Comment

Ernesto Dal Bó: Portugal and Bugarin build their paper around a standard model of electoral competition and campaign finance, as pioneered by Baron and by Grossman and Helpman.[1] The particulars of the modeling follow Persson and Tabellini's approach.[2] The basic model features two candidates or parties with ideological preferences who want to prevail in a winner-take-all election (although the paper refers repeatedly to a legislature, the model is developed for the case of a winner-take-all election). The authors analyze the cases of candidates receiving private and public funds. Campaign contributions are assumed to improve the candidates' "brand" value. That is, for a given platform pair, an increase in contributions to one party raises voters' inclination to choose that party. The purpose of the paper is to analyze the effects of public financing on platforms and welfare. The authors also explore whether public funds may alter electoral equilibrium in the long run, as defined more precisely below. As developed, the paper is better for achieving the second purpose than the first. Before commenting on that, I briefly lay out the reasons why the model is not well suited to explaining either the welfare implications of public campaign financing or the effects of public funds on platform choices.

In the model, the effect of contributions comes from a black box: the authors provide no microfoundation as to why a party that spends more has a better brand name and receives more votes. The literature analyzes two different possibilities for the connection between money and votes, which I briefly describe here. I then argue that establishing a precise microfoundation of the effects of money on votes is important if one wants to make welfare predictions.[3]

1. Baron (1994); Grossman and Helpman (1996).
2. Persson and Tabellini (2000).
3. The next two paragraphs borrow heavily from Prat (2006).

One possibility is that money allows parties to communicate information about their quality.[4] Suppose a lobby is interested in donating money to the candidate who is most likely to win because the winner will be able to return favors to the lobby. Assume also that voters care not just about policy, but also about the quality of candidates. When candidates obtain a contribution, they can pay for an ad that reveals their quality to voters. In this simple world of informative advertising, only high-quality candidates care to advertise, and only high-quality candidates obtain donations in exchange for policy favors. Money allows candidates to transmit valuable information to voters. What is important about money is not where it comes from, but that it is available to sustain communication so that voters can learn about the candidates' features. A second possibility involves a world where advertising per se is uninformative, but the fact that a party was able to raise money does convey information.[5] Why would big campaign spending convey any kind of information? Suppose again that lobbies try to guess who the winning candidate will be in order to decide to whom to donate money. If lobbies observe a better signal about the quality of one candidate versus the other, then lobbies will tend to give more to the candidate they perceive as being higher quality. When voters observe high levels of campaign spending by one candidate, they will think that candidate is more likely to be of high quality, and they will vote accordingly.

In both cases (that is, directly informative versus indirectly informative advertising), being able to spend is correlated with obtaining votes, and private contributions induce policy distortions. Banning private contributions would be desirable if the quality dimension is not very important for voters relative to the policy one. However, the welfare effect of public funds depends crucially on whether advertising is directly informative. In the world of directly informative ads, public funds will allow parties to communicate their quality without selling out to special interests. Thus, by funding campaigns themselves with tax money, voters can obtain valuable information without suffering the policy distortion induced by private contributions. In the world where ads are not directly informative, things are different. Public funds will convey no signal about candidate quality, and the incentives for parties to seek private donations will not be altered. Voters will thus be spending tax money on campaigns to no effect, leading to lower welfare. The conclusion is that because the model lacks a microfoundation for how campaign expenditures

4. Ashworth (2006); Coate (2004); Schultz (2007); Wittman (2007).
5. See, for instance, Potters, Sloof, and van Winden (1997) and Prat (2002).

earn votes, it is not well suited to making predictions on the welfare consequences of public campaign financing.[6]

Portugal and Bugarin's model will also have trouble making predictions about how public financing may affect private contributions and platform choices. The reason follows immediately from the model's construction. In the model, parties accept contributions and choose platforms to maximize an objective function in which the cross-partial between private and public funds is zero and the cross-partial between public funds and platform choice is zero. Not surprisingly, the model yields that public finance does not crowd out private funding or affect platforms.

The authors' analysis of an iterated version of their game has important limitations, but it is the freshest part of the paper. It is also the most applicable to Latin America. A natural concern with a system in which parties are financed in proportion to past vote shares is that it may promote entrenchment.[7] When a party receives a majority of the votes, it then obtains a majority of the funds, which reinforces its ability to obtain a majority of the votes. The iterated game captures those effects. The authors look for stable vote share solutions and platform choices. This amounts to a fixed-point solution, and it has some parallels in the model by Ortuño-Ortín and Schultz.[8] The latter, however, impose symmetry assumptions that prevent the analysis of the emergence of hegemonic parties.

The key idea in this section is that when vote shares are sensitive enough to campaign contributions, the initial value of those contributions will dictate the long-run outcome in terms of what party dominates elections. In other words, if a party initially attracts more private contributions, it will obtain more votes in the first election, which entitles it to more public funds and thus allows it to continue to obtain a majority of votes. This means that public funds could introduce a force resembling increasing returns in electoral competition. Although public funds may crowd out private contributions in real life, thereby reducing the exchange of policies for money, they present the danger that increasing returns will create hegemonic tendencies. This problem might be averted by avoiding the precise type of public funding according to

6. More cynical views of the role of campaign contributions reinforce the view that microfoundations are necessary to make welfare statements. For example, if campaign money is used simply to buy votes, the particulars of the vote-buying process will be relevant. Dal Bó (2007) studies the inefficiency of vote buying and relates it to specific aspects of the purchase of votes.

7. Dal Bó, Dal Bó, and Snyder (2007) demonstrate the presence of entrenchment effects in democratic politics through the self-perpetuation of political dynasties.

8. Ortuño-Ortín and Schultz (2005).

which money tracks past vote shares. However, such a proportional system may already be in place, since the iterated model may well apply to the problem of illegal public campaign financing.

To illustrate this application, I keep the two-party model and suppose that after the election parties obtain control of government in proportion to their vote shares. That is, if a party gets 60 percent of the vote it will control 60 percent of the government machine, leaving the remainder to the other party.[9] Suppose next that parties extract rents from managing state resources in proportion to the share of government that they control, and they apply those rents to finance the party and its campaign activities. The ensuing situation would be formally similar to one in which some public funds are legally allocated to parties according to their past vote shares, but captures an illegal phenomenon that has been prevalent in some Latin American nations for decades. Party machines extract state-owned resources to fund their activities, and the larger the fraction of government "owned" by a party, the larger the amount of resources that are illegally appropriated. This combination of capture of state resources by victorious political parties and the increasing returns induced by such appropriation may explain the emergence of long-lasting hegemonic parties in Latin American politics, such as Peronism in Argentina and the Institutional Revolutionary Party (PRI) in Mexico.

The preceding comments are speculative for the following reason. The iterated model's ability to capture dynamic play is limited, in that the iteration only mechanically repeats the static game. This approach does not allow for players who are aware of the future and who can condition their play on past events. A more definitive analysis of hegemonic tendencies in electoral competition under state financing (whether legally or through plundering) must await a fully dynamic approach.

9. This is for simplicity, given that in presidential systems the winner controls a much higher percentage of state resources than the typical winner vote share.

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