

Themes of the Day

- Money is necessary but not sufficient, especially for challengers.
- Money follows expectations.
- Most donations are **consumption** goods, not strategic investments.
- But money can still bias political outcomes.
- Tradeoff between liberty and equality

Class Forecasts

Actual outcome:

- Popular vote: 2.7% margin for Obama
- Electoral college: Obama 332, Romney 206

Nate Silver forecast (Sept. 11):

- Popular vote: 3.8% margin for Obama (se: 2%)

Class predictions:

- Predicted Obama Victory: 89%
- Popular vote: 2.1% (mean), 2.7% (median); sd: 2.2%

Closest class prediction: Obama +2.65%

Money in the 2012 Election

- Spending by/for presidential candidates:
 - **Obama:** \$850 million (inside) + \$125 million (outside) = \$975 million
 - **Romney:** \$750 million (inside) + \$350 million (outside) = \$1,000 million
- Federal budget: \$3.7 trillion
- Tullock: “Why is there so *little* money in politics?”

Investment vs. Consumption

- Common assumption: donations as **investment**
→ maximize future return (strategic)
- More realistic: donations as **consumption**
→ If it feels good, donate.
- Strategic money is drowned out by non-strategic
→ diminishing marginal returns

Incumbents and challengers

- **Fact:** campaign spending is **positively** correlated with the performance of **challengers**, but **negatively** with that of **incumbents**.
- Explanations:
 - Expectations
 - Causality

Money and Political Bias

- Strategies:
 - Legislative
 - Electoral
- *Quid pro quos* difficult to demonstrate.
- Buying time?
- Bias built into structure of party system (financial constituencies)

Financial Constituencies

- Financial constituencies of *both* parties:
 - Who donates? Rich white men
 - From where? Rich urban areas
 - Little sympathy for evangelicals or labor unions
- Both parties need to appeal to wealthier citizens on some issue dimension (economic, social) → “weighted votes”

Liberty vs. Equality

Trade-off between two fundamental values of democracy (e.g., *Citizens United*)

- Liberty: democracy requires free speech, and speech requires \$\$
- Equality: democracy requires responsiveness to citizens as equals

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