenditures. All in all, these groups appear as grass-roots organizations relative to party and union-affiliated ones.

Let's reiterate our claim: the groups that solely exist to inform and influence voters on a particular issue will spend more on short-term, non-durable political good; in particular, (i) independent, unknown, one-shot groups will spend relatively more on media and campaign expenses such as polling and direct mailing; alternatively unions mainly contribute to parties, candidates, and committees rather than spending on these non-durable goods to further cement their long-term relationship with their agents, i.e., durable goods.

The sample average for media spending is 5 percent. As Table 4 presents, for independent groups the average media spending is 9 percent; for unknown groups 27 percent; and for one-shot groups it is 13 percent. Clearly, these three groups are spending much more than the sample average on non  es for the null hypotheses that a specific group's media spending average is not different than the others' are the following: For independent groups versus others 1.17; unknown groups versus others 1.37; and one-shot versus others 1.33. Thus, these differences are statistically significant at 10% level.

Table 5:Campaign Direct Mailing Expenditures, and Contributions to Political Parties

| Group | Campaign Direct Mailing | Media | Contributions to Political Parties or Candidates |
|---|---|---|---|
| **Type: Independent** | $ 138,495 | $ 209,444 | $ 544,207 |
| | *(11.27)* | *(502.67)* | *(0.11)* |
| **Frequency: One-shot** | $ 234,966 | $ 234,966 | $ 348,269 |
| | *(19.1)* | *(563.9)* | *(0.07)* |
| **Ideology: Unknown** | $ 363,650 | $ 693,866 | $ 584,956 |
| | *(29.6)* | *(1665.3)* | *(0.12)* |

Note: Numbers in parentheses are the ratios compared to union affiliated groups' average spending.
Source: Center for Responsive Politics and authors' calculations.

The sample average for campaign direct mailing is 2 percent. As Table 4 presents, for independent groups the average direct mailing spending is 6 percent; for unknown groups 14 percent; and for one-shot groups it is 5 percent. Clearly, these three groups are spending much more on this non-durable political good. The two sample one-sided t-test values for the null hypotheses that a specific group's campaign direct mailing is not different than the others' are

the following: For independent groups versus others 2.29; unknown groups versus others 1.69; and one-shot versus others 1.56. Thus, these differences are statistically significant at 1%, 7%, and 7% level, respectively.

On the other hand the sample average for contributions to political parties, candidates, and committees is 45 percent. As Table 4 presents, for independent groups the average contribution is 23 percent; for unknown groups 23 percent; and for one-shot groups it is 19 percent. Clearly, these three groups are spending much less on this durable political good. The two sample one-sided t-test values for the null hypotheses that a specific group's contributions to political parties are not different than the others' are the following: For independent groups versus others -4.64; unknown groups versus others -1.34; and one-shot versus others -3.67. Thus, these differences are statistically significant at 1 percent level.

To shed further light on this issue, we prepare Table 5. This table presents the media, campaign direct mailing and contributions to political parties by independent, unknown, one-shot groups. As this table shows there are statistically significant differences between union affiliated and these groups.

**Concluding Remarks**

Campaign activity by political advocacy groups will reflect an attempt by those groups to make optimal allocation of resources among the variety of political expenditures available to them toward the end of attaining the political outcome they desire. In this paper we have shown that there are clear differences in the pattern of campaign expenditures these groups make when groups are differentiated by type, ideology and duration of political activity.

Our specific finding is that one-shot, issue based advocacy groups which can be more often characterized as non-party and non-union (that is classified as independent groups in this analysis), of unknown ideology and only active in a single political cycle will behave such that they allocate their funds toward direct mailing campaigns and media messages rather than make contributions to parties, candidates or committees. The implication is that these groups have less interest in building political agency among elected officials than the norm.

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