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IN UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

VICTORIA JACKSON GRAY ADAMS, *et. al.*,	)	Civil Action No. 02-cv-877-KLH-CKK-RJL
Plaintiffs,	)	*consolidated with* 02-cv-582-KLH-CKK-RJL (lead case)
-vs-	)	*and* 02-cv-581-KLH-CKK-RJL 02-cv-633-KLH-CKK-RJL
THE FEDERAL ELECTION COMMISSION *et al.,*	)	02-cv-751-KLH-CKK-RJL 02-cv-753-KLH-CKK-RJL 02-cv-754-KLH-CKK-RJL 02-cv-781-KLH-CKK-RJL
Defendants.	)	02-cv-874-KLH-CKK-RJL 02-cv-875-KLH-CKK-RJL 02-cv-881-KLH-CKK-RJL

DECLARATION AND EXPERT REPORT OF
PROFESSOR THOMAS STRATMANN

I, Thomas Stratmann, hereby declare as follows:

1. I am a Professor of Economics at George Mason University. I have received a Ph. D. in Economics from the University of Maryland in 1990, and a M.A. in Economics from the University of Maryland in 1988. I have given expert testimony in a campaign finance case in Montana (Montana Right to Life Assoc. v. Eddleman, No. CV 96-165-BLG-JDS), and in Vermont (Landell v. Sorrell, 118 F. Supp. 2d 459 (D. Vt. 2000)). I receive a $175 fee per hour for working on this case. A current version of my CV is attached to the affidavit.

2. My research on campaign finance issues falls into three areas. In one research area I examine whether limits on contributions to candidates make it more difficult or less

difficult for challengers to compete with incumbents. This work examines whether contribution limits make elections more or less competitive. In another research area I examine whether contributions to legislators affect the voting behavior of legislators and, specifically, whether there is a causal link between contributions and legislators' voting behavior. In a third research area I examine whether contributors pursue solely an "electoral strategy" in allocating their contributions across legislators (i.e., do they give money solely to assist the election of legislators who support the contributors' policy views) or whether the allocation of contributions reflects a "legislative strategy" (i.e., giving money to influence legislators' votes on legislation).

Contribution limits and competitiveness of elections.

3. The subject of the causal relationship between campaign contribution limits and the outcome of elections has been debated for many years. Some argue that limiting campaign contributions amounts to "incumbent protection". This school of thought holds that contribution limits are damaging to challengers as a class because they prevent them from getting their message out and competing against an incumbent with strong name recognition. Moreover, reductions in contributions would hurt challengers overall if each dollar is marginally more important to challengers. Others contend that limits make challengers more competitive. They claim that contribution limits are helpful to challengers as a class because they reduce the amount by which incumbents can outspend challengers.

4. Studies conducted at the federal level offer little insight regarding the effects of contribution limits because these studies took place at the federal level, where federal campaign finance laws had not changed since the mid-1970s. But, there is another way to determine the effects of contribution limits on election outcomes. By turning to the states, the traditional laboratories of democracy, we can compare states that have no contribution limits to those that have them. State campaign finance laws exhibit a lot of variation across states

and over time. Since the late1970s, many states have enacted and changed their own campaign finance laws and therefore states provide a natural testing ground for theoretical campaign finance models. If contribution limits amount to "incumbent protection," then challengers should do comparatively well in states with no limits, and fare more poorly as contribution limits get lower in other states.

5. My work in "Competition Policy for Elections: Do Campaign Contribution Limits Matter?" co-authored with Francisco J. Aparicio-Castillo, looks at the states with contribution limits and without limits and empirically measures changes in competitiveness. The analysis is based on more than 30,000 elections to state lower houses in 45 states between 1980 and 2001. I measure competitiveness by examining electoral margins in winner-take-all elections, which are dominant in U.S. elections. I look at the margin of victory of the winning candidate to measure "closeness" of elections and at the percentage of races won by challengers to measure how often incumbents get re-elected. I also look at the number of candidates in each general election, which should be a good indicator of the ability and willingness of challengers to mount a campaign either for the purposes of winning or for the purposes of raising important issues that may not yet have majority support.

6. The multi-state, multi-year analysis shows that states with contribution limits have closer elections. I document that campaign contribution limits favor challengers by reducing the incumbent margin of victory.

7. The existence of a contribution limit reduced the margin of victory for open seat candidates and incumbents who were in office after the passage of the contribution limits by 7.6% for individual contribution limits, 9.4% for PAC limits, 4.1% for limits on corporations (although this percentage is not statically significant at conventional levels) 6.5% for limits on unions, and 6.9% for limits on party giving.

8. If open seat races are removed, we can look only at the effect of contribution limits on incumbents. Incumbents who are in office when campaign contribution limits are passed may not experience the full effect of those limits. Those incumbents have had years of campaigning under the old limits to build up their brand name recognition. They also have had the chance to build up large reserves of campaign funds under the old limits that they may use for future campaigns even after new limits have gone into effect. To isolate this effect, we can look only at incumbents who take office after a change in campaign finance law has gone into effect. Examining races that involve incumbents only, I find that individual limits reduce the margin of victory for post-limit incumbents by 6% while it reduces the margin of victory for pre-limit incumbents by 3.1%. We find similar effects for PACs, corporations, unions and parties.

9. The findings show that all forms of contribution limits have a negative impact on incumbents' margin of victory, although they have a lesser impact on incumbents who are already in office when the law takes effect. Regression results also indicate that the presence of contribution limits results in a 0.1 (or 5%) increase in the number of candidates (in races with post-limit incumbents), taking the average from 1.8 to 1.9 candidates in a race.

10. The data further indicate that the lower the contribution limit. the greater the increase in competitiveness overall. When examining races with incumbents the results show that lowering a contribution limit by $1,000 when controlling for factors such as term limits and election day registration, time invariant state characteristics and factors that influence election outcomes nationwide, reduces the margin of victory for incumbents by 5.4 percent. When this is further controlled to account for the number of candidates in the race, then a $1,000 decrease in contribution limits yields a 3% decrease in incumbent margin of victory. When all races are included, not just incumbents, a $1,000 decrease in contribution limits

results in a 1.5% to 2.6% reduction in the margin of victory, so lowering a limit appears to have a slightly larger impact on incumbents than open seat candidates.

11. Given that incumbents on average win elections with 78% of the vote, the decrease in vote margins from contribution limits is not large enough to cause most incumbents to lose. When the estimate on incumbent vote loss is applied to the actual margins of victory by incumbents, I find that approximately 4% of successful incumbents would have lost had the contribution limits in their races been lowered by $2,000. The presence of individual contribution limits result in a 1.1% reduction in likelihood of incumbent victories, and when limits are placed on all sources of contributions, (individuals, PACs, corporations, unions, and parties) the likelihood of incumbent victory reduces by 2.1%.

12. The data show that contribution limits make races closer, reduce the incumbency advantage, and lead to more candidates in elections. The data do not lend support to the hypothesis that contribution limits protect incumbents. Quite to the contrary, lower contribution limits help challengers, make them more competitive, and increase the likelihood they emerge as winners in electoral races. Therefore, the new higher limits on hard-money contributions in the federal Bipartisan Campaign Reform Act are likely to benefit incumbents at the expense of challengers.

Campaign contributions and the voting behavior of legislators.

13. Whether campaign contributions induce a legislator to favor the interests of the contributor has been a long-standing research questions. In particular, the question is whether contributions to legislators affect the voting behavior of legislators and whether there is a causal link between contributions and legislators' voting behavior.

14. In my 1991 and 1995 articles (*Southern Economic Journal* 1991, *Review of Economics and Statistics*, 1995) I analyze roll call votes on subsidies to the agricultural

sector and to examine whether campaign contributions from agriculture caused legislators to vote in agricultural interests. I examine roll call votes on amendments to the 1981 and 1985 Farm Bill as well as votes on agricultural appropriations and emergency funding. The outcome of these votes was important to the agricultural sector, as these votes provided funding, subsidies, and favorable regulations for particular agricultural sectors. The benefits associated with these votes were concentrated among the agricultural sector, while the costs were distributed throughout the electorate.

15. Between two articles I analyze a total of fifteen roll call votes in the U.S. House of Representatives in 1981 and 1985. All votes are on agricultural issues such changes in the level of subsidies for dairy, peanuts, sugar, tobacco, and wheat, while others were votes on emergency funding for agriculture, appropriation bills for agriculture, and the final vote on the agricultural bill. Some of these votes proposed increasing government farm subsidies, others proposed decreasing farm subsidies.

16. Any research examining the effects of campaign contributions on voting behavior, and wanting to establish a causal effect going from contributions to voting behavior, has to recognize that contributors may give to their friends, and thus that a vote favoring a contributor may not indicate that the vote has been 'bought'. I address this issue by using a well accepted statistical technique, called two-stage least squares, that allows the researcher to tease out the causal effect going from campaign contributions received to voting behavior, if such an effect is in the data.

17. In my regression analysis I examine whether contributions from the dairy industry influence votes on dairy issues, and proceed with an equally detailed analysis for votes on tobacco, wheat, sugar, and peanut issues. For analyzing the Farm bill and

emergency finding I examine whether contributions from the entire agricultural sector cause legislators to vote in agricultural interests.

18. My research shows that campaign contributions are effective in altering politicians' voting behavior. I find that in most of these votes, campaign contributions increase the probability that a legislator is voting in contributors' interests. My 1991 and 1995 articles document that contributions from agricultural Political Action Committees (PACs) increased the probability that legislators would vote in favor of PAC interests. Not only are contributions in the current election cycle important for influencing the voting behavior of politicians, but contributions in the period prior to the roll call votes are also important. For example, dairy contributions in 1983/84 electoral cycle and contributions received early in 1985 influence a dairy vote late in 1985.

19. An alternative measure to assess the impact of campaign contributions is to examine whether the outcome of the congressional roll call vote would have changed if congressmen had received no campaign contributions. I examine this in my 1991 article and find that in two out of the ten votes examined, agricultural interests would have lost the vote if campaign contributions were prohibited. For example, an amendment to increase sugar subsidies passed by a vote of 267-146. I estimate that without campaign contributions this amendment would have been defeated 203-210. These numbers indicate that campaign contributions are quite effective in changing legislators' voting behavior.

20. In my most recent work on this topic I have conducted a detailed study examining changes in voting behavior in financial services legislation. This paper is forthcoming in the October 2002 issue of the *Journal of Law and Economics*. I examine two votes in the U.S. House of Representatives on the repeal of the Glass Steagall Act. One vote took place in 1991 and the other vote took place in 1998. No roll call vote on the repeal of

the Glass Steagall Act took place between these two dates. Banking interests favored the repeal of the Glass Steagall Act, while insurance and securities interests opposed it.

21. Some legislators sided with banking interests in 1991 and switched sides in 1998 by voting for insurance and securities interests. Other legislators switched from voting for insurance and securities interests in 1991 to banking interests in 1998. In this study I analyze why legislators changed their position between 1991 and 1998. I find that changes in the flow of financial services campaign contributions can explain much of the change in voting behavior. Moreover, the article documents that junior legislators' voting behavior is particularly susceptible to being influenced by campaign contributions. In particular, this study examines whether changes in contribution flows can explain why legislators switched sides. I find that legislators switched their voting behavior from insurance/securities to banking interests when they received larger banking contributions in the late 1990s than in the early 1990s.

22. This is the first study of its kind that examines whether changes in contributions over time lead to changes in legislators' voting. I find that changes in contributions lead to changes in voting and I believe that this is a causal effect. One could argue that some legislators changed their position from favoring banking interests to favoring insurance interests and that this was the reason that they received more contributions. However, though this is possible, I believe that it is unlikely. Financial services legislation is not a salient issue in legislators home district, giving them little opportunity to stake out a public position. One of the few opportunities to stake out a position is to vote on this issue, and there were no roll call votes between 1991 and 1998, which would have allowed them to take a position favoring one interest over another. Moreover, there is not evidence of substantial changes in the desire of the home constituency with respect to the repeal of the Glass Steagall Act,

which could have caused a legislator to shift position. Thus I am confident that this paper estimates a causal effect of money on votes.

What contributors do: assist the election of legislators who support the contributors' policy views or give money to influence legislators' votes on legislation?

23. Another important question in campaign finance is whether contributors pursue solely an "electoral strategy" in allocating their contributions across legislators (i.e., do they give money solely to assist the election of legislators who support the contributors' policy views) or whether the allocation of contributions reflects a "legislative strategy" (i.e., giving money to influence legislators' votes on legislation)?

24. My research findings published in the *Journal of Political Economy* 1992, the *Journal of Law and Economics* 1996, and the *Journal of Law and Economics* 1998 shows that PACs allocate contributions across legislators in ways that are consistent with the objective of influencing legislators' votes on legislation.

25. In the *Journal of Political Economy* article I raise the question of how PACs would behave if their objective were to influence legislators' voting decisions. I argue that the rational allocation of funds implies that PACs do not contribute to those legislators who will vote in their favor regardless of whether or not they receive contributions, but rather contribute to legislators who are likely to be opposed to their interests. The more a legislator is opposed to PAC interests, the more the PAC is going to have to contribute to swing his or her voting decision. Moreover, given that Congress uses simple majority rule to decide on issues such as, for example, tariffs, subsidies, and price supports, PACs have an incentive to give contributions in order to secure a majority, not unanimity. Therefore, if PACs could rank legislators in terms of how likely they are to oppose PACs' interest, most contributions would have to be given to the median legislator, i.e., the legislator with the median level of

opposition to the PACs' interests. Legislators with declining opposition would receive fewer contributions, in line with their level of opposition.

26. To test whether contributors give less to legislators who are compelled to vote in PAC interests because of constituency interests, it is important to identify a sector in the economy in which voters in some constituencies have the same interest as the PAC. I identified the farm sector, which has a voting constituency in most congressional districts, as well as PACs that work for farm interests. Identifying the number of potential farm interest supporters in a legislative district allows the ranking of legislators in terms of their likelihood of supporting PAC interests: the smaller the farm constituency size the less likely the legislator will support farm PAC interests, and thus the larger the necessary contribution required to change his or her voting behavior, keeping in mind that legislators with more than the median amount of opposition do not need to receive any contributions.

27. My empirical findings show that the pattern of giving by agricultural PACs follows the line of reasoning I outlined. Legislators with virtually no farm constituency, such as Representatives from New York City and Los Angeles, receive little or no farm contributions. Most contributions are received by legislators with a median farm constituency (for example, legislators from Maryland), and, the larger the farm constituency beyond the median (legislators from Montana, and the Dakotas), the lower the amount contributed by farm PACs.

28. In my 1996 *Journal of Law and Economics* article I analyze the contribution pattern of labor PACs and corporate PACs. I hypothesize that if PACs were contributing primarily to assist the election of legislators who support the contributors' policy views, labor PACs would contribute more money to liberal Democrats than to conservative Democrats and corporations would contribute more to conservative Republicans than to liberal Republicans. If these PACs would try to influence legislators' votes (using similar logic as in

my *Journal of Political Economy* article) then labor PACs would concentrate their contributions on conservative Democrats. Similarly corporate PACs would concentrate their contributions liberal Republicans. Using regression analysis, and controlling for a variety of factors, including the closeness of the electoral race, I documented that labor PACs contribute more to conservative Democrats than they do to liberal Democrats, and that corporate PACs give more to liberal Republicans than they do to conservative Republicans. The findings show that PACs contribute less to legislators who will vote clearly in their favor than to legislators who are undecided or potentially opposed to their interests.

29. The 1998 *Journal of Law and Economics* article argues that if the contribution-for-vote exchange occurs, in part, at the time the legislation is voted on, then one can expect that contributions flow around the time of the House roll call votes. Focusing on farm legislation, this article documents that there is a significant increase in contributions at the time that congressional votes are taken.

30. To a legislator, a one dollar campaign contribution from PACs is as valuable as a one dollar campaign contribution from individuals. Both contributions will be equally valuable in his or her reelection campaign. Therefore, on a dollar for dollar basis one expects contributions from individuals to have a very similar effect on legislators' votes as contributions from PACs. Although contribution limits are lower for individuals than for PACs, individuals can bundle contributions, which will allow them to exert a stronger influence on legislators' decisions. There is no reason to believe that PAC monies exert different influence on legislative behavior than do monies from individuals. Thus, the conclusions that I have reached regarding PAC behavior can be extended to contributions from individuals.

I declare under penalty of perjury pursuant to 28 U.S.C. § 1746 that the foregoing is true and correct to the best of my knowledge, information and belief.

This 19th day of September, 2002.

Thomas Stratmann