

Disclosure in Democracy

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Motivation

- Disclosure is a key component of a well-functioning democracy and electoral system
 - ▶ Informs voters about candidates prior to election
 - ▶ Reduces favoritism and rent extraction in developed (Faccio (2006)) and developing economies (Fisman (2001))
- *Citizens United vs. Federal Election Commission*
 - ▶ U.S. Supreme Court decision in 2010 that ruled against limits on political spending
 - ▶ Electoral support can be channeled through undisclosed and unlimited conduits
 - ▶ Potentially reduces information available to voters

Dark Money in the News

Untraceable cash flows into super PACs supporting both presidential candidates.



New York Times (8/21/20)

Dark Money in the News

Trump-tied 'dark money' groups funding Arizona ballot review

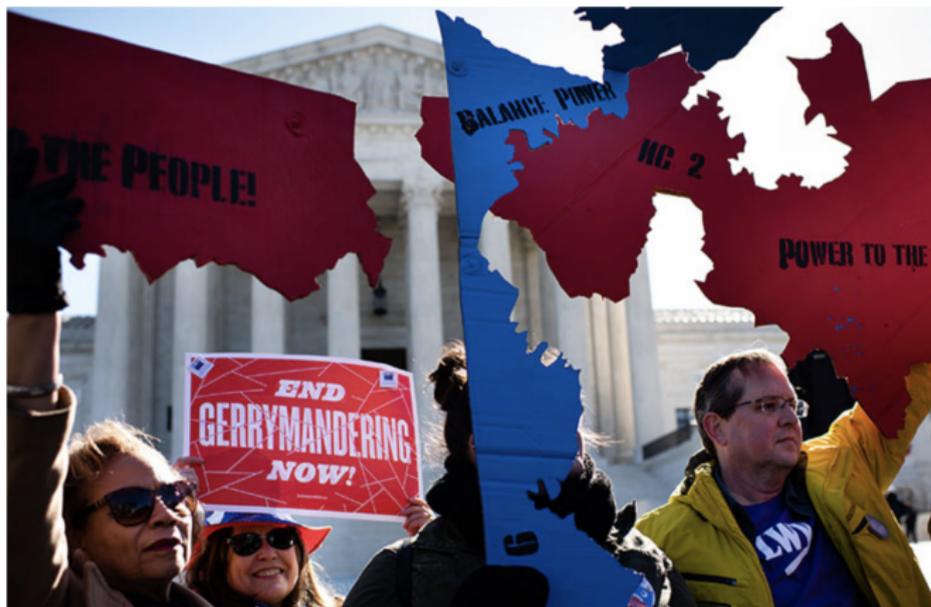
By Anna Massoglia and Sam Levine | June 9, 2021 7:00 am



OpenSecrets (6/9/21)

How 'dark money' is shaping redistricting in 2021

By Alyce McFadden | May 20, 2021 3:08 pm



OpenSecrets (5/20/21)

Dark Money: Undisclosed Political Contributions

- Dark money groups
 - ▶ Formed as 501c organizations at IRS
 - ▶ No required disclosure of donors and no limits on political spending (“soft money”)
 - ▶ Manually determine 118 dark money groups totaling \$2B in U.S. congressional elections from 2008 to 2018
- Yet limited evidence on dark money in U.S. federal elections
 - ▶ Previous focus on state elections and parties supported
 - ▶ Contribute to growing literature on charitable donations as channel for political influence (Bertrand et al. (2020))

Research Questions

1. Do dark money contributions flow to particular elections?
2. What is the role of undisclosed capital in election outcomes?
3. Does dark money influence the quality of politicians?

Preview of Results

- Five stylized facts about dark money
 1. Dark money dominates political contributions from special interest groups
 2. Dark money is primarily spent against candidates
 3. Dark money flows to candidates just before elections
 4. Dark money is commonly tunneled through other special interest groups
 5. Firms often contribute to dark money groups
- Dark money in elections
 - ▶ Is allocated to competitive elections and in areas with reduced information environments
 - ▶ Increases the likelihood of a candidate winning
- Dark-money backed politicians
 - ▶ Appear to enact an agenda aligned with their donors
 - ▶ Are less likely to be reelected

Plan for Presentation

- **Dark Money: Undisclosed Political Contributions**
- Stylized Facts about Dark Money
- Elections and Dark Money
- Politicians Receiving Dark Money

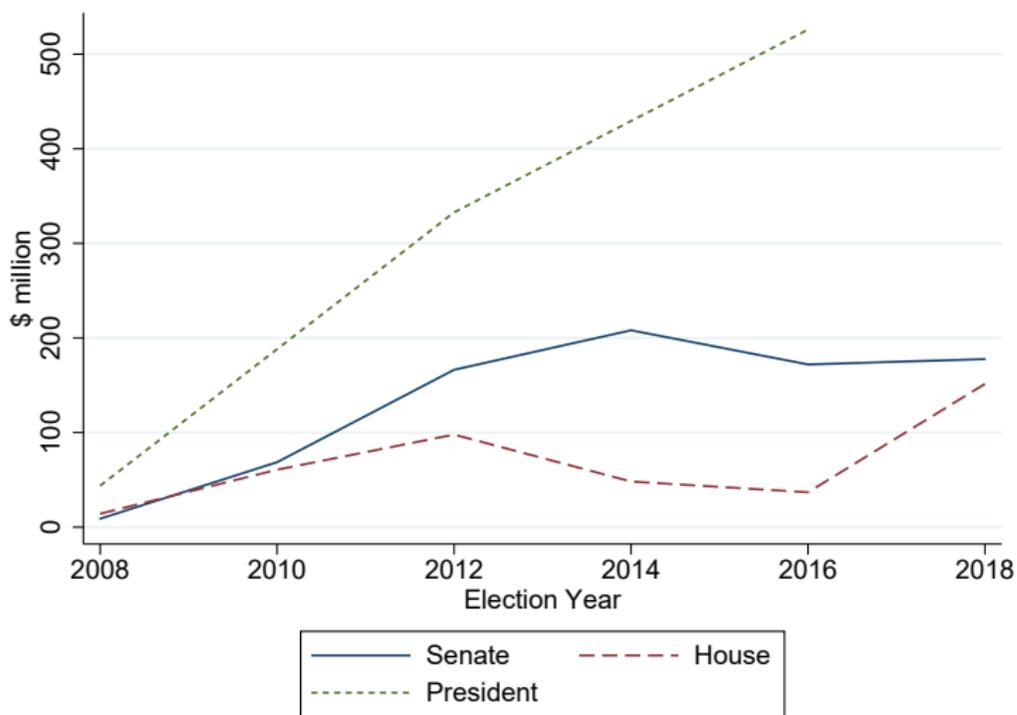
Citizens United v. Federal Election Commission

- In January 2010, Supreme Court ruled that a prohibition on independent expenditures in Bipartisan Campaign Act of 2002 violated First Amendment right to free speech
- Led to emergence of **dark money** for raising money and supporting political campaigns
 - ▶ No disclosure on donors
 - ▶ No limits on “soft money” political spending
- Dark money could hamper transparency in elections

Observing Dark Money

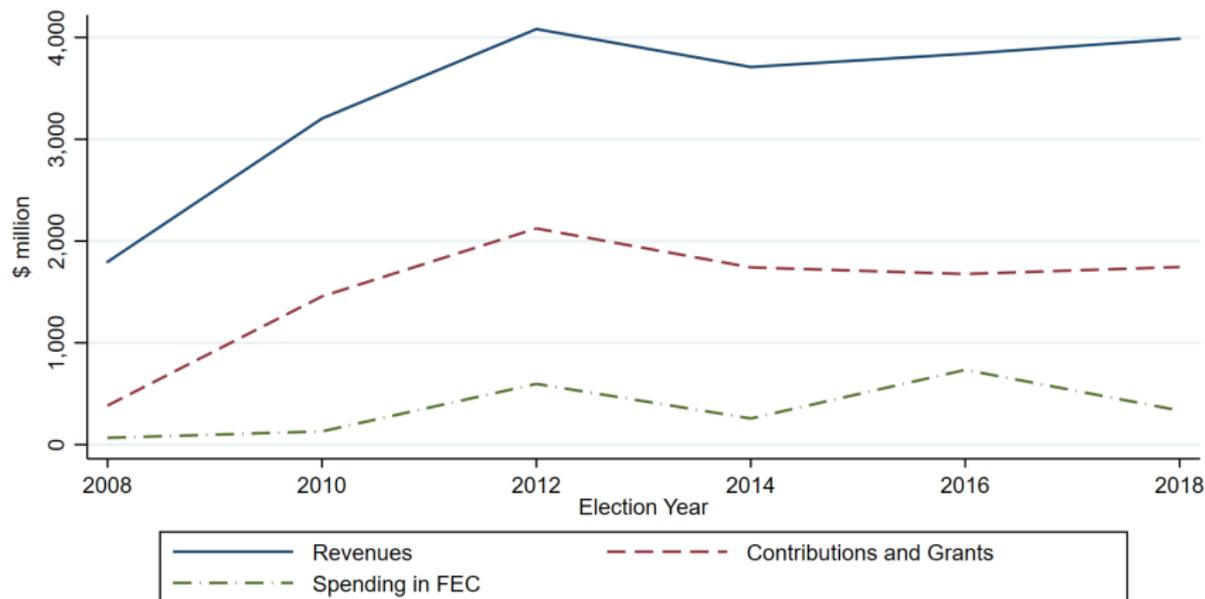
- Manually determine dark money groups
 - ▶ Organize as 501c organizations
 - ▶ Match IRS tax filings (Form 990) to independent expenditures in FEC
 - ▶ Supplement with extensive internet searches
- Link 118 dark money groups to \$2.1B in FEC political spending
 - ▶ Support 3,502 candidates in U.S. congressional elections from 2008 to 2018
- Cavaet: Cannot observe all political spending by dark money groups
 - ▶ FEC only includes certain political spending

Dark Money in U.S. Elections



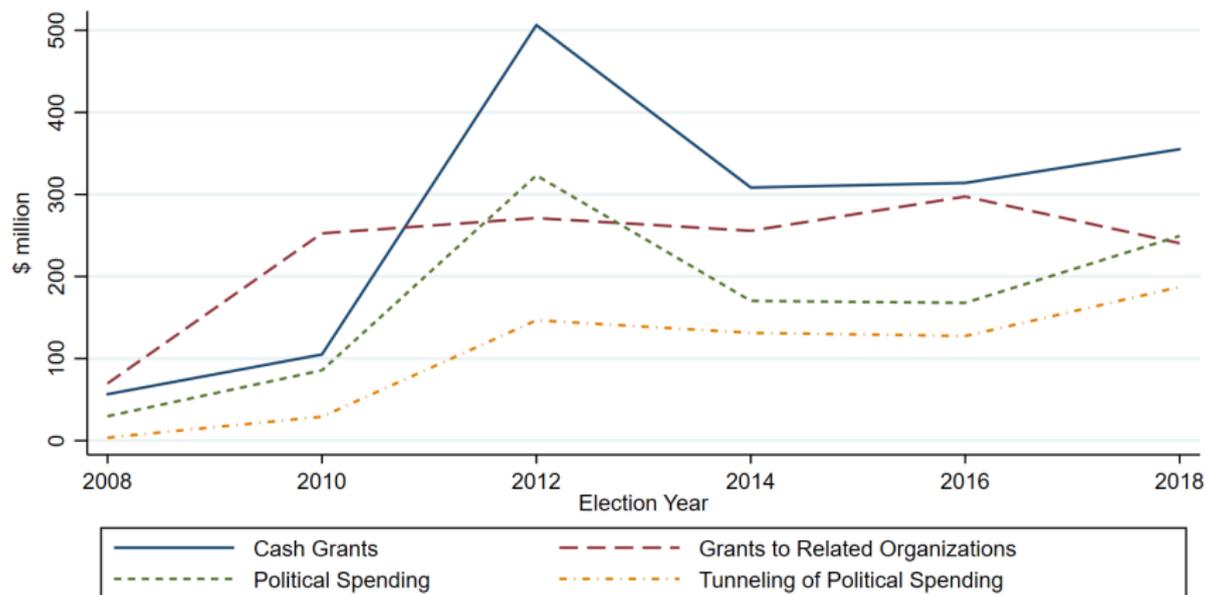
- Dark money increased in U.S. federal elections
- Focus on congressional elections in analyses

Tax Filings of Dark Money Groups: Inflows



- Revenues of dark money groups rose from \$2B to \$4B
- FEC data captures small amount of activity

Tax Filings of Dark Money Groups: Outflows



- Dark money groups provide grants to other organizations
- Tunneling through these organizations can be difficult to detect

Data

1. Political contributions

- ▶ Federal Election Commission (FEC): Political spending and elections
- ▶ Form 990 from IRS
- ▶ Federal Communications Commission (FCC) political ads
- ▶ Hand-collected data on disclosures by S&P 500 firms

2. Elections

- ▶ Cook Political Report: Ex-ante election competitiveness
- ▶ UNC's Expanding News Desert Project: Newspaper circulation
- ▶ Census' American Community Survey: Regional characteristics

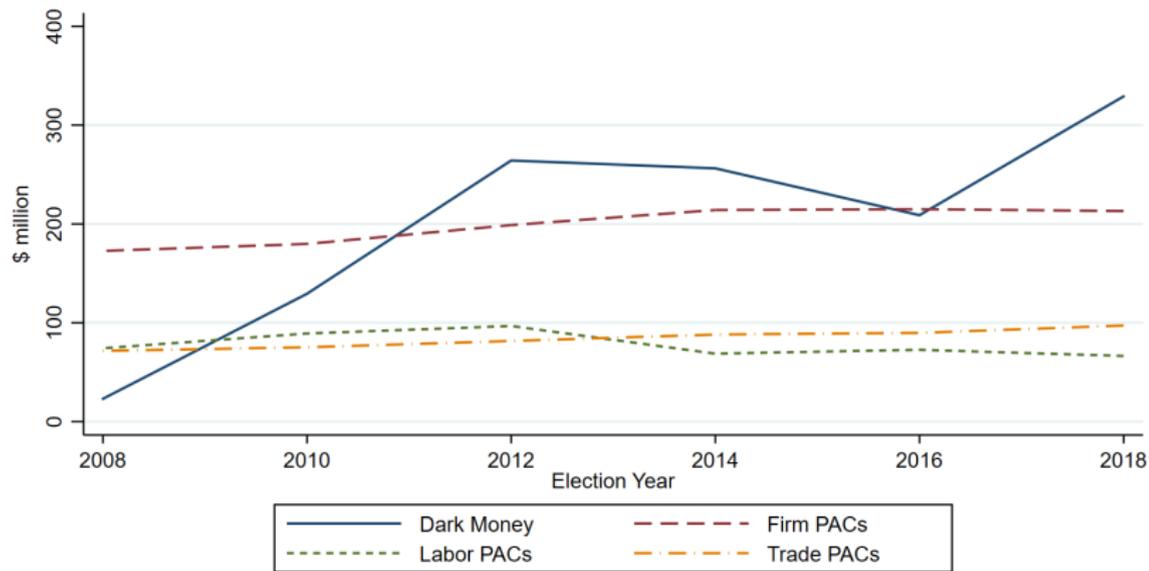
3. Politicians

- ▶ VoteView: Sponsorship and voting by congressional politicians
- ▶ Committee membership

Plan for Presentation

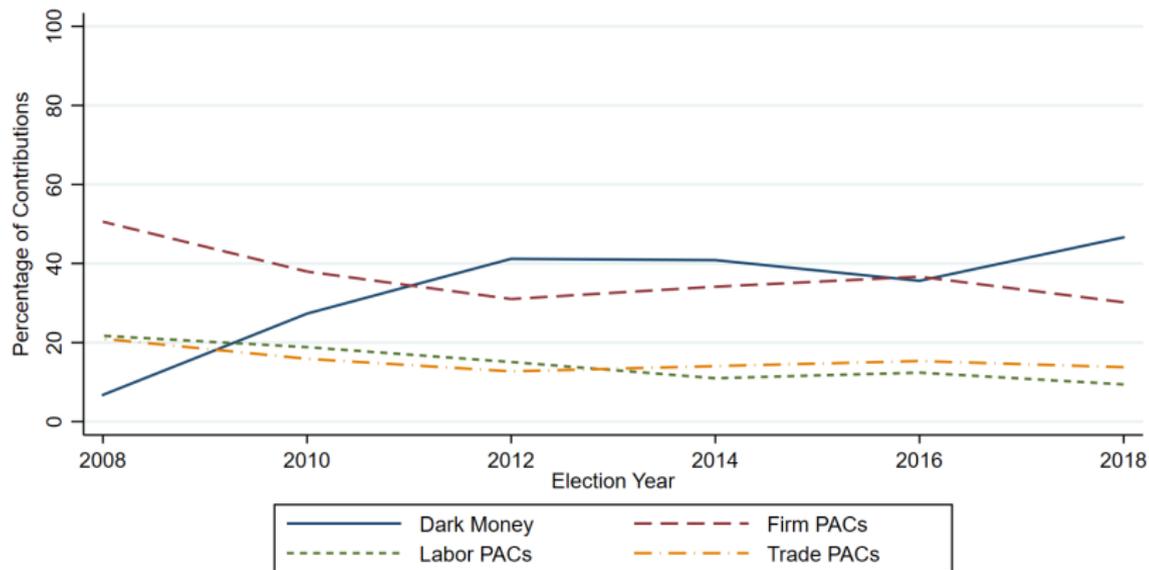
- Dark Money: Undisclosed Political Contributions
- **Stylized Facts about Dark Money**
- Elections and Dark Money
- Politicians Receiving Dark Money

Fact 1: Dark money dominates political contributions from special interest groups



- Political contributions by dark money groups increased 14-fold
- Spending by firm, trade, and labor groups remain flat

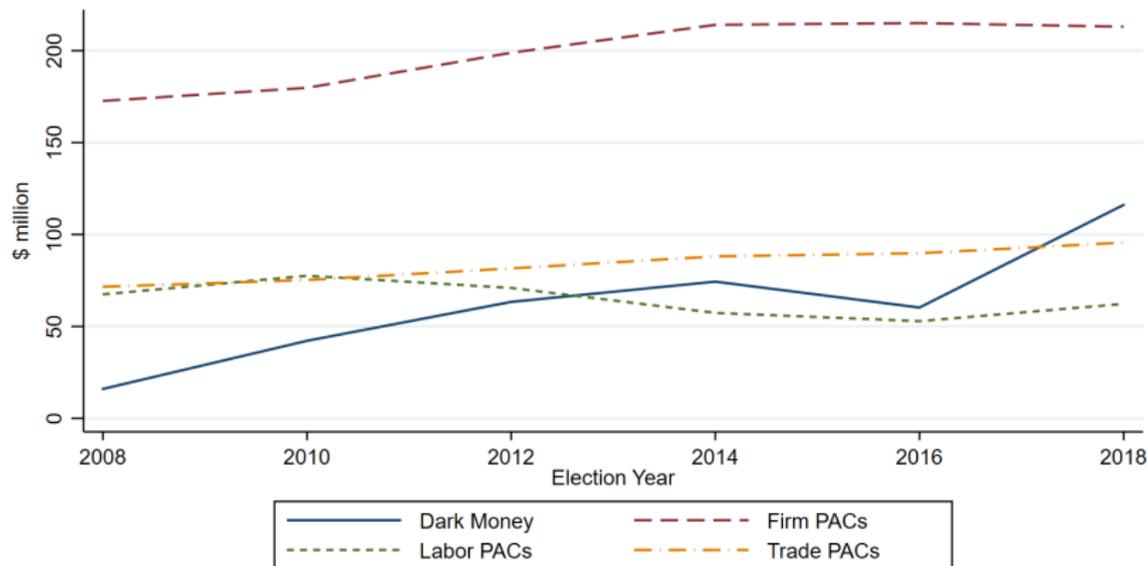
Fact 1: Dark money dominates political contributions from special interest groups



- Dark money represents the largest share of political contributions
- Declining share for other special interest groups

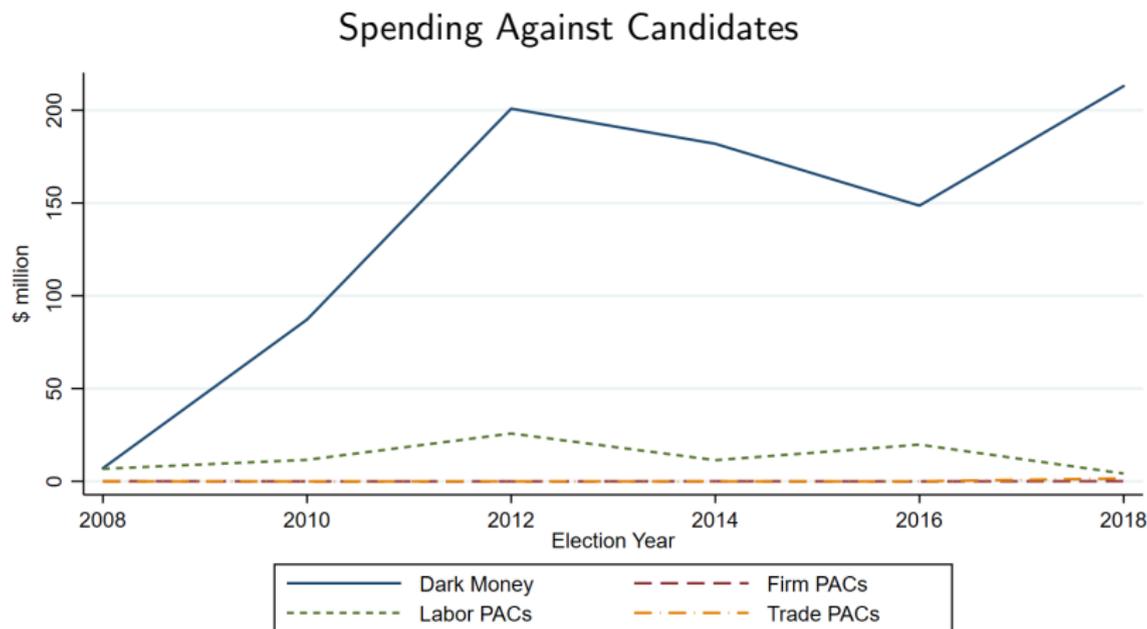
Fact 2: Dark money is primarily spent against candidates

Spending For Candidates



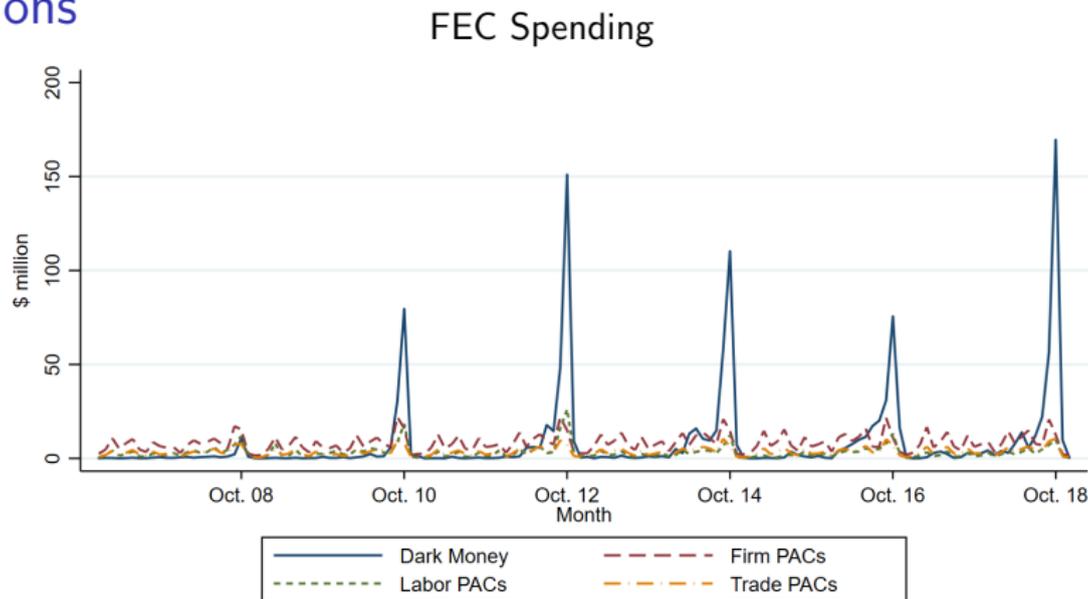
- Political spending can support preferred candidate or go against opponents in an election
- Firm, labor, and trade groups mostly use political capital to support candidates

Fact 2: Dark money is primarily spent against candidates



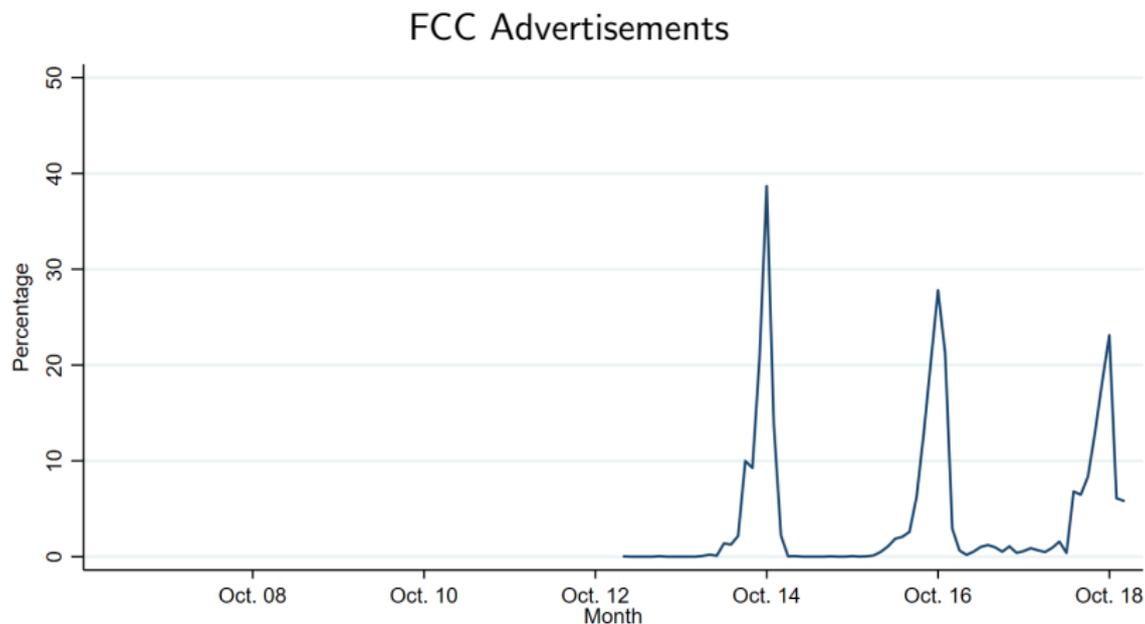
- Spending against candidates is largely funded by dark money organizations
- About two-thirds of dark money goes against opponents

Fact 3: Dark money flows to candidates just before elections



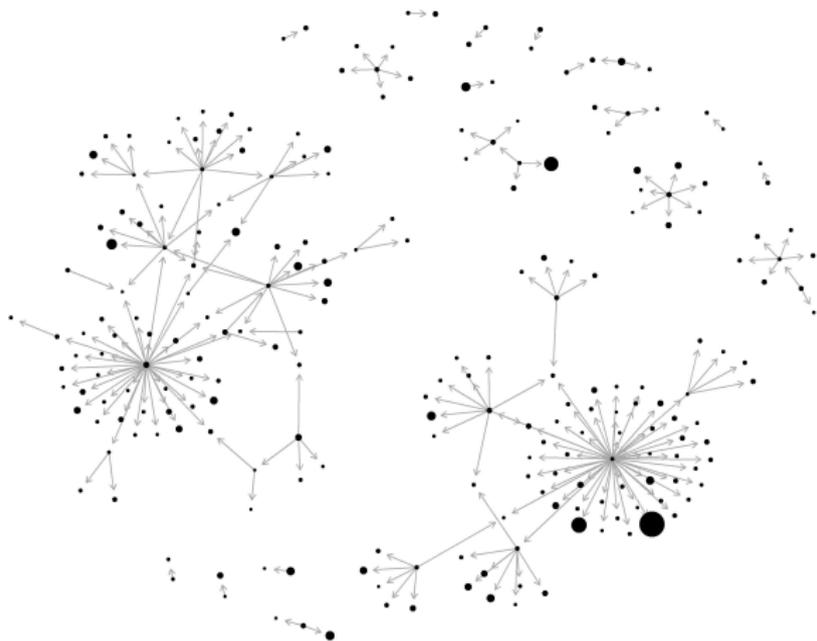
- Dark money is spent in the months immediately preceding elections, particularly relative to other special interest groups
- Timing could limit detection by citizens and media before elections (and can remain challenging afterwards)

Fact 3: Dark money flows to candidates just before elections



- Match dark money to political advertisements tracked by FCC
- Find similar patterns in the timing of spending by dark money

Fact 4: Dark money is commonly tunneled through other special interest groups



- Directional network using 501c contributions and grants
- Clusters in network with substantial transfers of \$3B in sample

Fact 5: Firms often contribute to dark money groups

- Dark money groups are not required to disclose donors
- Hand-collect data on S&P 500 firms from 2010–2017
- 19% of firms contribute to dark money groups
- Increase in contributions from \$40M to \$142M
- Could understate extent of firm contributions
 - ▶ U.S. SEC considering proposal to require disclosure of firm political contributions

Plan for Presentation

- Dark Money: Undisclosed Political Contributions
- Stylized Facts about Dark Money
- **Elections and Dark Money**
- Politicians Receiving Dark Money

Elections and Dark Money

- What is the role of dark money in elections?
 - ▶ Elections and electorate targeted by dark money
 - ▶ Election outcomes
- Sample focuses on U.S. congressional elections from 2008 to 2018
- Estimate following specification for dark money flows:

$$Y_{cest} = \alpha_s + \alpha_t + \beta \cdot \textit{Competition}_{et} + \gamma \cdot X_{ct} + \varepsilon_{cest}$$

- ▶ Ex-ante is defined as “toss-up” in *Cook Political Report*
- ▶ Ex-post is based on margin of victory $\leq 5\%$
- ▶ X_{ct} is indicators for Democrat and incumbent

Dark Money Flows

$$Y_{cest} = \alpha_s + \alpha_t + \beta \cdot Competition_{et} + \gamma \cdot X_{ct} + \varepsilon_{cest}$$

Dependent Variable	Log(Dark Money)			
	For		Against	
	(1)	(2)	(3)	(4)
Competition	0.072*** (0.012)	0.138*** (0.019)	0.146*** (0.020)	0.248*** (0.031)
Competition measure	Ex-ante	Ex-post	Ex-ante	Ex-post
State FE	Yes	Yes	Yes	Yes
Election cycle FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.052	0.101	0.063	0.111
Observations	5,587	5,587	5,587	5,587

- ▶ Dark money for candidates increases by 7.5% to 14.8% in competitive U.S. congressional elections
- ▶ Dark money against candidates increases by 15.7% to 28.1% in competitive U.S. congressional elections
- ▶ Suggests that dark money targets competitive races where impact could be more consequential

- Extensive margin Extensive Margin
 - ▶ Dark money *for* a candidate is 31.1% to 37.1% more likely in competitive elections
 - ▶ Dark money *against* a candidate is 39.7% to 41.2% more likely in competitive races

- Measure of ex-ante competition Ex-ante Competition
 - ▶ Examine two alternative and broader definitions of ex-ante competitive elections
 - ▶ Find similar though slightly smaller estimates, indicating that dark money is allocated to the closest elections

Electorate Characteristics

- What are the characteristics of the electorate in regions targeting by dark money?
- Measures of electorate characteristics
 - ▶ Information: Newspaper circulation per capita
 - ▶ Education: Share of population with a college degree
 - ▶ Inequality: Gini index
 - ▶ Poverty: Ratio of population below poverty line

Electorate Characteristics

Dependent Variable	Log(Dark Money)	
	For	Against
	(1)	(2)
Newspaper Circulation	-0.016*** (0.003)	-0.017*** (0.004)
Education	-0.666*** (0.170)	-0.623*** (0.160)
Inequality	0.437* (0.243)	0.434* (0.237)
Poverty	-1.240*** (0.198)	-1.059*** (0.188)
State and election cycle FE	Yes	Yes
Adjusted R^2	0.459	0.213
Observations	5,587	5,587

- ▶ Dark money targets elections where voters face reduced information, lower education, greater inequality, and less poverty
- ▶ Includes indicators for ex-ante competition, Democrat, and incumbent
- ▶ Similar estimates along extensive margin

Election Outcomes

Dependent Variable	1(Winner)	Vote Share
	(1)	(2)
Log(Dark Money For)	0.238*** (0.078)	0.054*** (0.019)
Log(Dark Money Against)	-0.160*** (0.037)	-0.038*** (0.010)
State and election cycle FE	Yes	Yes
Other political contributions	Yes	Yes
Adjusted R^2	0.601	0.558
Observations	5,587	5,587

- ▶ A 25% increase in dark money for (against) a candidate is related to 6.1 p.p. increase (3.9 p.p. decrease) in likelihood of winning election
- ▶ A 25% increase in dark money for (against) a candidate is related to 1.9 p.p. increase (0.9 p.p. decrease) in vote share
- ▶ Includes political contributions by other special interest groups and indicator if incumbent

Plan for Presentation

- Dark Money: Undisclosed Political Contributions
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Politicians Receiving Dark Money

- Does dark money influence the quality of politicians?
- Construct measure of dark money based contributions for politician's campaign and against her opponents
 - ▶ Refer to as *Dark Money Supporting*
 - ▶ Captures dark money supporting politician elected to U.S. Congress
- Estimate following specification:

$$Y_{pst} = \alpha_s + \alpha_t + \beta \cdot \textit{Dark Money Supporting}_{pt} + \varepsilon_{pst}$$

Political Activity in Congress: Legislation

$$Y_{pst} = \alpha_s + \alpha_t + \beta \cdot \text{Dark Money Supporting}_{pt} + \varepsilon_{pst}$$

Dependent Variable	Log(Bills Supported)	Abstain
Model	(1)	(2)
Log(Dark Money Supporting)	0.034** (0.004)	-0.888** (0.086)
State FE	Yes	Yes
Congress FE	Yes	Yes
Adjusted R^2	0.250	0.040
Observations	2,675	2,675

- ▶ A 25% increase in dark money is related to 0.8% increase in bills supported
- ▶ Abstentions decline by 2.4% relative to sample mean
- ▶ Suggests that dark-money backed politicians are more active in enacting their agenda

Political Activity in Congress: Committees

$$Y_{pst} = \alpha_s + \alpha_t + \beta \cdot \text{Dark Money Supporting}_{pt} + \varepsilon_{pst}$$

Dependent Variable	Powerful Committee	Budget Committee
	(1)	(2)
Log(Dark Money Supporting)	0.445*** (0.102)	0.235*** (0.122)
State FE	Yes	Yes
Congress FE	Yes	Yes
Observations	2,675	2,675
Adjusted R^2	0.090	0.071

- ▶ A 25% increase in dark money is related to 11.8 p.p. (6.1 p.p.) increase in probability of serving on powerful (budget) committee
- ▶ Consistent with dark-money backed politicians positioned on committees aligned with donors rather than constituents

Reelection

$$Y_{pst} = \alpha_s + \alpha_t + \beta \cdot \text{Dark Money Supporting}_{pt} + \varepsilon_{pst}$$

Dependent Variable	Reelected		
	(1)	(2)	(3)
Log(Dark Money Supporting)	-0.120** (0.051)	-0.094** (0.048)	-0.118** (0.047)
State FE	No	Yes	Yes
Election cycle FE	No	No	Yes
Observations	1,840	1,840	1,840
Adjusted R^2	0.063	0.085	0.110

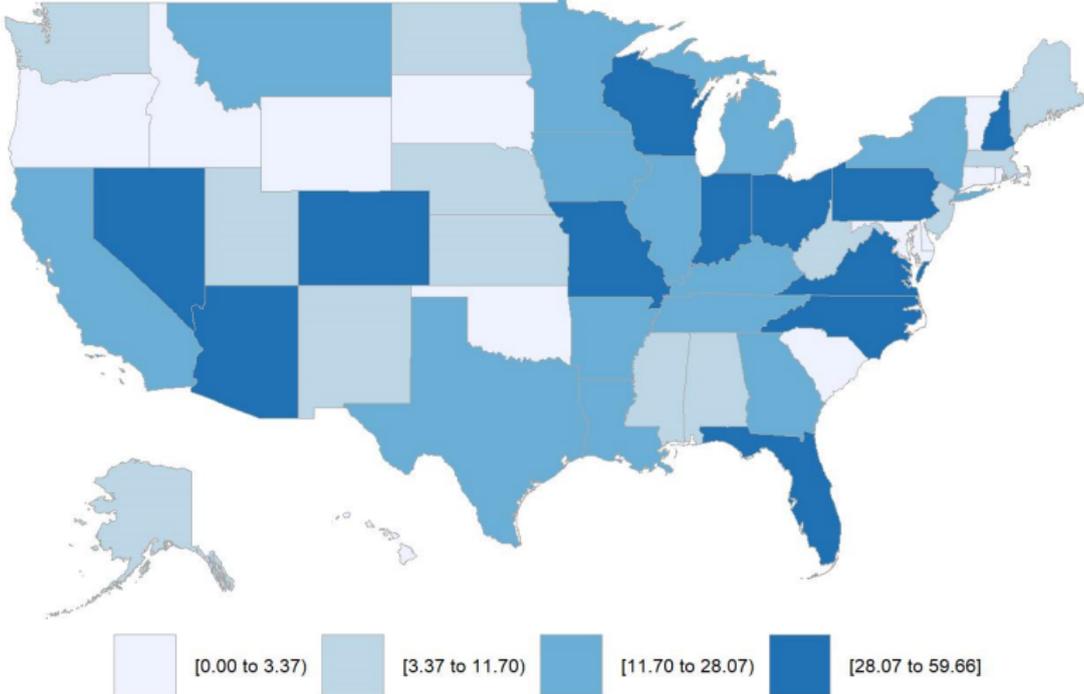
- ▶ Are dark money-backed politicians voted out of office?
- ▶ Focus on politicians rerunning for same office and include control for margin of victory
- ▶ A 25% increase in dark money is related to a 2.3 to 3.0 p.p. decrease in likelihood of being reelected

Conclusion

- Undisclosed and unlimited spending from dark money groups has poured into U.S. federal elections
- Document stylized facts about dark money spending
- We find that dark money tends to be
 - ▶ Allocated to competitive races and with fewer newspapers
 - ▶ Related to increased probability of winning and vote share
- Dark-money backed politicians enact an agenda aligned with donors and are less likely to be reelected
- Highlights role of dark money and potential importance of greater transparency
 - ▶ For the People Act being debated in the U.S. Congress
 - ▶ *Americans for Prosperity Foundation v. Bonta* is pending at U.S. Supreme Court about disclosing donors

Geography of Dark Money

Dark Money Against Candidates



Tax Filings: Inflows

Tax Filings: Outflows

Dark Money Flows: Extensive Margin

$$Y_{cest} = \alpha_s + \alpha_t + \beta \cdot Competition_{et} + \gamma \cdot X_{ct} + \varepsilon_{cest}$$

Dependent Variable	1(Dark Money)			
	For		Against	
	(1)	(2)	(3)	(4)
Competition	0.371*** (0.020)	0.311*** (0.017)	0.412*** (0.026)	0.397*** (0.025)
Competition measure	Ex-ante	Ex-post	Ex-ante	Ex-post
State FE	Yes	Yes	Yes	Yes
Election cycle FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.451	0.452	0.201	0.225
Observations	5,587	5,587	5,587	5,587

- ▶ Dark money for (against) candidates increases by 31.1% to 37.1% (39.7% to 41.2%) in competitive U.S. congressional elections

Dark Money Flows: Competition Measures

$$Y_{cest} = \alpha_s + \alpha_t + \beta \cdot Competition_{et} + \gamma \cdot X_{ct} + \varepsilon_{cest}$$

Dependent variable	1(Dark Money)			
	For		Against	
	(1)	(2)	(3)	(4)
Competition	0.397*** (0.013)	0.388*** (0.012)	0.416*** (0.019)	0.316*** (0.016)
Competition measure	Lean, Toss-up	Likely, Lean, Toss-up	Lean, Toss-up	Likely, Lean, Toss-up
State FE	Yes	Yes	Yes	Yes
Election cycle FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.487	0.515	0.266	0.249
Observations	5,587	5,587	5,587	5,587

Dark Money Flows: Competition Measures

$$Y_{cest} = \alpha_s + \alpha_t + \beta \cdot Competition_{et} + \gamma \cdot X_{ct} + \varepsilon_{cest}$$

Dependent variable	Log(Dark Money)			
	For		Against	
	(1)	(2)	(3)	(4)
Competition	0.061*** (0.009)	0.036*** (0.007)	0.130*** (0.014)	0.073*** (0.011)
Competition measure	Lean, Toss-up	Likely, Lean, Toss-up	Lean, Toss-up	Likely, Lean, Toss-up
State FE	Yes	Yes	Yes	Yes
Election cycle FE	Yes	Yes	Yes	Yes
Adjusted R^2	0.057	0.049	0.071	0.059
Observations	5,587	5,587	5,587	5,587