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THE EFFECT OF THE COMPETITIVE BALANCE ON CONGRESSIONAL INCUMBENTS' FINANCIAL PATTERNS

DISSERTATION

Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Philosophy in the Graduate School of The Ohio State University

By

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ABSTRACT

My purpose is to investigate the fundraising behavior of incumbents as it relates to the accumulation of cash-on-hand. I ask whether cash-on-hand and fundraising are analytically distinct or similar in terms of their electoral purposes, and using data from the 1992-2000 election cycles find that incumbents' fundraising efforts signal electoral vulnerability—and incumbents' seldom invest in fundraising in order to enhance an already generous war chest. I suggest, therefore, that the accumulation of a war chest generally does not result from a strategic choice by incumbents to engage in aggressive fundraising, but rather an unintended consequence over time of representing an inherently safe district and having to spend little on re-election.

I propose that both safe seats, and campaign finance, measured through cash-on-hand and fundraising, are possibly explained by district level demographics. Incumbents in competitive districts, districts in which both the Democratic and Republican parties have a near equal number of supporters, should expect to face consistently close elections leaving little left in cash-on-hand. Conversely, Incumbents in noncompetitive districts, districts in which one party dominates the other in terms of membership, should expect easy re-election over time and accumulate a large amount of cash-on-hand.
I find that cash-on-hand and receipts are generated under different election circumstances. The two types of money, therefore, provide different information about incumbents and should be included separately in campaign finance models. I also find that the war chest hypothesis cannot explain why some candidates have safe seats and others experience close races. I find that cash-on-hand is accumulated after incumbents establish safe seats.

Finally, I find that receipts are a function of the competitiveness of a district and large cash reserves are a residual of easy reelection and are accumulated by incumbents who raise more money than they needed, not by design. Incumbents from competitive districts hold an advantage over incumbents from noncompetitive districts not by strategic design but by living in a district in which the incumbents' party demographically dominates the electorate. The competitiveness of elections is therefore beyond incumbents' control as it is a function of district demographics, not campaign finance.
To Brandi and Madison
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CHAPTER 1

INTRODUCTION

There is a voluminous literature on the role of money in congressional elections but there is little consensus on how money affects election characteristics.\(^1\) It is unclear, for instance, why incumbents raise, spend, or save money, or how money affects election characteristics like challenger entry, challenger quality, or election outcomes. The literature recognizes that money is important in elections but because of endogeneity it is difficult to investigate (Jacobson 1991). While there are many important questions regarding how money affects election characteristics, the literature is rife with conflicting approaches and conclusions with very little consensus.

Goldenberg, Traugott, and Baumgartner's "war chest" hypothesis exemplifies this lack of consensus (1986). The war chest hypothesis maintains that incumbents can deter challengers by relying upon large amounts of cash-on-hand to overcome any advantage a challenger may have by substantially outspending the challenger, even before the incumbent begins raising new funds. Previous studies of congressional elections established that the participation of high quality challengers is vitally important in

\(^1\) This material is based upon work supported by the National Science Foundation under Grant No. SES0096801.
determining election outcomes (Jacobson 1980; Hinckley 1980a; 1980b; Mann and Wolfinger 1980). Unfortunately, from the standpoint of incumbents, many of the factors affecting the entry of high quality challengers are out of their direct control. Jacobson and Kernell (1983), for example, showed that national economic and political tides are among the most important determinants of when high quality challengers decided to run; and Bond, Covington, and Fleischer (1985) found that district partisanship and ideology are significant determinants of the emergence of high quality challengers.

It is significant, therefore, that some congressional scholars have encountered evidence that incumbents’ financial war chests—typically, their amount of cash-on-hand at the beginning of the election cycle—affects potential candidates’ decisions about whether to challenge the incumbent (e.g., Goldenberg, Traugott, and Baumgartner 1986). The war chest findings have broad implications for the competitiveness of congressional elections, for as incumbents raise more and spend less—an optimal strategy for those seeking electoral security—high quality challengers should become more scarce.

Several authors responded to Goldenberg, Traugott, and Baumgartner’s hypothesis with conflicting approaches and results. Some scholars found evidence that war chests deter challengers (Box-Steffensmeier 1996; Epstein and Zemsky 1995; Hersh and McDougall 1994). Others found no such evidence (Goodliffe 2001; Krasno and Green 1988; Squire 1989, 1991) but maintained that incumbents could deter challengers in other ways (Goodliffe 2001).

In this dissertation I question the perspective that incumbents’ affect election characteristics through the manipulation of fundraising and saving patterns. I propose
that both cash-on-hand and receipts, as well as most other election characteristics, are a function of district level characteristics beyond the control of incumbents. As such, I argue that the health of congressional elections lies not in campaign finance but in the electorate.

**Money in Congressional Elections**

In this dissertation I will try to provide a clearer understanding of how money affects congressional elections by offering a theory of competitive balance. My thesis is that candidates' cash-on-hand and fundraising are strategic responses to their competitive situations as determined by district demographics and partisan composition. Thus, fundraising and cash-on-hand are not determinants of candidates’ electoral fortunes, but rather, they are manifestations of the basic competitive structure of their districts, a factor largely out of their control.

Before continuing with my theory, I must define the key financial terms in this discussion. Candidates rely on three activities when financing their congressional campaigns: raising, spending, and saving money. These three activities are observed through receipts, expenditures, and cash-on-hand. In this dissertation I will define these three types of money according to the definitions used by the Federal Election Commission (FEC). The FEC defines receipts as total aggregated money collected by a candidate at any time during the contemporary election cycle. Expenditures are total aggregated money spent by a candidate at any time during the election cycle.
Finally, cash-on-hand is all money in any account held by a candidate on the first day of the election cycle. Cash-on-hand therefore represents all money accumulated but not spent during previous election cycles.

Continuing with my theory, I suggest that incumbents who have large amounts of cash-on-hand are less likely to engage in additional fundraising than incumbents without large initial reserves, and that incumbents who invest heavily in new fundraising tend to face stronger challengers than incumbents who engage in little fundraising. The reason, I believe, is that candidates accumulate large amounts of cash-on-hand because their previous electoral race was an easy one in which they did not spend down their reserves. I propose, moreover, that the reason candidates face weak challengers is not because they have large cash reserves, but because they represent inherently noncompetitive districts.

I propose that congressional candidates live in two distinct worlds: the competitive district, and the noncompetitive district. Incumbents and challengers alike have a good chance to win in a competitive district, due to a near equal distribution of Democratic and Republican voters in the electorate. Alternatively, incumbents in noncompetitive districts nearly always win because the incumbents’ party demographically dominates the electorate. The challenger’s party, therefore, cannot provide the necessary support for a challenger to win.

In a competitive district, both major parties have enough support to win a congressional election and more high quality challengers should therefore emerge than in
noncompetitive districts. Not only should more high quality challengers enter, but they should enter sooner in the election cycle to save as much time as possible for campaigning.

The competitive balance should affect other election characteristics as well. If incumbents from competitive districts are more likely to face high quality challengers, they should be likely to need more money to run a successful campaign. If incumbents and challengers spend more money in competitive districts, we can expect that both candidates will have spent most, if not all, campaign funds during the campaign and should not have much money left over in the form of cash-on-hand for use in subsequent elections. If an incumbent’s cash reserves are to accrue over time, therefore, it is probably not by strategic design, but rather through the good fortune of serving districts that are largely one-party by nature.

In noncompetitive districts, we should observe very different circumstances. First, we should expect to observe weaker challengers who enter the campaign later in the election cycle. In a noncompetitive district, the challenger’s party does not have enough support in the electorate to sustain a successful challenge, so we can expect that high quality challengers will not run. Over time, incumbents in noncompetitive districts should accumulate a substantial amount of unspent funds in the form of cash-on-hand from previous campaigns, as these incumbents consistently face weak competition and enjoy overwhelming support in the electorate.

This theory holds broad implications for the competitiveness of elections, the ability of challengers to challenge incumbents successfully, and the inability of
incumbents to control whether a strong challenger will enter, or whether a challenger who enters will find electoral success. This theoretical perspective stands in stark contrast to the prevailing explanations of how money affects congressional elections. The most important implication of this theory is, in contradiction to the war chest hypothesis, that an incumbent's ability to maintain a safe seat is largely beyond his or her direct control, much like national economic and political tides. Whether an incumbent will hold a safe or marginal seat is largely a function of the demographics of the district in which the incumbent lives. Challenger quality and entry, which are directly linked with incumbent success or failure, are also beyond the incumbents' control.

My competitive balance theory provides a very different perspective on congressional elections and incumbent behavior than the literature. Under this perspective, important election characteristics like challenger entry and quality; raising, spending, and saving money; and election outcomes are all a function of the competitive balance within congressional districts. District level partisanship and demographics govern election outcomes and candidate behavior, not incumbents' fundraising or saving patterns.

To test this theory, I compiled a panel of 360 incumbents who ran for reelection in the 1996 general election. I selected 1995-96 election cycle because this election was preceded and followed by two elections. Selecting these five election cycles also allows me collect data on each incumbent's district after the 1990 census and redistricting. I excluded 22 incumbents because they ran for reelection in Louisiana under an open primary system, faced a runoff election in Texas, or ran as an independent.
Other work on fundraising behavior has limited the analysis to open seat candidates (Mebane and Wand 1999), or to incumbents with a general election opponent (Himmleberg and Wawro 1998). Since my objective is to analyze incumbents’ financial patterns, I included only incumbents who ran for reelection in 1996, therefore excluding open-seat candidates. I chose to include incumbents without an opponent because unopposed incumbents are not an anomaly. In each election, a significant number of incumbents run unopposed, and it is just as important to understand their financial patterns as incumbents who face opponents. In fact, it may be even more important to understand the financial behavior of unopposed incumbents because it is possible that these incumbents are able to deter challengers with their financial patterns.

Outline of Dissertation

In the next chapter I begin by examining the literature on money in congressional elections. This examination is intended to highlight the lack of consensus in the literature on the role of money in congressional elections including the sub-literatures on receipts, cash-on-hand, and expenditures. After reviewing the extant literature, I present my theory of competitive balance in chapter 3. I develop the theory by investigating the relationship between receipts and cash-on-hand and seat safety. I find that receipts and cash-on-hand are accumulated under different election circumstances and hence a new perspective is necessary to explain the relationship between receipts and cash-on-hand.

In chapter 4, I present a preliminary analysis of the relationship between receipts and cash-on-hand. I first test whether incumbents accumulate a large amount of cash-on-hand before or after winning a safe seat. I then proceed to analyze incumbents’ receipts
and cash-on-hand with two typologies of incumbent behavior. I find that, as predicted in my theory, and contrary to the war chest hypothesis, incumbents acquire a safe seat before accumulating a large amount of cash-on-hand. The two typologies lend further evidence that incumbents are not collecting money for the purposes of building a war chest.

In chapter 5, I create a measure of the competitive balance in congressional districts. After reviewing potential measures in the literature, I decide to use average presidential vote shares within a district to measure the competitive balance. This measure is the best of any in the literature. I then use the measure in chapter 6 to test the relationship between receipts and cash-on-hand using two analyses. First, I test the relationship by comparing mean receipts and cash-on-hand across competitive and noncompetitive districts. Second, I test the relationship using a two stage least squares regression. Taken together, the results of these analyses suggest that cash-on-hand is a function of short term election characteristics. Cash-on-hand appears to be a residual effect of raising more money than needed in a campaign. Receipts appear to be a function of long term expectations of competition in the district.
Candidates rely on three activities when financing their congressional campaigns: raising, spending, and saving money. Although these three activities may seem clear, the literature on money in elections is a murky pool of disagreement and contradiction when explaining why candidates would engage in any or all of these activities or how each is related to other election characteristics. With a simple question like how expenditures affect vote outcomes, one faces a labyrinth of contradictory models and findings. Every seemingly-intuitive model specification, or conclusive finding, is appropriately questioned in subsequent work. We know relatively little about money in elections because there is very little consensus or consistency in the approaches or conclusions in the literature. The disagreement and contradiction are evidence that we as a discipline know little about important questions like how expenditures affect vote outcomes, how cash-on-hand affects challenger entry, and why some incumbents raise and spend millions of dollars and others raise and spend nearly nothing, to name a few. In part, the
contradiction in the literature is a function of a lack of a central theory tying each of the types of money together with election characteristics.

In this chapter, I will outline three bodies of research on money in congressional elections. The literature on the role of expenditures, receipts, and cash-on-hand in congressional elections lacks consensus in its approaches and conclusions. I will attempt to outline the disagreements in each area for the purpose of showing that more work needs to be done in each area. In the next chapter I will provide a theoretical framework that may help unite each literature by explaining why scholars observe what seem to be conflicting results. In the following analysis I will address only a small part of this literature. While I will only address cash-on-hand and receipts in my analysis, it is important to realize that there are widespread and very similar problems that affect each area of the money in congressional elections literature. Because many of the same difficulties apply across different questions within the literature, it is important to solve the problems. In the next section I begin by outlining the literature on expenditures in congressional elections.

**Expenditures in Congressional Elections**

The first body of literature analyzes candidates' expenditure patterns. The highest profile question in the expenditure literature is about the relationship between expenditures and vote outcomes. Much of this literature focuses on issues of simultaneity bias in estimating the relationship between expenditures and vote outcomes. This debate has grown a literature rife with conflict and controversy.
One of the seminal results is that challenger spending is far more important than incumbent spending in determining electoral outcomes (Jacobson 1978; 1980; 1983; 1990). Jacobson observed that incumbents spend money reactively over the course of a campaign. That is, incumbents only spend money when they face a strong challenger; and as a result, their expenditures signal a very close race and do not produce larger electoral margins. Jacobson found that only challengers' expenditures were effective in producing votes; and incumbent spending did not offset the challenger behavior that inspired the increased spending. These results were subsequently confirmed by Kenny and McBurnett (1992) in a dynamic model of House campaigns and by Abramowitz (1988) using Senate data. Similar results were also reported by Glantz, Abramowitz, and Burkhart (1976).

Jacobson's results include two of the few consensual results in the literature on expenses. First, incumbents spend more money when challenged and less money in easy campaigns. Second, when challengers spend more money, they tend to garner more of the vote. These two findings are universally accepted within the literature, but they are two small points of consensus.

Much of the debate has been over the presence of simultaneity bias in Jacobson's vote outcome model. The simultaneity bias occurs because there is correlation between candidates' expenditures and the error term in the vote outcome model (Ansolabehere and Gerber 1994; Erickson and Palfrey 1998; 1998; Green and Krasno 1988; 1990; Jacobson 1990). In an OLS regression, the simultaneity causes the estimated impact of
incumbent spending to decrease and the impact of challenger spending to increase (Jacobson 1990). This bias led some to suspect that incumbent spending had more of an impact on the vote than Jacobson observed.

Green and Krasno argued that Jacobson's model was biased because expenditures were endogenous to his model. To correct the bias, they employed a two stage least squares regression using lagged expenditures as an instrument to identify the model (1988). Green and Krasno observed that incumbents' expenditures have as much of an effect on vote outcomes as challengers' expenditures, and they concluded that incumbents could spend their way out of defeat by spending until they had a sufficient advantage in the vote margin.

Jacobson (1990) identified several problems with Green and Krasno's solution to the simultaneity problem. First, he argued that Green and Krasno's instrument was highly correlated with the other variables in the two-stage model and was therefore not exogenous to the model. Although Green and Krasno were trying to deal with simultaneity, they may have created inadvertently additional simultaneity with their instrument. Erikson and Palfrey (1998) echoed this concern: there are no good instruments for the endogenous variables of incumbent and challenger expenditures because there are no variables that explain expenditures without explaining vote outcomes.

Bartels (1991) contends that it is cumbersome to find instrumental variables uncorrelated with the error term in the second stage, but if the variables in question are only mildly correlated, the instrument is worth using. Gerber (1998) contradicts
Jacobson's (1990) and Erikson and Palfrey's (1998) assessment of instrumental variables in a vote outcome model: he claims to have found three instrumental variables highly correlated with incumbent spending but not election outcomes. Gerber used the three instrumental variables in a two stage least squares analysis of expenditures in Senate elections: measures of candidates' personal wealth, state voting age population, and lagged spending. Gerber concluded that incumbent and challenger expenditures have an equal impact on vote outcomes. But, since incumbents spend more money, incumbents hold the advantage.

Second, Jacobson (1990) claimed that Green and Krasno's (1988) findings did not account for incumbents' diminishing marginal returns and therefore incumbents could conceivably collect more than 100 percent of the vote. In theory, if expenditures affect vote outcomes, the first dollar should have the biggest impact and each additional dollar spent should have less marginal return (Abramowitz 1988; Jacobson 1990; Kenny and McBurnett 1994).

Finally, Jacobson (1990) found that Green and Krasno's (1988) results were not observed in subsequent elections. Thus, simultaneity is unsolved and might be insurmountable using aggregate data. He suggested that, by analyzing the relationship between spending and the intended vote during the campaign in an individual level analysis, one might be able to discern whether spending influences intended vote support. With this method, Jacobson confirmed his original finding that challenger spending is far more important than incumbent spending in determining vote outcomes (1990).
In addition to answering Jacobson's critique, Green and Krasno (1990) offered two critiques of Jacobson's (1990) findings. First, they argued that Jacobson's conclusion that challenger quality had little or no impact on the vote outcome was due to Jacobson's use of a dichotomous challenger quality variable indicating whether the challenger held previously elected office. Using an additive index of challenger quality revealed that challenger quality is an important factor in how many votes a challenger attracts. Second, Green and Krasno criticized Jacobson's reliance on an individual level analysis in his 1990 piece, after relying on aggregate level data in his earlier work. Green and Krasno argued that Jacobson's new analysis suffered from the same simultaneity bias he was trying to avoid—incumbents, sensing their support in the polls slipping away, would spend more money to help sustain electoral support. The expenditures, therefore, were endogenous to the expected vote.

Jacobson (1990) was not the first or last to use individual level analyses when investigating expenditures. Although it has been most fashionable to address expenditures and vote outcomes with aggregate data, there have been many attempts to estimate the effect of expenditures on the individual level vote and voter mobilization (Caldeira and Patterson 1982; Cox and Munger 1989; Dawson and Zinser 1976; Jackson 1993; Kenny and McBurnett 1992, 1994; Patterson and Caldeira 1983; Settle and Abrams 1976). These studies all concluded that expenditures affect the individual level vote, or voter turnout, directly or indirectly.

Jacobson's criticisms of Green and Krasno's two stage model aside, multi-stage models are prominent in the literature. Goidel and Gross (1994) used a three stage model
determining challenger quality, candidate expenditures, and electoral outcomes. They concluded that incumbent expenditures have a significant impact on vote outcomes. Goidel and Gross also concluded that the marginal return for incumbents varied with seniority. While more senior incumbents had low marginal return on spending, first term incumbents' marginal return rivaled that of challengers.

Kenny and McBurnett (1994) used a multiequation model to estimate the effect of expenditures on individual vote choices, and the effect of expenditures on voters with varying levels of education, political interest, and partisanship. They found that incumbent expenditures are important because their expenditures can decrease a challenger's vote total. Kenny and McBurnett also found that incumbent spending has more of an effect on voters who did not graduate from college, have less interest in politics, and are less partisan. Finally, Erikson and Palfrey (1998) also used a two stage least squares model and found that not only is incumbent spending important in the election in which it occurs, but it has an effect in future elections.

Another criticism of Jacobson's conclusion that incumbents' expenditures were far less important than challengers' expenditures in determining the vote outcomes was that his model was not theoretically driven and was therefore open to misspecification bias in addition to the simultaneity bias (Thomas 1989). Thomas (1989) provided a theoretical framework for the relationship between expenditures and vote outcome and then tested the theory empirically. Thomas found that incumbents' expenditures increase the incumbents' vote share. The principle effect of incumbent expenditures is to win back support lost to challengers and the only time incumbent spending does not increase

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the incumbent's vote share is when the challenger spends little or no money. When a challenger spends no money he or she is not likely to win much support and the incumbent is therefore unable win back vote share he or she never lost.

Scholars have also approached the question by examining disaggregated expenditures. Ansolabehere and Gerber (1994) tested the effect of expenditures on vote outcomes using disaggregated expenses. They divided campaign expenditures into money spent on the campaign directly, and money spent on what the authors referred to as "frivolity" such as cars or monetary transfers to other candidates. Using the total money actually spent on the campaign, they found that incumbents' campaign expenditures have an effect three times the size of Jacobson's results. Ansolabehere and Gerber noted that other studies used total expenditures, which is biased because total expenditures, and expenditures for actual campaigning, are not correlated.

Epstein and Zemsky (1995) suggested that incumbent spending ought to be disaggregated even further into stages in which incumbents' goals and strategies might be different: early campaign fundraising plays a different role in an election than later fundraising. The same may be true for expenditures.

Box-Steppensmeier and Lin (1995) modeled such a dynamic process using temporally disaggregated incumbent expenditures and found that the effect of incumbent spending on election outcomes varies across periods in the election cycle. They found that incumbent expenditures have the biggest impact on election outcomes early in the campaign, with no effect in the middle of the campaign, and a small positive effect in the final stage of the campaign.
Each of these studies used different model specifications to arrive at different conclusions. The contradictory nature of work on expenditures and vote outcome is indicative of the literature on money in congressional elections. Work on the relationship between expenditures and vote share is inconclusive because no one has been able to solve the simultaneity problem (Jacobson 1990).

**Receipts in Congressional Elections**

Despite the literature on the electoral effects of candidates’ expenditures, scholars have only recently begun to address questions about challengers’ and incumbents’ fundraising patterns. The central underlying consensus of the literature on receipts is that incumbents can raise as much money as they need in any given election and challengers raise money in proportion to their chance of winning (Biersack, Herrnson, and Wilcox 1993; Goodliffe 2001; Heresh and McDougall 1994; Herrnson 2000; Jacobson 2001; Krasno, Green, and Cowden (1994); Souraff 1988, 1992). Beyond these two conclusions, there is not much work on why some incumbents raise more money and others raise less. Much of the work is a byproduct of research on the decision-making process PACs use in making contributions, the war chest literature, and the challenger entry literature.

One question that has generated a great deal of attention is the dynamic interplay between incumbents and challengers during an election cycle. Although there are a number of analyses of the dynamic relationship between incumbents’ and challengers’ fundraising behavior in the literature, the literature provides little consensus as to how incumbent and challenger fundraising efforts interact during a campaign. Some authors
maintain that candidates affect each other’s fundraising efforts (Himmleberg and Wawro 1998; Krasno, Green, and Cowden 1994; Mebane and Wand 1999); others maintain that they do not (Ragsdale and Cook 1987). Among those that found evidence of interaction, each disagrees on what level or type of interaction is taking place. Statistical evidence of a significant interaction between candidates varies with whether the analysis is based on open seat candidates, incumbents, or challengers; whether the source of funding is PACs or individuals; and how scholars operationalize the dynamics of fundraising—that is, the various phases of the campaign that are isolated for analysis.

Ragsdale and Cook (1987) analyzed three ways in which one candidate’s resources might interfere with the other candidate’s campaign efforts. First, they investigated the effect of incumbent activities such as trips home to the district on challenger spending and PAC contributions. Second, they examined reciprocal effects between incumbents’ activities and challengers’ receipts. In the final analysis, Ragsdale and Cook tested whether incumbents’ expenditures and PAC contributions were a function of the incumbents’ activities such as trips home to the district.

Ragsdale and Cook found that challengers and incumbents act relatively independent of one another. In other words, incumbents and challengers collect and spend money at rates unaffected by other candidates’ actions. Ragsdale and Cook concluded that candidates base current actions on previous efforts in office and prior electoral outcomes rather than opponents’ activities. Although incumbents make their
fundraising and spending decisions based mostly on past financial behavior, and only in part based on the challengers’ strength, legislative resources like trips home to the district are unaffected by the challengers’ strength.

Ragsdale and Cook’s (1987) central conclusion was that candidates do not interact during a campaign. Three subsequent articles challenge that conclusion, but each suffers from research design flaws. Contrary to Ragsdale and Cook (1987), the central conclusion in Krasno, Green, and Cowden (1994) was that although incumbents are able to respond to a challenger’s financial gains by increasing fundraising efforts, especially late in a campaign, challengers’ receipts are not determined in any way by incumbents’ fundraising receipts. They also found that late in a campaign, challengers’ receipts are a product of their ability to attract contributions early in the campaign (see also Biersack, Herrnson, and Wilcox 1993). Krasno, Green, and Cowden concluded that their results imply that incumbents cannot impede or enhance their opponents’ fundraising efforts. Challengers are solely responsible for their own financial success or failure.

Examining PAC contributions, Himmleberg and Wawro (1998) concluded that incumbents do not respond to increases in challengers’ fundraising, but challengers can negatively affect incumbents’ fundraising abilities. Mebane and Wand (1999), examining only open seat candidates, found that lagged contributions to party A’s candidate increase candidate A’s contemporary contribution total, but has an oscillating effect on candidate B’s contemporary fundraising efforts. In other words, candidate B’s subsequent contributions increase and decrease in alternating weeks.
All three articles on fundraising (Krasno, Green, and Cowden, 1994; Himmleberg and Wawro, 1998; and Mebane and Wand, 1999) involve research design flaws that lead to questions about the validity of their results. Problems include incorrect or questionable time periods for the analyses, failure to use all sources of campaign contributions, the use of ad hoc lag lengths, and the exclusion of important candidates from the analysis. Taken together, these problems suggest that more work is needed to answer the question of how candidates' fundraising efforts interact during a campaign.

The correct selection of time intervals during the campaign is crucial for uncovering the dynamic effects of challenger and incumbent fundraising. Krasno, Green, and Cowden used only the final totals for each of the eight FEC reporting periods as data points in their analysis. They used the total amounts raised at the end of each reporting period and divided the amount by the number of days in the period to create an average daily total for each period. Using only the FEC reporting dates to assess fundraising totals is inappropriate because most challengers do not enter a race until January or later in the second year of an election cycle. Since two of the eight reporting periods fall in the first year of the cycle, and two fall after the general election, Krasno, Green, and Cowden effectively have only four reporting periods when most challengers were actually in the race, two of which cover a combined total of only 24 days.

Mebane and Wand (1999) used weekly periods over the second year in the election cycle, while Himmleberg and Wawro (1998) used monthly periods over the entire election cycle. These approaches are an improvement over Krasno, Green, and Cowden because they expand the number of data points and create more precise
estimates. However, the most precise estimation of fundraising interactions would include daily fundraising totals. Only with daily fundraising totals can one be sure that all temporal effects enter into the analysis.

A second problem in the literature is that although Krasno, Green, and Cowden included all of the sources of funds in their analysis, Mebane and Wand used only PAC contributions and individual contributions over $500, and Himmelberg and Wawro used only PAC contributions. Mebane and Wand and Himmelberg and Wawro are not appropriately measuring fundraising, because PAC contributions make up a maximum of forty percent of campaign contributions, and individual contributions over $500 make up only half of individual contributions. This means that Himmelberg and Wawro were only examining a maximum of thirty percent of the candidate’s fundraising efforts, and Mebane and Wand missed twenty-five percent. Mebane and Wand exacerbated their problem by examining at count data, for which smaller contributions far outweigh larger contributions.

Krasno, Green, and Cowden’s one advantage over the other authors—using all three sources of contributions—is negated by their use of daily average fundraising, which they freely admit omits all information about variance in fundraising within reporting periods. Himmelberg and Wawro also miss all effects over time by including a dummy variable for each month in their model. This means that any effect candidates can have on each other’s fundraising efforts have the same magnitude regardless of when they take place during an election cycle. This is clearly a mistake. Biersack, Herrnson, and Wilcox (1993) have shown that campaign contributions collected early in a campaign
cycle are important in attracting campaign contributions later in the campaign cycle. Also, Krasno, Green, and Cowden found that incumbents had much greater flexibility in collecting money later in a campaign than earlier. By including a dummy variable for each month, Himmelberg and Wawro assume that there are no critical time periods in an election cycle when candidates may have more of an impact on each other.

Another issue is the use of ad hoc lag lengths. Each of the three studies employed a maximum of three lag lengths, based primarily on the format of the data. Since the literature offers no theoretical rationale for selecting one lag length over another, extensive empirical work is needed in selecting lag lengths. Krasno, Green, and Cowden used a lag length of one reporting period; Himmelberg and Wawro chose lags of one and three months; and Mebane and Wawro chose lags of one, two, and three weeks. The variance among these three choices of lag lengths is quite large, and thus it is not surprising that each set of authors reports different results. The selection of a proper lag needs to be made by using data with the smallest scale possible (daily data) and testing different lag lengths to find the most appropriate length, whether the scale is days, weeks, or months. Moreover, the appropriate lag may change over the course of the campaign. Short intervals may be relevant late in the campaign and long intervals relevant earlier in the race. Appropriate lags need to be determined empirically by varying the interval over the election cycle.

Another issue in all three studies is that significant candidates were sometimes excluded. Mebane and Wand examined only open-seat candidates. Although open seat races are certainly interesting, they make up only a small percentage of congressional
races. Examination of races between incumbents and challengers will provide much
greater insight into the interaction between candidate fundraising efforts. Kranso, Green,
and Cowden and Himmelberg and Wawro both included incumbents and challengers, but
Himmelberg and Wawro excluded unopposed incumbents. By excluding unopposed
incumbents, Himmelberg and Wawro excluded a naturally occurring control group.
Moreover, Himmelberg and Wawro represented each individual challenger’s fundraising
in their analysis by aggregating the PAC contributions of all challengers in the
challenger’s party. By aggregating all opposition party challenger fundraising,
Himmelberg and Wawro overstate the challenger’s fundraising ability.

The design problems and inconsistencies in the existing studies clearly indicate
that more work is needed before we understand the dynamics of fundraising between
challengers and incumbents over the course of an entire campaign. Like the expenditures
literature, there is little consensus on model specification or conclusions.

Cash-on-Hand in Congressional Elections

Work on why incumbents accumulate cash-on-hand, and how cash-on-hand
affects other election characteristics has been almost exclusively limited to how cash-on-
hand affects challenger entry and quality. Conventional wisdom states that incumbents
accumulate vast amounts of campaign funds to deter potential challengers from entering
the race. Box-Steifensmeier (1996) argued that long before scholars began analyzing this
relationship candidates and campaign strategists identified the value incumbents’ gained
through accumulating a large amount of cash-on-hand. She suggested, that in “practical
politics”, the practice of accumulating a large war chest is known as “killing the money”

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because incumbents are able to soak up all of the available campaign funds in a congressional district leaving little opportunity for challengers to raise funds for their own campaigns.

Although all of the scholarly work on cash-on-hand has focused on the relationship between cash-on-hand and challenger entry and quality, there is little or no consensus in the literature. Some scholars have found that cash-on-hand deters challenger entry (Box-Steffensmeier 1996; Hercsh and McDougall 1994); while others have found no such relationship (Goodliffe 2001; Krasno and Green 1988; Squire 1989, 1991). Accordingly, those who find evidence that cash-on-hand deters challengers argue that cash-on-hand is accumulated strategically while those who find no such evidence argue that cash-on-hand is a residual of facing a weak challenger in the lagged election.

Answering the question of whether a war chest affects challenger entry is important because the participation of high quality challengers is vitally important in determining election outcomes (Hinckley 1980a, 1980b; Jacobson 1980; Jacobson and Kernell 1983; Mann and Wolfinger 1980). One of the mainstays of this literature is Jacobson and Kernell's (1983) work on strategic politicians. In advancing their model of strategic politicians, they found that national economic and political tides were the most important determinants of when high quality challengers decided to run. A strong national economy and a popular incumbent president favor congressional incumbents of the president's party and discourage the participation of high quality challengers. Conversely, a weak economy and an unpopular incumbent president encourage high quality challenges to congressional incumbents of the president's party.

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In addition to national tides, Bond, Covington, and Fleischer (1985) identified the incumbent’s previous election margin and average district partisanship as important determinants of challenger entry. The importance of these factors was confirmed subsequently by Jacobson (1987), and Ragsdale and Cook (1987). Bond, Covington, and Fleischer also discovered that an incumbent’s ideological alignment with the district affected the emergence of a high quality challenger, although the effect was not as substantial as that for the other two variables.

Goldenberg, Traugott, and Baumgartner (1986) suggested that scholars ought to consider incumbents’ cash on hand as a possible determinant of challenger entry beyond national conditions, district partisanship, and incumbent strength. Their hypothesis, the “war chest” hypothesis, holds that incumbents can deter high quality challenger entry by accumulating a large sum of cash-on-hand in their reserves. Challengers will perceive that the cost of winning an election is quite high when facing an incumbent who has accumulated a large war chest in the form of unspent campaign funds (Goidel and Gross 1994). The war chest hypothesis is therefore important because it suggests that incumbents can control at least one factor determining challenger entry. Incumbents cannot control national tides or local forces, but they can easily control how much money they accumulate before a challenger enters (Box-Steffensmeier 1996).

Goldenberg, Traugott, and Baumgartner did not empirically test the war chest hypothesis, and empirical support for the war chest hypothesis is relatively thin. In a game theoretic analysis of the war chest hypothesis, Epstein and Zemsky (1995) determined that war chests could affect challenger quality, but deterrence would only
occur under limited circumstances and would be difficult to observe. There is evidence suggesting that war chests can and cannot deter potential challengers. As such, there is no consensus in the literature.

Squire (1989) tested the war chest hypothesis using cash-on-hand at the beginning of the 1983-84 election cycle as a predictor of challenger entry in the 1984 election. Squire found that war chests did not affect challenger entry, but like others before and after him, concluded that national forces, the incumbent’s vote share in the previous election, and regional or southern state determined challenger entry (Krasno and Green 1988; Jacobson 1987; Bond Covington, and Fleisher 1985; and Bianco 1984).

Testing the effect of cash-on-hand on challenger entry in Senate elections, Squire (1991) found that cash-on-hand did not affect challenger quality, and that early receipts collected by an incumbent during a Senate campaign did not affect the competitiveness of Senate elections. Squire instead found that challenger quality is determined by the pool of potential candidates.

Examining data from the 1978 election, Krasno and Green (1988) concluded that war chests do not affect challenger entry. Krasno and Green’s results supported earlier findings that district level forces are the strongest determinants of challenger entry (Bond, Covington, and Fleisher 1985). They hypothesized that an incumbent’s general electoral advantage creates a vicious cycle of ever increasing margins of victory. As incumbents win by greater and greater margins, the probability that a high quality challenger will emerge plummets, and as lower quality candidates enter the race, the incumbent wins...
with greater and greater margins of victory. Conversely, as incumbents begin to suffer through close elections, the probability of facing a high quality challenger increases with each close election, causing continued close elections or even defeat.

Box-Steffensmeier (1996) raised valid questions about both Krasno and Green's and Squire's data. She observed that these data were "inadequate" for testing the war chest hypothesis because the data did not include pre-primary data (Krasno and Green 1988) or more than a single measure of cash on hand (Squire 1989).

Hercsh and McDougall (1994) analyzed both challenger entry and quality using a three stage least squares model and found that war chests had a negative effect on challenger entry, and quality, when challengers entered. Hercsh and McDougal cited three mechanisms through which war chests might deter challenger entry and quality. First, the war chest itself might deter by reporting the amount of money an incumbent could spend without any new fundraising efforts. Second, large war chests demonstrate that the incumbent has a great deal of fundraising prowess and can raise large amounts of money if needed to fend off a strong challenge. Finally, a war chest relates otherwise unknown information to a potential challenger about the formidability of the incumbent's campaigning skills.

Goodliffe (2001) disputed these three mechanisms because war chests add no information to challengers' decision calculus and are therefore ignored. First, challengers may not be deterred because challengers may interpret cash-on-hand as money saved for dire emergencies like reapportionment, not fending off challengers in a normal election. Second, war chests do not inform challengers about fundraising prowess because
all incumbents are highly skilled fundraisers or they could not have been elected in the first place. Finally, the signal associated with a war chest is nothing a challenger cannot learn through previous election results and is therefore not a deterrent.

Hersch and McDougall (1994) operationalized a war chest a bit differently than in previous studies. They defined a war chest as all cash-on-hand eleven months before the general election. This measure includes new receipts collected in the early stages of the primary season.

Box-Steffensmeier used a similar operationalization of a war chest to Hersch and McDougall’s (1994). Because she was most interested in estimating how a war chest affected the timing of challenger entry Box-Steffensmeier used a time varying covariate duration model. Box-Steffensmeier measured a war chest as cash-on-hand at the beginning of the election cycle, plus all new receipts, minus all expenditures made at several intervals, before the challenger entered. Using this method, Box-Steffensmeier found that a one standard deviation increase in a war chest ($239,000) could decrease the chance of a high quality challenger entering a race by 51.3% in the following weeks.

Goodliffe (2001) criticized Hersh and McDougall (1994) and Box-Steffensmeier (1996) for using measures of a war chest that were endogenous to challenger entry. Goodliffe wrote that operationalizing a war chest as anything other than cash-on-hand at the beginning of the election cycle is inappropriate because new funds raised or spent are undoubtedly correlated with the likelihood of challenger entry and quality and therefore endogenous. If an incumbent faces a high likelihood of early challenger entry or a high quality challenger, an incumbent may begin to raise new funds in anticipation of the
challenger. Goodlife argues that only by using cash-on-hand alone can one avoid the endogeneity. Operationalizing a war chest as cash-on-hand Goodlife (2001) found that a war chest did not have an effect on challenger entry or quality.

Conclusion

The money in elections literature focuses on three types of money: expenditures, receipts, and cash-on-hand. While there has been a significant amount of research on the role of money in congressional elections, there are few points of consensus and many points of disagreement and contradiction. Because there is so much contradiction in the literature it is difficult to discern why candidates raise, spend, and save money, or how each of these activities affect election characteristics.

If one asks a simple question of the literature, one finds conflicting methods and conclusions, but little consensus. Each result is appropriately questioned in subsequent work. In part, the problem in the literature is that there is not a single theoretical perspective that ties each kind of money and each election characteristic together.

In the next chapter I will try to provide a clearer understanding of how money affects congressional elections, and vice versa, by offering a theory of competitive balance. This theory allows for a better specification of election characteristics and avoids much of the endogeneity necessarily included in most work on money in elections. In this dissertation, however, I will limit the analysis to the relationship between cash-on-hand and receipts. I included the rest of the literature on money in congressional elections to document that the problems facing research on receipts and cash-on-hand are not specific to those questions. All work on money in congressional elections faces
similarly daunting problems. Even the expenditures literature, the most developed in
terms of quantity of research, still struggles with the problems highlighted in this chapter.
While I will not address all of the problems, or all of the research questions discussed
above, I will make receipts and cash-on-hand a starting point from which to work.
CHAPTER 3

THEORY OF COMPETITIVE BALANCE

As I documented in chapter 2, the literature is in disagreement over the role of money in congressional elections. The literature on money in congressional elections is conflicted in both its approach to answering questions and in its conclusions. There are many interesting and important questions in this literature, but there are not many conclusive findings. Every seemingly conclusive finding is appropriately questioned in a subsequent study with a different approach and contradictory results. For instance, if one asks a simple question of the literature about the effect of cash-on-hand on congressional elections, one might come away thinking: Who knows? The literature does not provide a clear answer to this or other important questions. My purpose in this dissertation is to add some clarity to the literature on money in elections.

The disagreement over the effect of war chests on challenger entry is illustrative of the conflict in the literature. In this chapter I will concentrate a great deal of attention on two important pieces in the war chest debate by examining the disagreement between Box-Steensmeier (1996) and Goodliffe (2001). The disagreement between these
scholars provides insight into why work on money in congressional elections has led to inconclusive results and sheds light on how we might find solutions. Given the interrelated characteristics scholars study in campaign finance and congressional elections, scholars must make hard choices in operationalizing variables and specifying models, and these choices lead to unavoidable sources of statistical bias. After examining Box-Steffensmeier's and Goodliffe's choices, I examine the biases that each avoided and included. The disagreement between these two scholars comes down to which source of bias, mis-specification or simultaneity, each scholar included. These biases are unavoidable as the models in the literature are currently specified.

In this chapter I will try to provide a clearer understanding of how money affects congressional elections, and vice versa, by offering a theory of competitive balance. My theory of competitive balance is that candidates' cash-on-hand and fundraising are strategic responses to their competitive situations as determined by district demographics and partisan composition. Thus, fundraising and cash-on-hand are not determinants of candidates' electoral fortunes, but rather, they are manifestations of the basic competitive structure of their districts, a factor largely out of their control.

This theory allows for a better specification of election characteristics and avoids much of the simultaneity bias necessarily included in most work on money in elections. There is a measurable balance of support for the two major parties within each congressional district that affects every election characteristic from the electoral outcome, to candidate entry, to candidate's financial patterns. I hypothesize that competitive districts have earlier entering and higher quality challengers, more money raised and
spent, less unspent money at the end of the election, and closer elections. Non-competitive districts have later entering and lower quality challengers, less money raised and spent, more unspent money at the end of the election, and wider margins of victory for incumbents.

In the next section I begin an examination of Box-Steffensmeier’s and Goodliffe’s treatments of the relationship between incumbents’ financial patterns and challenger entry. I begin with an in-depth analysis of Box-Steffensmeier’s work and Goodliffe’s criticism, and analyze Goodliffe’s work and its short-comings. I then explain why the disagreement between these scholars is insurmountable as currently constructed. I conclude by discussing the theory of competitive balance. I will theorize that previous electoral success determines most election characteristics.

The Division in the Literature

The war chest literature is illustrative of the disagreement over the relationship between money and elections. Goldenberg, Traugott, and Baumgartner (1986) extended our understanding of candidate entry beyond national conditions, district partisanship, and incumbent strength by suggesting that scholars ought to consider the incumbent’s cash-on-hand as a possible determinant of challenger entry. Their hypothesis, the “war chest” hypothesis, held that incumbents deter high quality challenger entry by accumulating a large sum of money before the election cycle. The war chest hypothesis maintains that challengers are deterred because incumbents can rely upon large amounts of cash-on-hand to overcome any advantage a challenger may have by substantially outspending the challenger, even before the incumbent begins raising new funds. As
elaborated in chapter 2, after Goldenberg, Traugott, and Baumgartner hypothesized this relationship between cash-on-hand and challenger entry. Several authors responded with conflicting approaches and results.

The debate between Box-Steffensmeier and Goodliffe is instructive of the debate over the relationship between a war chest and challenger entry. Box-Steffensmeier (1996) raised valid questions about previous research on war chests. The literature most often measured a war chest as the amount of cash-on-hand on the first day of the election cycle. To maintain clarity, I will refer to measures of a war chest that uses only cash-on-hand at the beginning of the election cycle as "cash-on-hand". Box-Steffensmeier posited that previous measures were "inadequate" for testing the war chest hypothesis because the data did not include pre-primary data (Krasno and Green 1988) or more than a single measure of cash-on-hand (Squire 1989, Goidel and Gross 1994, Hersch and McDougall 1994). Box-Steffensmeier extended previous operationalizations of a war chest by defining a war chest as the sum of cash-on-hand at the beginning of the election cycle and net receipts up to the date the challenger entered the race. I will refer to this measure as an "account balance" because the measure changes over time as incumbents deposit or withdraw funds during the campaign. Box-Steffensmeier also extended the literature by analyzing the effect of an account balance over time, by allowing the value of an account balance to vary during an election cycle with different effects at different points during the primary season.

Box-Steffensmeier calculated an account balance value for each incumbent in each of four FEC periods, covering the time periods of January 1989 through June 1989,
July 1989 through December 1989, January 1990 through March 1990, and April 1990 through June 1990. Box-Steffensmeier's measure of an incumbent's account balance, therefore, increased or decreased with each successive period, as incumbents raised and spent campaign money.

Box-Steffensmeier's hypothesis was that a large account balance causes challengers to enter later in the election cycle, if at all. When using this operationalization, Box-Steffensmeier found that a one standard deviation increase in an account balance ($239,000) could decrease the chance of a high quality challenger entering a race by 51.3 percent in the following weeks. This study provided some of the strongest support in the literature for the war chest hypothesis.

Box-Steffensmeier's measure of an account balance, however, treated two very different sources of campaign money—cash-on-hand left over from the previous election campaign, and new money collected and spent during the current election campaign—as a function of the same campaign characteristics with equivalent effects on an election. According to Box-Steffensmeier, whether an incumbent builds an account balance in campaign t through cash-on-hand left over from campaign t-1, or new savings in the form of new receipts collected early in campaign t minus expenditures made during campaign t, or some combination of the two, should not matter. If an incumbent wants to deter challengers from entering the race, he or she simply needs as much money as possible in his or her account as early in the election cycle as possible. If incumbents accumulate cash-on-hand reserves, or new savings in the form of net receipts, for different reasons, an account balance will fail to measure the difference.
Suppose high cash-on-hand is a sign of strength and high receipts after the start of the election cycle is a sign of weakness. Then the account balance measure introduces observational equivalence between strong and weak incumbents because the account balance cannot differentiate between incumbents with high cash-on-hand but low receipts and incumbents with low cash-on-hand and high receipts. The account balance cannot, therefore, differentiate between large reserves accumulated before or during the election. The critical difference between cash-on-hand and new savings is that while cash-on-hand is reflective of behavior from lagged elections, new savings are in part motivated by incumbents' expectations of electoral vulnerability.

For example, assume that incumbent "A" holds $100,000 in cash-on-hand and collects and spends $0 before the challenger enters. The account balance measure for this incumbent would be $100,000 at the time of challenger entry. Second, assume incumbent "B" holds $0 in cash-on-hand and collects a sum of $100,000, while spending $0, before the challenger enters due to expectations of vulnerability. Incumbent "B" would also have an account balance of $100,000 at the time challenger entry. The account balance measure would therefore observe that incumbents A and B were exactly alike with an account balance of $100,000 even though they were clearly behaving differently. Incumbent "B" was therefore more engaged in raising campaign funds before the challenger entered, and weaker than incumbent "A". The account balance measure introduces observational equivalency because incumbents "A" and "B" are operating under different circumstances but the account balance measure observes the two as identical.
The importance of this observational equivalence is that if high cash-on-hand deters challengers but high receipts do not, or vice versa, the account balance measure will not be able to determine which type of money is a deterrent. Therefore, when Box-Steffensmeier found that incumbents’ account balances deter challengers, she could not determine if the cash-on-hand or net receipts were responsible.

Goodliffe (2001) criticized Box-Steffensmeier’s account balance based on the presence of simultaneity bias when predicting challenger entry with a measure that includes new receipts. Simultaneity occurs because incumbents’ expectations of electoral vulnerability explain both receipts and challenger entry. If an incumbent expects to face a strong, early challenge, he or she will increase fundraising efforts in anticipation of the challenge. It is reasonable to assume that the same factors that cause an incumbent to expect a strong challenger cause a strong challenger to enter. Goodliffe implied, but did not test, that different characteristics generate cash-on-hand and receipts, and each has different effects on challenger entry, subsequent fundraising efforts, and election outcomes.

Citing simultaneity bias, Goodliffe used a measure of cash-on-hand at the beginning of the election cycle as his measure of a war chest. By including only cash-on-hand at the beginning of the election cycle, Goodliffe did not test the appropriateness of including or excluding new receipts or expenditures, or the appropriateness of treating new receipts and expenditures as equivalent in origin, and impact, on the election, as Box-Steffensmeier implied. Operationalizing a war chest as cash-on-hand alone.
therefore, might be applauded for avoiding simultaneity bias, but criticized for possible misspecification of causal factors affecting challenger entry.

Goodliffe specified a direct effect in the relationship between cash-on-hand and challenger entry. He hypothesized that if the war chest hypothesis were correct, cash-on-hand would have a negative effect on challenger entry. He also hypothesized that the quality of the opponent in the incumbent's previous election was more important in deterring high quality challengers than cash-on-hand. Goodliffe wrote that defeating a high quality challenger by a close margin should have a larger deterrent effect on high quality challengers than defeating a low quality challenger by a large margin or holding a great deal of cash-on-hand. Goodliffe found that while cash-on-hand had a marginal effect on high quality challenger entry, defeating a high quality challenger in the previous election had a much larger impact. He concluded that while cash-on-hand does affect challenger entry, defeating a high quality challenger is even more of a deterrent to potential opponents.

The disagreement between Box-Steffensmeier and Goodliffe is not a question of which scholar is right or wrong. Box-Steffensmeier and Goodliffe agree that incumbents can deter high quality challengers from entering congressional races. They also agree that cash-on-hand has at the very least a marginal effect on candidate entry. Finally, they both agree that receipts and expenditures during an election probably impact challengers' decisions to enter, but also introduce a certain amount of simultaneity bias. While Box-Steffensmeier was willing to accept possible simultaneity bias in order to measure the effect of mid-campaign receipts and expenditures on challenger entry, Goodliffe chose to

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accept possible misspecification bias and avoid the possible simultaneity bias. The crux of the disagreement is which bias we should avoid or accept. Both authors generally agree, however, that incumbent behavior can affect challenger entry, but unavoidable bias interfered with each of their examinations of the relationship.

The central question is how do we measure how an incumbent affects challenger entry without falling victim to either misspecification or simultaneity bias? There are important relationships between cash-on-hand, receipts, expenditures, challenger entry, and election outcomes. Most election characteristics, these included, are probably interdependent to some extent. Expenditures and vote outcome are an ideal example of this interdependence. As expectations of a close race increase, incumbent expenditures increase. As incumbent expenditures increase, the incumbent’s share of the vote increases. Finally, as the incumbent’s share of the vote increases, the incumbent’s expenditures may decrease. This interdependence is difficult to control unless we have an exogenous variable that can accurately measure expectations of the competitiveness of elections. A measure of the expected competitiveness of an election, prior to the time that values of cash-on-hand and expenditures are determined, therefore, is necessary to avoid the statistical biases that plague the literature on money in congressional elections.

The Need for a Different Explanation

Do candidates build cash-on-hand reserves and invest in fundraising under similar conditions and for the same purpose—viz., to deter electoral challengers—or do they engage in these activities under different conditions and for different purposes? The war chest hypothesis implies that, during the early phases of congressional campaigns, high
amounts of cash-on-hand, and efforts to raise even more money, reflect a single underlying electoral strategy—deterrence of quality challengers. Candidates with high amounts of cash-on-hand attempt to raise even more money, and candidates without large reserves attempt to accumulate large reserves through new fundraising efforts. Candidates who are successful on both accounts ultimately face weaker challengers and win more easily than candidates who fail to build large cash reserves early in the campaign.

Goodliffe makes a compelling argument that in addition to the questions over simultaneity bias, the hypothesized mechanisms of deterrence are faulty because the information potential challengers collect from incumbents’ cash-on-hand is no more convincing than the information collected from the incumbents’ last election performance. Goodliffe’s central finding was that incumbents who defeated a high quality challenger by a large margin are less likely to face a high quality challenger in the subsequent election than an incumbent who defeated a high quality challenger by a slim margin or a low quality challenger by a wide margin. This conclusion is interesting because Goodliffe, citing simultaneity bias, decided to take a step back from the current election and focus on a measurement from the lagged election. In the face of endogeneity, the logical choice is to search for an exogenous variable that can offer increased leverage. Goodliffe’s choice was to use an interaction of facing a high quality challenger and the incumbent’s share of the major party vote in the previous election. It
is clear that a prior election has effects on subsequent elections but very little research has been published on specifying the relationships between election characteristics across elections.

The inclusion of this variable was an interesting solution to the problem; however, Goodliffe did not investigate this variable sufficiently, as there are deeper implications in using this variable than its effect on challenger entry. Including additional information about previous election performance raises interesting questions about cash-on-hand, receipts, and expenditures as dependent variables. How does defeating a high quality challenger by a slim or wide margin affect cash-on-hand at the end of the election cycle and new funds raised or spent in the subsequent election? What are the implications if defeating a high quality challenger has a positive effect on cash-on-hand, receipts, and expenditures? What if the relationship is negative? What if the effect is positive for one and negative for the others? Goodliffe’s criticisms of Box-Steppensmeier for combining cash-on-hand, receipts, and expenditures in her account balance measure may be justified, but he did not test these relationships using his lagged election performance variables. He did not test the effect of defeating a high quality challenger on the intermediary variables of cash-on-hand, receipts, and expenditures.

Extending Goodliffe’s hypothesis, we can derive expectations about the effect of lagged election performance on cash-on-hand and receipts. I propose that if an incumbent faces a high quality challenger, and high quality challengers are more likely to win than low quality challengers, then an incumbent might be expected to spend as much money as possible to defeat the high quality challenger. If the incumbent spends most, if
not all, of his or her funds to defeat a high quality challenger one would not expect the incumbent to have much, if any, cash-on-hand at the beginning of the subsequent election. Furthermore, if an incumbent just faced a high quality challenger, the reasonable expectation would be that another high quality challenger may enter leading the incumbent to start raising money in anticipation of entry. If this is the case, we should expect that defeating a high quality challenger in the lagged election should have a negative relationship with cash-on-hand and a positive relationship with receipts.

I therefore suggest that candidates who have large amounts of cash-on-hand are less likely to engage in additional fundraising than candidates without large initial reserves, and that candidates who invest heavily in new fundraising tend to face stronger challengers than candidates who engage in little fundraising. The reason, I believe, is that candidates accumulate large amounts of cash-on-hand because their previous electoral race was an easy one in which they did not spend down their reserves. I propose, moreover, that the reason candidates face weak challengers is not because they have large cash reserves, but because they represent inherently noncompetitive districts. Candidates' large cash reserves accrue over time, therefore, not by strategic design, but rather through the fortuitous circumstance of hailing from districts that are largely one-party by nature. Candidates living in competitive districts, in contrast, must invest heavily in fundraising and spending during each campaign in order to survive politically, and as a result they carry little cash reserve over to the next election.

What is needed is a test of whether or not cash-on-hand and new receipts are accumulated by incumbents with similar or different electoral circumstances and the
appropriateness of measuring an account balance. Box-Steffensmeier and Goodliffe clearly differ over these points and I have my own possible explanation. I therefore use two regressions for this test. I use lagged vote share, lagged challenger quality, and an interaction of the lagged vote share and lagged challenger quality to predict cash-on-hand and total receipts, respectively.

These analyses will test three explanations for the relationship between electoral circumstances and financial behavior. First, if cash-on-hand and receipts originate under the same circumstances, as Box-Steffensmeier implied, then I should find that an incumbent’s lagged vote margin and challenger quality has the same effect (positive or negative) on both cash-on-hand and receipts. Second, if cash-on-hand and receipts are generated by candidates in different electoral circumstances, as Goodliffe implied, then I should find these two types of money have opposite relationships (one positive and one negative) with the incumbents’ lagged vote margin and lagged challenger quality. Finally, if my hypotheses above are correct, cash-on-hand should have a positive relationship with lagged vote outcome and challenger quality, while receipts should have a negative relationship. If candidates with different electoral circumstances have different amounts of cash-on-hand and new receipts, then including new receipts in the campaign finance models is required because receipts provide information we cannot otherwise measure.

For both regressions, I use campaign finance data for all House incumbents who ran for re-election in the 1995-96 election cycle\(^2\). In the two regressions, I test whether cash-on-hand and receipts are similarly related to prior electoral circumstances. In the

\(^2\) The data include 360 incumbents. 22 incumbents were excluded because they ran in Louisiana under an open primary system, faced a runoff election in Texas, ran in Washington D.C., or ran as an independent.
first regression, I regress cash-on-hand at the beginning of the 1995-96 election cycle (measured in dollars) on lagged vote share, a dummy for strong opposition in 1994 (an incumbent or a strong challenger\(^3\)), an interaction of lagged vote share and strong opposition in 1994 (following Goodliffe), party, and seniority (number of terms served).

I hypothesize that cash-on-hand should have a positive relationship with lagged vote share because incumbents who experienced easy re-election in the previous election cycle should not have needed to spend much money in the election, creating an abundance of cash-on-hand in the subsequent election cycle. Cash-on-hand should have a negative relationship with facing strong opposition in 1994 because facing strong opposition should leave incumbents with less cash in reserve. The relationship between cash-on-hand and the interaction of lagged vote share and strong opposition in 1994 should be positive and similar to the relationship between lagged vote share and cash-on-hand.

Defeating a high quality opponent usually requires a great deal of money, but as the margin of victory widens the amount of money incumbents hold in reserve should increase. Finally, seniority should have a positive relationship with cash-on-hand because more senior incumbents should accumulate more cash over time.

In the second regression, I regress total aggregated receipts collected during the 1995-96 election cycle (measured in dollars) on the same variables in the first regression. I hypothesize that receipts should have a negative relationship with lagged vote share. Incumbents who faced easy re-election bids in 1994 should have low receipts during the subsequent election cycle in anticipation of an easy reelection campaign, and those who

\(^3\) For this measure I use Jacobson’s dichotomous challenger quality measure derived from Congressional Quarterly Weekly and the Almanac of American Politics. Strong challengers were defined as challengers who held previous elected office.
faced close races in 1994 should have higher receipts in the subsequent election cycle in anticipation of another close race in 1996. Receipts should have a positive relationship with strong opposition in 1994 because incumbents should expect more strong opposition in the future having just faced a strong opponent. The relationship between receipts and the interaction between lagged vote share and strong opposition in 1994 should be negative like the relationship between receipts and lagged vote share. After defeating a high quality opponent, and spending a great deal of money to do so, an incumbent will need new funds, but as the margin of victory increases, the need for new funds will be lower. Finally, seniority should have a negative relationship with receipts over time, because incumbents should have less need for new money as they build support in the district.

Table 3.1 reports the results of both regressions. The results in column one test the relationship between the incumbents’ share of the major party vote in the 1994 general election and cash-on-hand at the beginning of the subsequent election and confirms many of the expectations above. First, an increase of one percentage point in lagged vote share causes a statistically significant increase in cash-on-hand of $2,006. The only other statistically significant variable, seniority, suggests that a one term increase in seniority causes cash-on-hand to increase by $10,459. The signs for strong opposition in 1994, the interaction of lagged vote share and strong opposition in 1994, and party id are in the correct direction, but failed to reach statistical significance.

The regression results in column two predict incumbent fundraising in the 1995-96 election cycle. This regression indicates that securing a one percentage point increase
in share of the major party vote causes incumbents to decrease aggregate receipts in the subsequent election by $8,330. Facing strong opposition in 1994 was also statistically significant and caused incumbents to increase receipts by $1,001,084. Being a Democrat is also statistically significant and causes incumbents to decrease their fundraising. Neither the interaction of lagged vote share and challenger quality or seniority were statistically significant, though both were in the hypothesized direction.

The findings in Table 3.1 confirm that cash-on-hand and receipts are analytically distinct phenomena. Incumbents appear to accumulate cash-on-hand and collect new receipts under opposite electoral circumstances. Evidently, incumbents who win by large margins are accumulating large amounts of cash-on-hand, but not collecting as much new money; and incumbents who win by close margins are not saving much money in the form of cash-on-hand, but are collecting more receipts in the subsequent election. This is a critical difference as it means that there is a distinct difference between candidates who have a great deal of cash-on-hand and candidates who have a great deal of new receipts.

There are two central implications of these findings. First, since cash-on-hand and receipts are accumulated by incumbents operating under different electoral circumstances, it is inappropriate to combine both types of money in a measure of an account balance. Cash-on-hand and new receipts provide information about different incumbents and should therefore be separated in analyses of challenger deterrence. Second, given that these variables have different relationships with previous electoral margins, and given that electoral margins are generally positively correlated over time, one must be concerned about specification bias in analyses of the effects of war chests.
that ignore candidates' fundraising behavior. Cash-on-hand alone is not a sufficient measure of incumbents' financial activity. It is important to include new receipts because this measure provides information about incumbents that cash-on-hand cannot provide. Third, the information provided about previous elections through Goodlife’s measure is important in explaining several election characteristics and provides an initial link between election characteristics over time.

Absent any consideration of receipts, the scenario I have just described is consistent with, and statistically equivalent to, the war chest hypothesis of challenger entry. Incumbents who had an easy re-election tend to have more cash-on-hand left over and collect less new money while incumbents who faced a difficult re-election tend to have less cash-on-hand left over and collect more new money. Consideration of candidates' fundraising behavior, however, helps to differentiate between candidates who need to build large cash reserves through vigorous fundraising and candidates who do not. An analysis of incumbents’ fundraising behavior, therefore, would shed additional light on the important question of the extent to which incumbents attempt, or are able, to control their electoral fates through strategies that deter high quality challengers.

The preceding analysis suggests that there are at least three important election characteristics intertwined in a web of causality: challenger entry, cash-on-hand, and receipts. Accordingly, there are also three seemingly inconsistent perspectives on the direction of the causal arrows. The puzzle is determining which perspective among the three: the traditional war chest perspective; Box-Steffensmeier’s perspective; and Goodliffe’s perspective; is correct. In the last chapter I outlined the inconclusive nature
of the literature on money in congressional elections and this puzzle seems to add to the confusion. First, according to the traditional war chest literature, cash-on-hand alone serves to deter challenger entry. Second, Box-Steffensmeier modified this hypothesis to include her account balance measure that provided the strongest support for the hypothesis that a war chest could deter challenger entry. Finally, Goodliffe found that cash-on-hand did not have a significant effect on challenger entry when controlling for lagged vote share interacted with facing a high quality challenger. On its face, the disagreement between these three findings seems untenable.

I propose, however, that the results of all three perspectives are entirely consistent with each other when considered in the appropriate framework. The results from all three perspectives are derivatives of a simple model of congressional elections. Goodliffe's idea of using a measure of the incumbent's lagged election performance was important because it helps explain how previous election performances are related to cash-on-hand and receipts. If by including lagged election information we can find a better handle on estimating the relationship between these three election characteristics why not extend this logic and include even more lagged election information? Goodliffe's measure is in part caused by lagged cash-on-hand and receipts and is certainly correlated with other election characteristics. In the next section I will discuss the role of partisanship in congressional elections. After discussing partisanship, I will present my competitive balance theory. I will then explain why we would expect to observe results consistent with the traditional war chest literature, Box-Steffensmeier's, and Goodliffe's perspectives.
The Role of Partisanship in Congressional Elections

There is a vast literature on the role of partisanship in voting. For decades, political scientists have identified partisanship as one of the most important determinants of congressional elections. Early conceptualizations of party identification in the electorate defined party identification as the central factor in determining the vote (Campbell, Converse, Miller, and Stokes 1960). In this section I will first discuss the extant literature on the effect of partisanship on elections. Second, I will discuss the possible endogeneity of partisanship.

Goldberg (1966) was the first to model the interdependent relationship between the determinants of the congressional vote at the individual level. Goldberg analyzed the importance of partisanship, issue positions, and candidate evaluations using data from the 1956 election and found that partisanship was a more important factor in determining the vote than either issue positions or candidate evaluations. Party voting in the 1950s, however, was much more commonplace than in subsequent decades. While partisanship was the most important factor in determining the vote in the 1950s, its effect began to decrease in the 1960s and 1970s (Hartwig, Jenkins, and Temchin 1980; Schulman and Pomper 1975). Hartwig, Jenkins, and Temchin (1980) confirmed Campbell, Converse, Miller, and Stokes' results using data from 1956 through 1976. They found that the importance of partisanship declined over time with the importance of issue positions increasing.

Fiorina (1981) concluded that the reason voters strongly identify with a single party is because they have identified with the party's candidates in the past. He argues
that the candidates’ party labels, therefore, provide cues to voters as to how they should vote. Since it is costly to research candidates and issues, voters welcome a voting cue like party identification. According to his theory of party identification, voters employ a "running tally" decision making process in determining whether to support the party with which they usually identify (Fiorina 1981; Popkin, Gorman, Philips, and Smith 1976). Fiorina wrote that this theory is consistent with both the strong levels of partisanship in the 1950s and the shrinking levels of support in the 1960s and 1970s due to the political strife of the decade. Fiorina found that voters’ assessments of previous party performance was more important than candidates’ promises of future behavior.

Jacobson and Kernell (1983) also found that partisanship was an important factor in determining election outcomes. Their strategic politician hypothesis states that strong challengers will run when their party has a distinct advantage among voters nationwide. Partisanship, therefore, is an important indicator of who is likely to perform well in an election.

Regardless of how much the effect of partisanship on voting may have decreased over time, the fact remains that partisanship is a statistically significant predictor of voting behavior in every voting behavior model. The question in the literature is not whether partisanship matters in determining voting behavior, but rather, how much of the variation partisanship explains at the expense of issue, economic, and candidate evaluations.

Many scholars have concluded that partisanship is exogenous to election characteristics. This conclusion springs from results showing that partisanship is
formalized early in life and remains relatively stable over time (Campbell, Converse, Miller, and Stokes 1960). The Michigan School viewed partisanship as part of a socialization process by which voters are socialized at a young age to identify with a political party much like other social groups. Niemi and Jennings observed that the transmission of partisanship is quite clear between parents and their children (1968). They found that while most political values have weak transmission mechanisms between parents and children, partisanship is the exception. Niemi and Jennings (1991) found that parental influence is felt into voter's thirties, and concluded that partisanship is one of the most stable political orientations. Once established, partisanship becomes stronger with age (Converse 1969) and less likely to change (Jackson 1975). In fact, partisanship in the 1950s was something like religion. Once voters chose a party they usually voted with the party (Jacobson 1991).

Party identification, however, is not completely stable. Other research suggests that only after several votes against the party with which one identifies is partisanship likely to change (Markus and Converse 1979). Other scholars have ordered the factors contributing to voting decisions (Miller and Shanks 1982; Shanks and Miller 1990, 1991). Miller and Shanks found that voters rely on party identification after individual demographics and policy preferences. While voters are not very likely to switch from identifying with the Democratic Party to the Republican Party, or vice versa, they are increasingly likely to float between one of the major parties and independent status (Mackuen, Erikson, and Stimson 1989).
Other scholars have concluded, however, that partisanship is endogenous to political preferences (Box-Steffensmeier and Smith 1996, 1998; Erikson 1982; Fiorina 1981; Franklin and Jackson 1983; MacKuen, Erikson, and Stimpson 1989; Markus 1979, 1982; Markus and Converse 1979; Page and Jones 1979). These scholars have found evidence that partisanship is affected more by short term evaluations than previously thought. They all argue that partisanship is both a cause and function of short-term evaluations. MacKuen, Erikson, and Stimson (1989) point out, however, that most of these articles used questionable assumptions in identifying their models which leaves the question of endogeneity partly unanswered. MacKuen, Erikson, and Stimson concluded that partisanship varies considerably in the aggregate overtime and that it is presidential popularity and the economy that drives this fluctuation. Box-Steffensmeier and Smith (1996, 1998) concluded that these shocks to partisanship have effects on the scale of years, not just in the short term.

Green, Palmquist, Shickler (1998) found partisan change at a rate half of that reported by MacKuen, Erikson, and Stimson (1989). They concluded that partisanship changes much more gradually than MacKuen, Erikson, and Stimson have reported, and the Michigan model is closer to the reality of partisan stability. These findings were consistent with the earlier observations of Green and Palmquist (1990) that found that partisanship is remarkably consistent over time. Erikson, MacKuen, and Stimson (1998) countered with results confirming their earlier work. They concluded that short term political and economic shocks have an immediate and cumulative effect on partisanship. These results are supported by Meffert, Nortpoth, and Ruhl (2001). They also concluded
that changes in macropartisanship over the last fifty years were a function of major 
realignment not presidential approval or economic factors.

The endogeneity of partisanship is clearly a matter of continuing debate in the 
literature. Most of the scholars studying partisanship agree that partisanship must be at 
least in part endogenous. While it is likely that partisanship is at least slightly 
endogenous to election characteristics like issue and candidate evaluations, it is still one 
of the most stable political characteristics (Niemi and Jennings 1991).

The Competitive Balance Theory of Congressional Elections

I propose that congressional candidates live in two distinct worlds: the 
competitive district, and the noncompetitive district. The competitive district is one in 
which incumbents and challengers alike have a good chance of winning or losing, due to 
a near equal distribution of Democratic and Republican voters living in the district. The 
noncompetitive district is one in which incumbents nearly always win no matter who runs 
as a challenger, because the incumbent’s party demographically dominates the electorate. 
The challenger’s party, therefore, cannot provide the necessary support for a challenger to 
win.

In a competitive district, where there is enough support for candidates from both 
major parties to win, more high quality candidates should be willing to challenge 
incumbents than challengers living in noncompetitive districts. In noncompetitive 
districts, there is no such base of support for challengers. High quality challengers, 
wishing to advance their political careers, might be more hesitant to run for congress in a 
noncompetitive district. Since these districts are much more likely to hand incumbents an
easy victory, high quality challengers might end their careers by running for this office. In addition to experiencing more high quality challengers, competitive districts should see earlier entering challengers as well.

In addition to the effects on challenger entry, the competitive balance affects other election characteristics as well. As incumbents from competitive districts are more likely to face high quality challengers, they are more likely to need more money to run a winning campaign. Competitive districts are so marginal, we should expect these districts to attract a great deal of money from within, and outside the district, in the form of both direct contributions to the candidates and independent spending. Incumbents can also be expected to spend more money. Since both incumbents and challengers will be spending more money on these races, we can expect that the eventual winner will have spent most, if not all, campaign funds during the race and should not have much money left over in the form of cash-on-hand for use in subsequent elections. Candidates in competitive districts should spend more money, face much closer election outcomes, challengers should win more often than in a noncompetitive district.

In noncompetitive districts, we should see very different outcomes. First, we should expect to see weaker challengers who enter the election later in the campaign cycle. In a noncompetitive district, the challenger’s party does not have the votes to support a challenger in the general election, so we can expect that strong challengers will not run. The rational expectation of both the incumbent and the challenger is that the incumbent will easily win. In this case, it will be difficult for the challenger, and unnecessary for the incumbent, to raise, or spend, much money. Over time, incumbents
in noncompetitive districts should accumulate a substantial amount of cash-on-hand from previous campaigns that have gone unspent, as these incumbents consistently face weak competition and enjoy overwhelming support in the electorate. This type of campaign attracts little attention within or outside the district, neither candidate raises or spends much money, and the incumbent garners a large margin of victory.

According to this theory, the competitive balance within a congressional district affects how campaign money is raised and spent, candidate behavior, and the relationship between these election characteristics. Competitive districts should have incumbents raising more money, spending less, and spending most of what is raised.

This theory holds broad implications for the competitiveness of elections, the ability of challengers to successfully challenge incumbents, and the inability of incumbents to control whether a strong challenger will enter, or if the challenger will find electoral success. The most important implication of this theory is, in contradiction to the war chest hypothesis, that an incumbent's ability to maintain a safe seat is largely beyond his or her direct control much like national economic and political tides. Whether an incumbent will hold a safe, or marginal, seat, is largely controlled by the demographics of the district in which the incumbent lives. This means that challenger quality and entry, which are directly linked with incumbent success or failure, are also beyond the incumbents' control.

This theory, however, would seem to be consistent with incumbents holding safe seats without the luxury of a large amount of cash-on-hand. It is also consistent with incumbents with safe seats accumulating a large amount of cash-on-hand in small
increments over time. Furthermore, this theory is consistent with incumbents holding marginal seats, raising a great deal of money in each election cycle, but never accumulating a great deal of cash-on-hand.

**Conclusion**

This chapter presents the central theoretical framework for the rest of the dissertation. I began this chapter by outlining critical disagreements in two important pieces in the literature on money in congressional elections. I concluded that the central difference between these two works was a question over whether to choose misspecification or simultaneity bias in specifying the relationship between war chests and challenger entry.

Second, I performed a preliminary analysis of the relationship between electoral circumstances and cash-on-hand and receipts. This analysis suggested that incumbents operating under different electoral circumstances generate large amounts of cash-on-hand and large amounts of new receipts. If incumbents in different electoral circumstances generate different financial patterns, it is important to include both cash-on-hand and receipts in models of congressional election characteristics because the two measures provide different information about incumbents that would otherwise be lost if including only one measure.

Finally, I introduced the competitive balance theory of congressional elections. The competitive balance theory is that there is a measurable balance of support for the two major parties within each congressional district, and this competitive balance affects every election characteristic from the electoral outcome, to candidate entry, to
candidate's financial patterns. Competitive districts have earlier entering and higher quality challengers, more money raised and spent, less unspent money at the end of the election, and closer elections. Non-competitive districts have later entering and lower quality challengers, less money raised and spent, more unspent money at the end of the election, and wider margins of victory for incumbents.

In this dissertation I theorize that there are district characteristics that shape the most basic election characteristics of cash-on-hand, receipts, expenditures, challenger entry, challenger quality, and election outcome. In the following chapters I will develop, test, and use a measure of the competitive balance within a district to predict several election characteristics. The competitive balance within a district is exogenous to candidate behavior and is therefore a valuable predictor of election characteristics. Most election characteristics are probably interrelated in some way, but the competitive balance allows an unbiased examination of election characteristics.

Before creating a measure of competitive districts, however, I will first test the theory using a simpler, non-statistical analysis. In chapter 4 I present a test of the theory that analyzes incumbents' financial patterns and the likelihood of holding safes seats. This analysis will serve as the initial test of the theory and a first cut at better understanding the interdependent relationships between incumbents' financial behavior, challenger behavior, and electoral outcomes. Following this preliminary work I will develop and test a measure of a competitive district in chapter 5. In chapter 6 I will use
the measure to further test the relationship between the competitive balance and incumbents' financial behavior. By structuring the analysis in this way I hope to provide as many tests of, and as much support for, the theory as possible.
Table 3.1 Predicting Cash-on-Hand and receipts in the 1995-1996 Election Cycle

<table>
<thead>
<tr>
<th>Variable</th>
<th>Regression 1 Cash-on-Hand Coefficient (SE)</th>
<th>Regression 2 Receipts Coefficient (SE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent's Vote Percentage in 1994</td>
<td>2,006.28 ** (925.67)</td>
<td>-8,330.09 *** (2,307.9)</td>
</tr>
<tr>
<td>Faced Strong Opposition in 1994</td>
<td>-243,861.00 (205,366.60)</td>
<td>1,001,084 ** (512,024)</td>
</tr>
<tr>
<td>Interaction of lagged vote and lagged strong opposition</td>
<td>3,548.55 (3496.34)</td>
<td>-12,824.21 (8,717.15)</td>
</tr>
<tr>
<td>Democrat</td>
<td>-4592.33 (23,338.34)</td>
<td>-143,505.80 ** (58,187.69)</td>
</tr>
<tr>
<td>Prior Terms Served</td>
<td>10,459.53 *** (2.981.86)</td>
<td>10,705.77 (7,434.42)</td>
</tr>
<tr>
<td>Constant</td>
<td>-61,156.93 (68,807.15)</td>
<td>1,241,040 *** (171,551.40)</td>
</tr>
<tr>
<td>Adj. R Squared</td>
<td>.0844</td>
<td>.1333</td>
</tr>
</tbody>
</table>

n=360 incumbents

* statistically significant at the .1 level
** statistically significant at the .05 level
*** statistically significant at the .01 level
CHAPTER 4

PRELIMINARY ANALYSIS

In the last chapter, I tested the relationship between cash-on-hand and receipts and found that incumbents accumulate cash-on-hand and receipts under different election circumstances. Incumbents who faced easy reelection in the previous election held large amounts of cash-on-hand in reserve and collected few receipts, while incumbents reelected by narrow margins held low amounts of cash-on-hand in reserve and collected many receipts. I hypothesized that all three election characteristics, election outcome, cash-on-hand, and receipts were a function of the competitive balance in congressional districts. Before creating a measure of the competitive balance I will execute a preliminary analysis of the interdependent relationship between incumbents’ financial patterns and electoral characteristics.

This preliminary analysis has three central parts. In the first section I will examine the relationship between cash-on-hand and seat safety by creating a four type typology. This typology will be a simplified test of whether a large amount of cash-on-hand is necessary to create and maintain a safe seat. A strong correlation between seat
safety and cash-on-hand would lend support to the war chest hypothesis. If there are a
large number of incumbents with safe seats without large amounts of cash-on-hand then
the war chest hypothesis should be questioned. If cash-on-hand is not necessary to build
or maintain a safe seat then some previous work may have overestimated the value of
holding large amounts of cash-on-hand in reserve.

In the second section I will expand the four type typology by adding receipts as a
third category. Adding receipts to the typology adds important information that is not
captured by cash-on-hand alone, as evidenced by the results from my analysis in chapter
3. Adding receipts to the typology will provide a better test for why some incumbents are
able to insulate themselves from electoral competition while others are not. Receipts
differentiate between incumbents who felt electoral pressure and those who did not.

In the final section, I will compare incumbent types across time. This analysis
will test whether the typology is useful in describing only short term election patterns, or
if it also useful in describing long term career patterns. If the typology consistently
classifies the same candidates in the same type over time, then the typology is revealing
long term career patterns. If the typology appears to classify incumbents with a near
random distribution over time then the typology is only useful for describing short term
election patterns.

**Cash-on-Hand as an Insulator from Electoral Competition**

The central tenant of the war chest hypothesis is that incumbents are able to
insulate themselves from electoral competition or defeat by building and maintaining a
large war chest. Analyses finding support for this hypothesis found that a large war chest
was indeed negatively correlated with challenger entry. Large war chests in the form of cash-on-hand are correlated with later entering and lower quality challengers. These analyses, however, did not consider the timing of when war chests were built with respect to incumbents’ electoral histories. Analyses testing the war chest hypothesis have relied on statistical methods comparing variation in challenger entry or quality to variation in the value of a war chest. Analyses using data from a single election cycle cannot evaluate when in his or her career an incumbent reached the threshold of a large war chest or when the incumbent secured a safe seat. Analyses using data from several election cycles still treat each election as if lagged elections are exogenous to the relationship between challenger entry and a war chest in the contemporary election cycle. These analyses also fail to measure when in the context of a House career incumbents with large amounts of cash-on-hand reached the threshold of a large amount of cash-on-hand or when an incumbent attained a safe seat. The question of career timing is important because war chests can only be important in insulating incumbents from electoral competition if the war chests were accumulated before the incumbent started experiencing wide reelection margins. If war chests are accumulated after incumbents reach a safe stage in their careers then the war chest was clearly not responsible for creating the safe seat.

The challenger entry literature has shown a link between challenger entry and electoral success. The later a challenger enters, or the lower the challenger’s quality, the better an incumbent performs in elections. In chapter 3 I found that cash-on-hand and receipts are accumulated by incumbents facing different electoral circumstances.
Incumbents with a large amount of cash-on-hand experienced easy reelection in the 
lagged election while incumbents generating large amounts of new receipts won 
reelection by narrow margins. We can reasonably expect that incumbents facing a tough 
reelection campaign will spend down reserves considerably and raise new funds in an 
effort to remain in office.

The two regressions in chapter 3 that generated these results, however, did not test 
whether the cash-on-hand came before the seat safety or if the seat safety came before the 
cash-on-hand. If the war chest hypothesis is correct, incumbents should accumulate a 
great deal of cash-on-hand before acquiring a safe seat. If seat safety arrives before a 
large amount of cash-on-hand, then one cannot argue that cash-on-hand causes seat 
safety.

Section One: The Chicken or the Egg, Cash-on-Hand or Seat Safety?

In this section I will test whether the accumulation of cash-on-hand causes seat 
safety or if seat safety causes the accumulation of cash-on-hand. I operationalize 
electoral status as whether or not the incumbent holds a safe or marginal seat. I define an 
incumbent with a safe seat as an incumbent who won 60 percent or more of the major 
party vote in the 1994 general election, and an incumbent with a marginal seat as an 
incumbent who garnered less than 60 percent of the major party vote. Cash-on-hand is 
measured as the sum of all funds in every personal campaign account as of the first day 
of the 1995-96 election cycle. High cash-on-hand is defined as cash-on-hand equal to or 
greater than the mean cash-on-hand of $108,608 for all incumbents in 1995. Low cash-

4 The mean value of cash-on-hand is more likely to lend support to the war chest hypothesis than stricter 
definitions of high cash-on-hand, like using one standard deviation above the mean values. I replicated this 
analysis using one standard deviation above the mean as the cut point for high cash-on-hand, which had the
on-hand is therefore defined as holding less than the mean cash-on-hand. Using this
definition, there are 231 incumbents with safe seats, 129 with marginal seats, 115 with
high cash-on-hand, and 245 with low cash-on-hand. A useful way of organizing this
analysis is in the form of a four type typology.

The four incumbent types are:

Type LM: Low Cash-on-Hand and a Marginal Seat
Type LS: Low Cash-on-Hand and a Safe Seat
Type HM: High Cash-on-Hand and a Marginal Seat
Type HS: High Cash-on-Hand and a Safe Seat

Given the war chest hypothesis and these four possibilities, what should we expect? The
war chest hypothesis specifies that incumbents holding large amounts of cash-on-hand
should also hold safe seats because cash-on-hand insulates incumbents from competition.
Accordingly, incumbents holding small amounts of cash-on-hand should hold marginal
seats because a lack of cash-on-hand precludes incumbents from insulating themselves
from competition. Furthermore, if the war chest hypothesis is correct, incumbents in safe
seats should have accumulated their high cash-on-hand before they established a safe
margin of victory. In terms of the incumbent typology, types LM and HS would be
consistent with the war chest hypothesis, while types LS and HM would be inconsistent
with the war chest hypothesis. If the data include many type LS or HS incumbents, then
building a large war chest may not be that important in terms of insulating a

effect of reducing the number of incumbents with high cash-on-hand, but did not alter the central
conclusions.
congressional seat from stiff competition. Regardless of how well a war chest might
deter potential challengers, if an incumbent’s seat is vulnerable, building a war chest is a
fruitless effort.

Having determined a priori which incumbent types would lend support to the war
chest hypothesis, I now turn to an examination of how the 360 incumbents running for re-
election in the 1996 general election were distributed across the incumbent types. Table
4.1 reports the frequency of each incumbent type. The results in Table 4.1 hold mixed
results for the war chest hypothesis. While the majority of incumbents (220) are types
LM and HS, which are consistent the war chest hypothesis, 141 incumbents are
inconsistent with the war chest hypothesis. 39 percent of the incumbents running for re-
election in 1996, therefore, displayed characteristics inconsistent with the war chest
hypothesis. Most of the observations that are consistent with the war chest hypothesis,
however, are the incumbents who held marginal seats. Of the 231 incumbents with safe
seats (types LS and HS) 128 had low cash-on-hand. Hence, only 45 percent of
incumbents with safe seats held a substantial amount of cash-on-hand. If cash-on-hand
were a critical factor in maintaining a safe seat, one would expect to see a much higher
percentage of safe seat candidates with a large amount of cash-on-hand. The important
question, though, is how many of the safe seat incumbents held a large amount of cash-
on-hand before acquiring a safe seat.

Incumbents with safe seats and high cash-cash-on-hand are the most important
incumbents to review because they are the type that lend support to the hypothesis that
cash-on-hand can insulate an incumbent from tough reelection. The question is whether
cash-on-hand causes safe seats or if safe seats cause cash-on-hand. In this typology there were 103 incumbents with safe seats and high cash-on-hand. Of the 103 incumbents, 46 were initially elected with 60 percent or better of the major party vote. In these 46 cases, the safety clearly came before the cash-on-hand. Of the remaining 57, all 57 received 60 percent or greater of the major party vote in a subsequent election before accumulating a large amount of cash-on-hand or were elected before the FEC was created. This finding suggests that cash-on-hand is not necessary to create a safe seat. If cash-on-hand does not create seat safety, then the question of whether cash-on-hand deters challengers is not as important as many scholars have reported. Challenger quality might be correlated with cash-on-hand, but if cash-on-hand cannot insulate an incumbent from close elections, high quality challenger or not, then incumbents should have little utility for large amounts of cash-on-hand when it comes to creating a safe seat.

If seat safety came before the accumulation of cash-on-hand, then cash-on-hand is not causing seat safety. Seat safety is not a function of a large amount of cash-on-hand, and therefore, must be a function of some other election characteristic. In the next section I will expand the four type typology to include a third category of high and low receipts. The results of the analysis in chapter 3 suggest that by including receipts in this typology I should see that candidates with safe seats are raising less money than incumbents with marginal seats. This expanded typology will further test the theory that the determinant(s) of seat safety are responsible for most, if not all, campaign and financial patterns as well.
Section Two: Including Receipts in the Typology

The war chest hypothesis finds mixed support in the data when considering cash-on-hand and the marginality of congressional seats. With these two measures, the majority of cases were consistent with the war chest hypothesis. While the war chest hypothesis is consistent with a majority of the cases, only 44.6 percent of incumbents with safe seats had a substantial amount of cash-on-hand. Finally, among the incumbents with high cash-on-hand and a safe seat, the safe seat came before the high amounts of cash-on-hand.

Since the earlier regression results in Table 3.1 suggested that cash-on-hand and receipts are significantly related in opposite directions to previous election outcomes, adding a classification of each incumbent’s fundraising effort during the 1995-96 election cycle could provide more information about incumbents’ financial activities and strategies. For the following typology, I include the same measures of the marginality of congressional seats and high and low cash-on-hand as in the first typology. I also add a measure of high and low receipts to each of the four incumbent types from the first typology. Total receipts are measured as the sum of all funds collected during the 1995-96 election cycle. An incumbent with high receipts is defined as collecting the mean total receipts of $727,828 for all incumbents in the 1995-96 election cycle, or more. An incumbent with low receipts is defined collecting less than the mean total receipts. There are 135 incumbents with high receipts and 225 with low receipts in the sample. Adding receipts to the previous four types yields eight different types of incumbents.
Table 4.2 reports the frequency distribution of the 360 incumbents across the eight incumbent types. Total receipts adds significant information to the typology, and draws the explanatory power of the war chest hypothesis further into question. While the first four type typology provided mixed support for the war chest hypothesis, the addition of fundraising patterns to the typology highlights inconsistency between seven of the eight incumbent types (types two through eight) and the war chest hypothesis. Only type one incumbents remain consistent with the expectations of the war chest hypothesis when considering fundraising practices.

First, the presence of type one incumbents is consistent with the war chest hypothesis when including fundraising patterns in the typology. Type one incumbents have low cash-on-hand, marginal seats, and high receipts. The war chest hypothesis explains the behavior of type one incumbents because according to the war chest hypothesis we should expect to see incumbents with low cash-on-hand and marginal seats raising a substantial amount of money in an attempt to build a war chest. Type one incumbents raised an average of $1.2 million in an attempt to win re-election, which satisfies the expectation. $1.2 million is nearly double the mean receipts in the sample of $727,828.

Second, the presence of the 45 type two incumbents (low cash-on-hand, marginal seat, low receipts) initially supported the war chest hypothesis along with type one incumbents, as they had a marginal seat and low cash on hand in the first typology. Once receipts are included in the typology, however, that conclusion is questionable. This
incumbent type is inconsistent with both the war chest hypothesis and the long-standing assumption in the campaign finance literature that incumbents can raise as much money as needed. If war chests deterred challengers and created safe seats, then we should not expect to find type two incumbents because marginal seat incumbents would be raising a substantial amount of money to build a war chest, deter challengers, and secure safe seat status.

While all incumbents, on average, had $108,608 in cash-on-hand at the beginning of the election cycle, type two incumbents averaged only $19,614. With such little cash-on-hand, the war chest hypothesis would expect to see these incumbents raise a significant amount of money to begin building a war chest. Type two incumbents, however, raised nearly $200,000 less, on average, than the full sample of incumbents. 43 of the 45 type two incumbents again failed to raise and save enough money in the 1995-96 election cycle to build a large war chest for the 1997-98 election cycle. Type two incumbents averaged just over $50,000 in cash-on-hand in 1997, not nearly enough to deter a potential challenger. Type two incumbents are clearly not explained by the war chest hypothesis, as they do not raise or save enough money.

Next, The 27 type three incumbents (low cash-on-hand, high fundraising, safe seat) remain inconsistent with the war chest theory. These incumbents, on average, had little cash-on-hand remaining in 1997, while raising over one million dollars in the 1995-96 election cycle. Type three incumbents raised significant amounts of money in many
election cycles before 1995-96, but also spent most of the money before the end of the election cycle. These data suggest that type three incumbents raise as much money as they need in each election, but no more.

Type four incumbents (low cash-on-hand, safe seat, low receipts) are the most problematic candidates for the war chest hypothesis, as type four was the modal type with 101 incumbents. When considering receipts, this type becomes even more problematic for the war chest theory, because on average, type four incumbents raised much less money than the average incumbent, spent nearly all they raised, and continue from election to election with a safe seat and low cash-on-hand. Type four incumbents maintain safe seats without a large war chest. They maintain a safe seat with a low amount of cash-on-hand and little fundraising because their seats are safe regardless of how much money they raise, spend, or save.

Next, regardless of how much money the 12 type five (high cash-on-hand, marginal seat, high receipts) and type six (high cash-on-hand, safe seat, low receipts) incumbents collect in new fundraising, holding high cash-on-hand in a marginal seat is completely inconsistent with the war chest hypothesis. The addition of receipts to the analysis of these two types does not add much more evidence.

At first glance, type seven incumbents (high cash-on-hand, safe seat, high receipts) appear to meet the expectations of the war chest hypothesis. While these incumbents had a substantial amount of cash-on-hand (more than three times the average for all incumbents), they also collected an extraordinary amount of new campaign money (nearly twice the average for all incumbents). Type seven incumbents had added several
hundred thousand dollars to their reserves of cash-on-hand in each campaign between 1993 and 1997. As a war chest grows in size, it should begin to provide diminishing returns in terms of deterrence once it reaches a deterrent level. Adding $100,000 to a small war chest should have a bigger effect on deterrence than adding $100,000 to a large war chest of $300,000 or more. Type seven incumbents averaged over $350,000 in cash-on-hand in 1995, and raised an additional $1.2 million each. If these incumbents have so much cash-on-hand, why are they raising, and saving, even more money?

The answer to why type seven incumbents are so active in campaign finance can be found in their resumes. The 28 type seven incumbents include some of the most high profile representatives in the House, including Representatives: Kennedy (MA-8), considering running for Governor of Massachusetts; Schumer (NY-9), considering running for Governor of New York in 1996 or for Sen. D’Amato’s Senate seat in 1998; Gingrich (GA-6), the Speaker of the House; Hastert (IL-14), the Chief Deputy Majority Whip and future Speaker, as well as chair of the Health and the Environment Committee; Menendez (NJ-13), the Chief Deputy Minority Whip; and Paxon (NY-27), the chairman of the National Republican Congressional Committee. In addition to these examples, there are 22 other incumbents who hold committee chairmanships, were considering higher office, or held other party or House leadership positions. These incumbents’ cash-on-hand and fundraising patterns are better explained through their aspirations for higher office, or proving their fundraising capabilities to the House leadership, than building a war chest. Furthermore, as discussed in section 1, these 28 incumbents all established a safe margin of victory before they accumulated large reserves of cash-on-hand.

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Finally, the analysis of type eight incumbents also changes when including fundraising patterns. Type eight incumbents hold a great amount of cash-on-hand, do little fundraising, and hold a safe seat. Type eight incumbents, therefore, should be the quintessential war chest incumbents as they are able to protect their safe seats with a large amount of cash-on-hand. The war chest hypothesis assumes that incumbents employing war chests purposefully raise enough money in each election cycle to cover campaign expenses as well as build a war chest with large amounts of unspent money. The fundraising data for type eight incumbents, however, do not support this conclusion.

Examining the rate at which type eight incumbents increase their cash-on-hand from election to election, there is a distinct pattern that is consistent with the earlier finding that these incumbents established safe seats before accumulating large reserves of cash-on-hand. It appears that many type eight incumbents accumulate a small amount of money in each election, and that money, over time, accumulates into a sizeable amount of cash-on-hand. During any election, however, these incumbents may spend their reserves of cash-on-hand down to substantially lower levels only to recuperate losses in a subsequent campaign. Given these fundraising data, it appears that a war chest, in the form of high cash-on-hand is a by-product of spending less during re-election campaigns, while low cash-on-hand is a by-product of spending more during re-election campaigns.

With the addition of receipts to the typology, the war chest hypothesis cannot clearly explain the relationships between financial patterns and election performance.
Given these data, the war chest hypothesis cannot explain why incumbents are able to create or protect safe seats, which calls into question whether building a war chest has any significant value.

**Section Three: Analyzing Incumbent Types Over Time**

In the previous two sections, I tested the relationship between cash-on-hand and seat safety, and the relationships between cash-on-hand, receipts, and seat safety. These analyses revealed that while higher cash-on-hand is associated with safe congressional seats, incumbents build safe electoral margins before they accumulate large amounts of cash-on-hand. When including receipts in the typology, the war chest hypothesis is left with even less support. Incumbents that might have been classified as building a war chest when considering cash-on-hand alone were in fact acting quite differently when receipts were considered in the analysis.

These typologies, however, may be reporting only short term trends or election specific correlations, rather than explaining long term characteristics. It is possible that the typologies are useful for classifying candidates within an election, but do not provide valid information about incumbents across elections. For example, the specific type within a single election may provide very little information about an incumbent’s long term election horizons because incumbents may switch from type to type rather fluidly across elections. If the incumbent types are fluid, the classifications are not very useful beyond sorting candidates by election specific characteristics. If the incumbent types are consistent, the typology is providing long term information about incumbents.
To test this possibility, I will compare incumbents’ types over time. For this analysis I classified the sample incumbents from each election during the 1990s including the 1992 through 2000 elections using the three category typology described in section two. I then compared each incumbent’s type from election t with his or her type from election t+1. This procedure created 982 pairs of incumbent types. Within these 982 pairs, there were 149 type one incumbents, 119 type two incumbents, 79 type three incumbents, 318 type four incumbents, only 21 type five and 15 type six incumbents, 86 type seven incumbents, and 195 type eight incumbents. The distribution of types over time is nearly identical to the distribution in the 1995-96 election cycle in section two. Because types five and six have so few cases, I will not include these types in the analysis of the type consistency. Among the six most prevalent types, 49 percent of the candidates repeated their incumbent type across elections. This examination revealed that the combined incumbent types have limited consistency over time. There is more consistency, however, among those incumbents who are most problematic for the war chest hypothesis.

I concluded that type four incumbents were the most problematic for the war chest hypothesis because they were the modal type in the data and were able to maintain a safe seat with low cash-on-hand and low fundraising. One might question whether type 4 incumbents are able to maintain their safe seat status over longer periods of time without much cash-on-hand or many new receipts. A closer examination of type four incumbents over time suggests that they can maintain their safe seat. 60 percent of type four incumbents (192 of 318) repeated their type four classification in consecutive
elections. Among the remainder who changed types, only 53, or 16 percent, lost their safe seat status and switched to types one, two, five, or six (the marginal seat types). Type four incumbents are able to maintain their safe seat status overtime without raising or saving a great deal of campaign money.

Moving from low cash-on-hand and marginal seats (types one and tow) to high cash-on-hand (types five, six, seven, and eight) proved equally difficult. Only 33 of 185 (18 percent) type one incumbents, and only 26 of 145 (18 percent), accumulated high cash-on-hand by the subsequent election. It is therefore quite difficult to accumulate high cash-on-hand from a marginal seat. This suggests that if cash-on-hand does deter challengers, it would be difficult for those incumbents who could benefit from the deterrent effect to collect the necessary cash-on-hand.

Most type four incumbents were able to maintain a safe seat without much money. If money does not keep type four incumbents safe, then perhaps money is not the solution to why some incumbents are able to maintain safe seats while others struggle for reelection in each campaign. If campaign funds are not responsible for the cleavage between incumbents in safe seats and incumbents in marginal seats, we need to look at other election characteristics to explain this difference. Each of these preliminary analyses cast doubt over the war chest hypothesis as an adequate explanation for the relationships between cash-on-hand, receipts, and seat safety. Taken together there is mounting evidence that there must be another explanation for the relationships between these election characteristics.
Conclusion

In this chapter I began investigating the relationships between cash-on-hand, receipts, and marginality with a preliminary analysis. Through this preliminary analysis I investigated whether cash-on-hand causes safe seats or if safe seats cause cash-on-hand. This is an important first step in the investigation because the central tenant of the war chest hypothesis is that cash-on-hand in reserve insulates incumbents from electoral competition and creates safe seats. It was therefore crucial that I test this aspect of the hypothesis as my goal is to understand the relationship between cash-on-hand, receipts, and electoral success.

I began the analysis by creating a four type typology that classified each incumbent based on his or her cash-on-hand and marginality. In this first analysis I concluded that the majority of the cases were classified in types consistent with the war chest hypothesis, and that the war chest hypothesis could explain the distribution of the data. Though, it was notable that most of the cases that were consistent with the war chest hypothesis were incumbents in marginal seats with low cash-on-hand rather than incumbents in safe seats with high cash-on-hand.

Second, I expanded the four type typology to include incumbents' receipts. Adding receipts to the typology differentiated between incumbent types that were consistent and inconsistent with the expectations of the war chest hypothesis. Receipts provided insight into the incumbents' intentions and were therefore useful in determining whether or not incumbents were intentionally trying accumulate funds. I concluded in this analysis that only one of the eight types was consistent with the war chest hypothesis.
The 72 incumbents classified as type one incumbents were deemed consistent with the war chest hypothesis represented just 20 percent of the sample.

In the third analytical section, I recognized the possibility that the typology I was using could be reporting short term election characteristics but not long term career characteristics. I determined that if the same incumbents were classified in different types across elections that the typology was providing only information about election specific characteristics. Alternatively, if there was consistency in incumbent classification over time, then the typology was providing long term information about incumbents’ careers. I therefore compared the expanded types over five elections in the 90s and determined that there was reasonable consistency across elections as 49 percent of incumbents repeated their incumbent type from election t in election t+1.

Each preliminary analysis led to the conclusion that the war chest hypothesis does not do a particularly good job of explaining the relationship between cash-on-hand, receipts, and seat safety. If the war chest theory cannot explain these relationships, and cannot explain why some incumbents have safe seats while others languish through close reelection after close reelection, there must be another explanation.

In the next chapter I will begin to seek that explanation by designing and testing a measure of the competitive balance in a congressional district. Chapter 5 will first examine the literature on measures of the normal vote, and compare the advantages and disadvantages of each measure. Next I will construct a measure of the competitive balance and test it for validity. Once constructed, this measure will be ready for use in chapter 6, which is the central analytical chapter for the dissertation.
<table>
<thead>
<tr>
<th>Incumbent Types</th>
<th>Incumbents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type LM (low cash-on-hand and marginal seat):</td>
<td>117</td>
</tr>
<tr>
<td>Type LS (low cash-on-hand and safe seat):</td>
<td>128</td>
</tr>
<tr>
<td>Type HM (high cash-on-hand and marginal seat):</td>
<td>12</td>
</tr>
<tr>
<td>Type HS (high cash-on-hand and safe seat):</td>
<td>103</td>
</tr>
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</table>

Table 4.1: Frequency of Each Incumbent Type Among the 360 Incumbents in the 1995-1996 general election
<table>
<thead>
<tr>
<th>Incumbent Types</th>
<th>Incumbents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1 (low cash-on-hand, marginal seat, high fundraising):</td>
<td>72</td>
</tr>
<tr>
<td>Type 2 (low cash-on-hand, marginal seat, low fundraising):</td>
<td>45</td>
</tr>
<tr>
<td>Type 3 (low cash-on-hand, safe seat, high fundraising):</td>
<td>27</td>
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<tr>
<td>Type 4 (low cash-on-hand, safe seat, low fundraising):</td>
<td>101</td>
</tr>
<tr>
<td>Type 5 (high cash-on-hand, marginal seat, high fundraising):</td>
<td>8</td>
</tr>
<tr>
<td>Type 6 (high cash-on-hand, marginal seat, low fundraising):</td>
<td>4</td>
</tr>
<tr>
<td>Type 7 (high cash-on-hand, safe seat, high fundraising):</td>
<td>28</td>
</tr>
<tr>
<td>Type 8 (high cash-on-hand, safe seat, low fundraising):</td>
<td>75</td>
</tr>
</tbody>
</table>

Table 4.2: Frequency of Each Incumbent Type Among the 360 Incumbents in the 1995-1996 general election
CHAPTER 5

DEVELOPING AND TESTING A MEASURE OF THE COMPETITIVE BALANCE

I began the analysis in chapter 4 by examining the relationship between cash-on-hand and seat safety by creating two typologies. The typologies provided a simple analysis through which I examined the correlation between cash-on-hand and seat safety, the timing of when in their careers incumbents accumulated large amounts of cash-on-hand, and why some incumbents were able to insulate themselves from competition while others could not. Finally, I explained that the incumbent types could be used over time to follow incumbents’ House careers and to explain why some incumbents are destined for a short rather than a long career.

These preliminary analyses served the purpose of documenting that cash-on-hand could not explain seat safety as incumbents with safe seats reached seat safety before collecting large amounts of cash-on-hand. This result begged the question of what if anything explains why some incumbents are insulated from electoral competition while others are not. In chapter 3 I suggested that a measure of the competitive balance in a
congressional district might explain seat safety and serve as a valuable tool in explaining incumbent and challenger financial behavior. In this chapter I will develop and test a measure of competitive balance. I will create this measure by averaging the vote share for major party presidential candidates over three elections in the 1990s and two in the 1980s. After developing this measure, I will test its validity by analyzing the incumbents in competitive and noncompetitive districts. I will also test the measure's validity by comparing results using data from the 1980s and 1990s among congressional districts that did not change their boundaries after the 1990 census.

The Literature on Measuring the Normal Vote in Congressional Districts

Support for congressional candidates begins with the distribution of voters within a congressional district. It is likely that a Republican, no matter how highly qualified or well funded, will not win an election in a district without Republican voters. For instance, scholars have controlled for southern states in voting models because the Republican Party was not competitive for decades in the south. Southern states' congressional seats were filled by Democrats because there was not enough support for Republicans to win. While the two major parties have increased the competitive balance nationwide, there remain certain districts in which one party's candidates have an overwhelming advantage based on the distribution of voters in the district. Measuring this distribution is critical in understanding whether districts are competitively balanced or unbalanced.

The critical question is how can a single measure capture the competitiveness of a district? The literature suggests that the best way to estimate the competitive balance in a congressional district...
district is to measure the normal vote. In *The American Voter*, Cambell, Converse, Miller, and Stokes (1960) were the first to outline the importance of party identification in voting. According to Campbell, Converse, Miller, and Stokes, party identification directly affects voting, but also indirectly affects voting through other attitudes about the candidates and issues in an election. Since this seminal work, scholars have attempted to estimate the normal vote in a congressional district to serve as the baseline advantage of one party’s candidates over the other party’s candidates, other things being equal.

These attempts have not, however, been without controversy as the specifications of the normal vote have been criticized for including many biases. The most important criticism, with respect to my purpose here, is that partisanship is not completely exogenous to voting. Scholars have charged that while partisanship is a causal factor in determining vote choice, partisanship is in part determined by past vote choices.\(^5\)

Converse (1966) first suggested the concept of a normal vote; that is the expected percentage of the electorate that would vote each major party’s candidate when the electorate on the whole does not have a strong preference for one candidate over another and specific election issues do not particularly benefit or hinder either candidate. Converse theorized that the vote consists of two critical components. The first component is long term party loyalty. The second component is the short term effect of voters’ issue and candidate evaluations during particular elections. According to Converse, long term party loyalty should determine the expected vote in a district if the short term effects in an election favor neither candidate. Converse wrote that the first component is much more powerful than the second because as voter turnout declines, the

\(^5\) For a more detailed discussion of this and other criticisms of the normal vote literature see Petrocik (1989).
partisan majority will become more likely to win the election. It is the second component of short term evaluations that allow the partisan minority to overcome their initial vote deficit by attracting independent voters and defections from the other party.

Scholars have measured the normal vote using the percentage of party members or identifiers in a congressional district, congressional vote share, presidential vote share, statewide candidates’ vote shares, lagged congressional vote shares, averages across several elections, and combinations of two or more of these variables.

Kabaker (1969), for instance, measured the normal vote using an average of the lagged congressional vote over three election years using data from post-world war elections. Kabaker used congressional districts that did not change their borders over a minimum of three election cycles to average the support for the major parties’ congressional candidates. Kabaker coded districts in which one party garnered at least 55 percent of the vote as safely controlled by that party.

Bond, Covington, and Fleisher (1985) measured the normal vote for the incumbent’s party in the district using the average vote for president, governor, and senator across three elections in 1974, 1976, and 1980. Bond, Covington, and Fleisher noted that this measure is not influenced by individual candidates or specific election trends (local or national) as it averages results over a three different offices and election years (1985, 522). They also included a measure of Converse’s second component of short term election forces by measuring the incumbent’s lagged vote share.

Kousser (1996) estimated the partisan consequences of redistricting plans using a measure of party support that included each party’s share of the presidential vote and the
percentage of registered party members in a congressional district. Kousser tested this measure of party support using data from California, North Carolina, and Texas and the measure correctly predicted 90 percent of the winners in the California Assembly and congressional elections from 1970 through 1994, and predicted between 75 percent and 90 percent of the winners in North Carolina and Texas from 1980 to 1992.

Bullock and Shafer (1997) tested a tool used by the Republican Party called the Optimum Republican Voting Strength formula (ORVIS). This tool combined the lagged vote for statewide offices and president at the district level to correctly predict the likely success of challengers in US House elections in Georgia. This measure, like the Kousser measure, used only one lagged election to predict election outcomes.

Ansolobehere, Snyder, and Stewart (2000) averaged the Democrats' share of the presidential vote over three elections within each county to test the change in support for incumbents after redistricting. Averaging presidential election outcomes across several elections provides a more valid measurement of party strength in a district because it minimizes the affects of a blowout on the measure. For instance, if a district was very competitive between the parties, but the Democrats had a particularly weak candidate in the election chosen for the normal vote measure, a measure using a single election would under-report support for Democrats in the district. Using the average support over three elections minimizes this impact and better represents the actual support in each district for the two parties.

Each of the examples from the literature follows a slightly different method of measuring the normal party vote within a congressional district. Each has various
advantages and disadvantages. In the next section I will discuss my choice of operationalization, the advantages and disadvantages of this operationalization, and the advantages and disadvantages of other possible operationalizations.

Developing the Measure of the Competitive Balance in Congressional Districts

Following the extant literature, my measure of the normal vote for the incumbent’s party is the average presidential vote over two elections in the 1980s (1984, 1988), and three in the 1990s (1992, 1996, 2000). Averaging presidential voting percentages over time to measure the normal vote in a district is more advantageous than including election results for statewide office, voters’ party identification, or any measure using data from only one election. In this section I will outline the advantages and disadvantages of each measure of the normal vote. I will first discuss the advantages and disadvantages of averaging the presidential vote over time. I will then explain the advantages and disadvantages of the other possible measures.

First, the presidential vote is available for every district, and all districts have the same major party candidates on the ballot. This is important because measures using statewide elections compare elections from different years, with different election characteristics, and candidates of varying quality. For example, including gubernatorial or senatorial election results in the measure would introduce a certain amount of bias because state level issues would impact the vote outcome more than with presidential balloting.

Second, an ideal measure of a congressional district’s competitive balance would measure the number of Democrats and Republicans within each district and their voting
tendencies for non-congressional candidates. Unfortunately, party membership data is not available for every congressional district. While some states collect and publish party membership data, states that do not require party membership through voter registration or primary election voting cannot supply this information. Table 5.1 lists the 28 states that report party membership data and the 22 states that do not. Aside from only having party membership data on a little more than half of the states, there are some patterns within the states that do and do not report party membership that make using party membership as a measure of the competitive balance problematic. First, only three southeastern states, North Carolina, Louisiana, and Florida report this data. Second, some of the most populous states in the nation (Texas, Illinois, and Michigan) do not report this data. Analyzing elections in only 28 states without most of the southeastern states or Texas, Illinois, and Michigan will necessarily increase the bias in the analysis.

Finally, party registration is not the best measure of voting intention. In states like Ohio, party registration is determined when voters vote in primary elections. If a voter chooses to vote in the Democratic primary the voter is recorded as a Democrat, while the same is true for Republican primary voters. Party registration in Ohio is rather fluid as the voter does not have to actively choose a political party by filling out paperwork. Alternatively, a state like Pennsylvania requires voters formally change their registration long before an election. The importance of this is that if voters have the option of changing their registered party on election day, registration provides less information than if voters must experience some added cost in changing their party registration. Furthermore, party membership can be misleading depending on how active
the local parties are in recruiting new party members. If a local party is extremely active and registers as many people as possible the registration numbers will overstate the underlying support for party candidates. Similarly, if a local party is extremely inactive in registering new members, then the registration figures may be under-reporting the actual support for a party in a district.

The third advantage of using average presidential support as a measure of the competitive balance in a congressional district is that it is unlikely that a congressional campaign would affect the outcome of the presidential vote. Using the presidential vote to measure the competitive balance, therefore, will avoid problems with colinearity between the measure of the competitive balance and the congressional vote. Presidential elections often affect congressional elections through a coat tails effect, but the reverse is probably not true. Presidential coat tails are part of the national party tides. If an election year is good for one party at the presidential level the effect is likely to be the same on the congressional level. Congressional campaigns may, however, affect the outcomes of elections for less advertised offices like state attorney general. Including statewide offices like attorney general in a measure of the competitive balance is therefore problematic as it may create colinearity.

I could measure the competitive balance with other measures such as averaging lagged congressional results, individual statewide election results from gubernatorial or senatorial races, a combination of races, or the number of party voters in each congressional district. The argument for using election results from other races is that by increasing the number of races we get a more unbiased description of each district
because we would be relying less on a single election with specific issues. Averaging three presidential races, however, should decrease an uncontested or blowout race’s impact on the measure of the competitive balance. For instance, in 1984 the Republican ticket of Reagan-Bush trounced the Democratic ticket of Mondale-Ferraro. Reagan’s landslide victory under represents support for Democratic candidates nationwide because the Democratic candidates were often so unappealing that many Democrats voted for the Republicans, or failed to vote. If a more appealing Democrat ran, the Democratic vote totals may have been significantly higher. Including election results of other statewide candidates in a measure of the competitive balance may help decrease the under representation of support.

There are, however, many problems in using statewide election results in this measure. I will first discuss using election results for senatorial candidates, then gubernatorial candidates, and finally other statewide election results. Using election results for Senatorial candidates would create a number of biases because of the six-year election cycles, the party id of the other senator from the state, and the possibility of cross promotion between House and Senate candidates. A measure including senatorial election results must control for the party id of the other senator representing a state. The literature on senate elections notes that voters consider the balance of the state’s representation in the Senate when choosing a senator. While it is a safe assumption that congressional races do not impact the results of presidential races, it is much more likely
that a congressional race would impact the results of a senatorial race. Races for these offices use similar issue agendas within a state and are much more likely to impact each other.

Using gubernatorial election results as a predictor of the competitive balance is problematic because roughly half of the gubernatorial races are during mid-term election years. Mid-term elections introduce bias that generally favors the out party but also opens the measure to more state level effects.

Using other statewide election results for lower offices like attorney general or treasurer introduces even more bias from state level effects. It is not clear whether voters rely on the same characteristics when voting for lower statewide offices as higher offices. Results from lower statewide elections, therefore, might not be the best elections for use in measuring the competitive balance in a district. Alone, each of the preceding races would introduce bias through state level effects. Combining races for these offices in a measure of the competitive balance compounds the biases of state level effects.

Perhaps the least advantageous method is to average lagged congressional results. Gronke (2000) measured the normal vote by averaging the results of the last four congressional elections to estimate the partisan balance in a congressional district. This measure, in comparison with the preceding measures, is perhaps the most flawed. By averaging lagged congressional elections, Gronke is measuring both the partisan balance and the incumbency effect. This measure is unsuitable for my purpose as it is
endogenous to incumbent behavior. As such, it would be impossible to determine whether the competitive balance within a district was due to the partisan balance or the incumbent’s long term campaign activities.

Given the advantages of averaging the presidential vote over time and the disadvantages of the other possible measures, I operationalize my measure of the competitive balance in congressional districts using the Democrats’ share of the major party presidential vote across three elections in the 1990s. I will also create a measure of the competitive balance using data from the two presidential elections in the 1980s. This measure provides a scale running from 0 to 100 percent of the vote. From this scale I chose cut points of 40 percent and 60 percent to create a break between competitive and noncompetitive districts creating a dichotomous measures of the competitive balance. Districts in which the Democratic presidential candidate won 40 percent or less, or 60 percent or more, of the major party vote, were coded as noncompetitive, while other districts were coded as competitive.

This procedure follows my operationalization of a safe congressional seat in chapter 4. Similar to congressional elections, winning three presidential elections with an average of 60 percent or more of the major party vote demonstrates one party’s domination in the district. Putting 60 percent of the major party vote into context is possible by examining the margins of victory of presidential candidates nationwide. For example, the last presidential candidate to win more than 60 percent of the major party vote nationwide was Richard Nixon in 1972 when he defeated George McGovern with
61.7 percent of the major party vote. Winning 60 percent of the major party vote is a difficult feat and reflects the overwhelming support for one party in a district.

Using this operationalization I classified 130 of 360 districts as noncompetitive districts, and 230 as competitive. If this measure is accurately measuring the underlying support for parties' candidates it then means that one-third of congressional districts are nearly out of reach for one of the major parties, while two-thirds are competitive.

Considering the importance of elections in terms of representation of constituents, if one-third of elections are out of reach for one of the major parties, then there are substantial implications for democratic theory and congressional elections. In terms of control of the House of Representatives, having one-third of the seats out of play each year adds considerable value to the two-thirds of the seats that are competitive.

Furthermore, what would the implications be if one party had the competitive advantage in many more noncompetitive districts than the other party? Using this measure, there are 86 Democratic leaning, and 42 Republican leaning, noncompetitive districts. What might explain why the Democrats have a roughly two to one advantage in terms of noncompetitive seats? One convincing explanation is the Democratic party's advantage in most major metropolitan areas. Cities like New York, Chicago, and Los Angeles have large populations of generally Democratic leaning minority voters.

In this section, I began to examine this measure of the competitive balance in congressional districts. In the next section I will begin to test this measure's validity.
Testing the Measure of the Competitive Balance in Congressional Districts

Dividing districts into competitive and noncompetitive districts provides an interesting dichotomy with which I can begin to test my hypotheses. This measure also creates a self-contained test of the measure's validity. If the measure is validly measuring the competitive balance I should observe two patterns in the data. First, I should only observe Democrats serving noncompetitive districts that voted for Democratic presidential candidates at a rate of 60 percent or more. These districts are observed to be Democratic leaning and should therefore have a Democratic representative. Similarly, I should observe only Republicans in noncompetitive districts that voted for Democratic presidential candidates at a rate of 40 percent or less. These districts are interpreted as Republican leaning and should therefore only have Republican representatives. If I observe a large number of Republicans serving in noncompetitive, Democrat leaning, districts, or a large number of Democrats in noncompetitive, Republican leaning, districts, then the measure is not validly estimating the competitive balance. In other words, these incumbents can be thought of as "fish out of water" as they serve districts that should be represented by incumbents from the other party.

Of the 42 Republican incumbents in noncompetitive districts, 35 serve Republican leaning districts, leaving seven Republicans serving Democratic leaning districts. Of the 86 Democratic incumbents in noncompetitive districts, 82 serve Democratic leaning districts, and four serve Republican leaning districts. With seven republicans (Jay Dickey AR-4; Michael Flanagan IL-5; Peter Blute MA-3; Peter Torkliden MA-6; Constance Morella MD-8; Jack Quinn NY-30; Scott Klug WI-2) and
four Democrats (Gene Taylor MS-5; Ralph Hall TX-4; Charles Stenholm TX-17; William Orton UT-3), eleven incumbents were serving in districts so dominated by the other party that these incumbents should not be in office.

Closer examination of these eleven incumbents, however, produces an explanation. Of the eleven incumbents, three were first elected on the heels of scandal ridden incumbents in the opposite party (Michael Flanagan defeated scandal ridden Dan Rostenkowski; Peter Blute defeated Joe Early who was involved in the House Bank scandal; Peter Torklidsen defeated Nicholas Mavroulas who was indicted and pled guilty to tax evasion and bribery). All three of these incumbents, and two more (Jay Dickey and William Orton), lost re-election in 1996, 1998, or 2000.

The other six fish out of water incumbents included three liberal, northern, Republicans (Constance Morella, Jack Quinn, and Scott Klug) and three conservative, southern, Democrats (Gene Taylor, Ralph Hall, and Charles Stenholm). These six incumbents remain on the fringe of their parties with respect to ideology and are some of the most liberal Republicans, and most conservative Democrats, in the House. Their lifetime average ADA scores (Democrats Taylor 28, Hall 15, and Stenholm 28, and Republicans Morella 65, Quinn 32, and Klug 34) exemplify this for four of the six. From their lifetime average ADA scores it appears that Taylor, Hall, Stenholm, and Morella all vote against their party position with regularity.

From the ADA scores it is less obvious that Quinn and Klug are maverick Republicans. Quinn is a moderate Republican who has won support in a heavily Democratic district by meeting the constituents needs on key issues in the district. He
earned the support of the AFL-CIO by splitting from the Republican Party and voting against NAFTA (1993), for a striker replacement bill (1993), and was the lead Republican in supporting a minimum wage increase (1996) (Barone and Ujifusa 1997). Klug was one of Speaker Gingrich's main liaisons with moderate Republicans (Barone and Ujifusa 1997).

Another test of the measure's validity is to compare measures using data from the 1980s and 1990s. If the measure is consistent over time, it is a more valid measure. Comparing measures from different decades is complicated by redistricting. Congressional districts that change their boundaries cannot be included in such a comparison. Of the 360 districts in the data set, 61 did not significantly change borders. I determined which districts changed by looking at the congressional maps before and after the redistricting as well as consultation with the Almanac of American Politics. One significant problem is of the 61 districts that did not change, there are no major metropolitan areas. The 61 districts include districts at large and districts that did not have much population change. The lack of major metropolitan areas has a significant effect on the pool of noncompetitive districts under consideration in the comparison. A large percentage of the large cities lean towards the Democratic Party. Without these districts, my comparison is biased towards conservative districts. Only 33 of the 61 unchanging districts were consistently competitive or noncompetitive in both the 1980s and 1990s.
Conclusion

I began this chapter by examining previous attempts at operationalizing the normal vote in congressional districts and weighing the advantages and disadvantages of each. I concluded that the most advantageous operationalization was one that averaged presidential vote shares within congressional districts over several election years. I operationalized the measure of the competitive balance as the average major party vote share for the Democratic presidential candidate in each district across the three elections in the 1990s and across the two elections in the 1980s.

Using this measure is more advantageous than using election results from other offices because the specific candidates were similar for every congressional district and the election specific characteristics take the form of national tides rather than local or state forces. By averaging presidential vote shares the measure is insulated from the random fluctuations of specific presidential elections. Averaging vote shares prevents electoral blowouts from affecting the measure too much. Scholars have argued that including statewide offices like Governor or Senator can further insulate such a measure from the bias of specific presidential elections by increasing the number of candidates and races included in the measure. Including statewide offices however probably introduces more bias than it avoids by introducing too many state level issues and trends as well as the possible bias of off year elections for Governors and Senators.

After developing the competitive balance measure I tested the measure’s validity by examining the number of “fish out of water”, or Democrats in districts that the measure interprets as Republican leaning and Republicans in districts the measure
interprets as Democratic leaning. I concluded that the small number of fish out of water were explained by scandals and moderate voting records. First, Democrats could win seats in Republican leaning districts and Republicans could win seats in Democratic leaning districts when the previous incumbent suffered through a political or legal scandal. Second, fish out of water who were not elected on the heals of scandal were conservative, southern, Democrats and liberal, northern, Republicans. These fish out of water probably match the issue preferences of their districts even though their party label might suggest otherwise.

The second test of the measure’s validity was comparing the measure over time by comparing results for the 1990s with results from the 1980s. This test showed that just over half of the non-competitive districts in the 1990s were non-competitive in the 1980s. The results from this test are a bit muted because in order to test, I could only compare districts that did not change borders over time. This left mostly single district states and rural areas, and very few urban areas where many of the Democratic leaning noncompetitive districts are located.

With the results of these two tests, I concluded that the measure of competitive balance validly measures the underlying support within congressional districts for Democratic and Republican congressional candidates. In the next chapter I will begin to use this measure in testing the hypotheses laid out in chapter 3. I will test whether the competitive balance in a district affects incumbents’ fundraising and saving behavior.
### States with voter registration information (28)
- Alaska, Arizona, California, Colorado, Connecticut, Delaware, Florida, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Dakota, West Virginia, Wyoming

### States without party registration (22)
- Alabama, Arkansas, Georgia, Hawaii, Idaho, Illinois, Indiana, Michigan, Minnesota, Mississippi, Missouri, Montana, North Dakota, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin

Table 5.1 States that do and do not Collect and Report Party Membership Data
CHAPTER 6

EXPLAINING INCUMBENTS' FUNDRAISING PATTERNS

In chapter 5 I developed a measure of the competitive balance within congressional districts using the Democrats' share of the major party vote in the presidential elections in each congressional district averaged over three elections in the 1990s. This operationalization appears to have more advantages and fewer disadvantages than operationalizations using statewide election results or party registration data. Using average Presidential vote share in the district is more advantageous than using election results from statewide offices because: Presidential candidates were similar for every congressional district and the election specific characteristics take the form of national tides rather than local or state forces, the measure is insulated from the random fluctuations of specific presidential elections, avoids the bias introduced with statewide offices and state level issues and trends, and avoids the possible bias of off year elections for Governors and Senators. Furthermore, the measure passed several tests of validity and appears to be an accurate measure of the competitive balance within congressional districts.
I created this variable to measure the partisan support in each congressional
district for each major party. By dichotomizing the variable into competitive and
noncompetitive I can discern between districts in which I would expect to observe strong
challenges and districts in which I would expect to observe easy reelection for
incumbents. This measure will then allow me to test the effect of the competitive balance
on cash-on-hand and receipts.

In this chapter I begin to use the competitive balance measure to explain
incumbents' financial patterns. I perform two main analyses in this chapter. First, I
compare mean receipts and cash-on-hand between incumbents from competitive and
noncompetitive districts. Second, I use a two stage least squares (TSLS) regression
predicting incumbents' cash-on-hand in the first stage and receipts in the second.

In chapter 3, I proposed that members of congress live in two distinct worlds; the
competitive district and the noncompetitive district. I suggested that candidates' cash-on-
hand and fundraising are strategic responses to their competitive situations as determined
by district demographics and partisan composition. Thus, fundraising and cash-on-hand
are not determinants of candidates' electoral fortunes, but rather, they are manifestations
of the basic competitive structure of their districts, a factor largely out of their control.
My theoretical expectations for these analyses, therefore, are that cash-on-hand and
receipts are a function of the competitive balance within the congressional district.

In the first analysis I use the measure of the competitive balance to explain
incumbents' fundraising and cash-on-hand patterns in 1995-96 election cycle. I compare
incumbents' financial patterns during the 1995-96 election cycle and over the course of a
decade in order to validate my results from the first analysis. For this analysis I use financial data from the two election cycles before and after the 1995-96 election cycle.

In the second analysis I test hypotheses about incumbents' receipts using a TSLS regression. In this analysis I predict incumbents' receipts using variables representing incumbents' personal characteristics, lagged financial behavior, short term competition for the incumbents' seat, and long term competition within the district.

In the next section I will begin the analysis of incumbents' receipts and cash-on-hand. I start by examining data from the 1995-96 election cycle and then expand the analysis to include data from the 1991-92, 1993-94, 1997-98, and 1999-00 election cycles. Following this analysis is the regression model.

Testing the Relationship Between the Competitive Balance, Receipts, and Cash-on-Hand

In chapter 3 I hypothesized that the competitive balance within a district has a direct effect on incumbents' receipts and cash-on-hand. Table 6.1 summarizes these hypotheses. I propose that serving a competitive district causes incumbents to raise more money for each re-election campaign because these incumbents will need to spend more money than incumbents serving noncompetitive districts. Incumbents in competitive districts will also raise more money than incumbents in noncompetitive districts because these incumbents will need to spend more in fending off stronger challenges due to more support for the out party within the electorate. It is important to note that I specifically write stronger challenges rather than higher quality challengers. A low quality challenger can mount a strong challenge if there is a high level of support for the
challenger in the electorate. While it is probably more likely that a high quality challenger will have stronger electoral support than a low quality challenger, low quality challengers can run competitive campaigns. In noncompetitive districts, where incumbents do not face strong challenges as often, incumbents will raise and spend less money. Consequently, incumbents from competitive districts will have less cash-on-hand at the beginning of each re-election campaign while incumbents from noncompetitive districts will have more cash on hand. With each successive re-election campaign incumbents from noncompetitive districts accumulate unspent campaign funds while incumbents from competitive districts must spend most of their funds to fend off strong challenges.

A simple, yet powerful, test of these hypotheses is to compare the mean cash-on-hand and total receipts for each of the 349 incumbents in the data set. If my hypotheses are correct, I should find that incumbents from competitive districts should have higher mean total receipts and lower mean cash-on-hand than incumbents from noncompetitive districts. I will first test this relationship using data from the 1995-96 election cycle, my election of interest, and then confirm the results using data from the two elections before and after the 1995-96 election cycle. The results of this comparison are reported in Table 6.2.

Entering the 1995-96 election cycle, the 222 incumbents representing competitive districts had an average of $91,671 in cash-on-hand and collected an average of $786,672 during the election cycle. The 127 incumbents representing noncompetitive districts had an average of $135,717 in cash-on-hand at the beginning of the election cycle and

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6 In earlier chapters I used 360 incumbents, but 11 of those incumbents' districts were substantially changed due to mid-decade redistricting of originally minority-majority districts.
collected an average of $612,386 during the election cycle. Incumbents from competitive districts, therefore, began the 1995-96 election cycle with about $44,046 less in cash-on-hand than incumbents from noncompetitive districts. Substantively, a $44,000 difference in cash-on-hand means that incumbents from competitive districts had 32 percent less money before the election cycle began. Once the election cycle began, incumbents from competitive districts collected nearly $175,000 more than incumbents from noncompetitive districts. Incumbents from competitive districts, therefore, started with 31 percent less money, and raised 22 percent more than their counterparts from noncompetitive districts. Additionally, the difference in receipts and cash-on-hand between incumbents from competitive and noncompetitive districts is statistically significant.

Taken together, these results are consistent with the hypothesis that the competitive balance within a district affects incumbents' financial patterns. Incumbents from competitive districts have less cash-on-hand before election cycles begin, and collect more money during the election cycle than incumbents from noncompetitive districts.

Next I extend this analysis by including data from the 1991-92, 1993-94, 1997-98, and 1999-00 election cycles. By extending this analysis to more election cycles, I can test the results from the 1995-96 election cycle. If the relationships hold over the period of a decade, the results should allay concerns about possible anomalies in the data from
the 1995-96 election cycle. Table 6.2 reports the mean cash-on-hand and receipts in each
election cycle from 1991-92 through 1999-00, sorted by competitive and noncompetitive
district.

Incumbents’ mean receipts over the five election cycles are also consistent with
my hypotheses. In each of the five election cycles, incumbents from competitive
districts, on average, collected more money than incumbents from noncompetitive
districts. Incumbents from competitive districts, on average, raised $128,044 more than
incumbents from noncompetitive districts. The smallest difference in receipts came
during the 1991-92 election cycle when incumbents in competitive districts collected
$60,398 more than incumbents from noncompetitive districts, while the largest difference
came during the 1999-00 election cycles when incumbents in competitive districts
collected $203,071 more than incumbents from noncompetitive districts.

Also reported on Table 6.2 are the results of a difference of means t-test using the
group means of incumbents from competitive and noncompetitive districts in each
election cycle. According to these difference of means tests, the difference in receipts
between the two different types of districts were statistically significant in the final four
election cycles. In the 1993-94 and 1997-98 election cycles, the difference of means
were just short of significance at the .05 level. This test of statistical significance
confirms the earlier analysis.

While the results are consistent with my hypotheses on the relationship between
the competitive balance in congressional districts and receipts, these results are not
consistent with my hypothesis on the relationship between the competitive balance and
cash-on-hand. In two of the five election cycles, incumbents from competitive districts averaged a higher mean cash-on-hand than incumbents from noncompetitive districts. Furthermore, over the five election cycles, incumbents from noncompetitive districts had an average advantage in cash-on-hand of just $11,260. A total of $11,260, however, is not enough of an advantage to indicate that the competitive balance in a district has much of an effect on cash-on-hand, especially when incumbents from competitive districts had a higher average cash-on-hand in two of the three election cycles.

Mean cash-on-hand fluctuates more over time than I expected. With these initial results it appears that my hypothesis was incorrect, and the competitive balance has little impact on incumbents’ cash-on-hand. Furthermore, the difference in cash-on-hand between incumbents from competitive and noncompetitive districts was only statistically significant in one of the five election cycles. Cash-on-hand appears to be a residual of money that incumbents did not spend in the previous election cycle. An incumbent could be raising a great deal of money for future use, could have over-estimated how much money would be spent in the election cycle, could have had a weak challenger in the general election, or there could be some other explanation. I will re-evaluate this hypothesis after considering a regression predicting incumbents’ cash-on-hand.

To summarize the results thus far, I began by comparing mean financial values for incumbents from competitive and noncompetitive districts. I began by examining the differences between incumbents in the 1995-96 election cycle, my election of interest, and followed with an examination of the two election cycles before and after the 1995-96 election cycle. From these preliminary analyses I conclude that receipts appear to be
linked with the competitive balance in congressional districts. Consistent with my hypotheses, incumbents in competitive districts collect more receipts than incumbents in noncompetitive districts. However, district competitiveness does not do a very good job of explaining cash-on-hand.

Explaining Incumbents’ Receipts

To analyze these results further I next examine the relationship between the competitive balance and incumbents’ receipts and cash-on-hand using regression analysis. Cash-on-hand and receipts are closely related. Each is a function of similar election characteristics and each is a function of the other at different points in time. Thus, this analysis is complicated by the endogeneity between cash-on-hand and receipts, and therefore requires a two stage model. I will estimate incumbents’ cash-on-hand and receipts using the following equations:

\[ C = f(B, X_1, \mu_1) \]  
\[ R = f(B, C, X_2, \mu_2) \]

Where \( C \) is cash-on-hand, \( B \) is the competitive balance in the district, \( X \) is a vector of exogenous variables, and \( \mu \) is the associated error term. Cash-on-hand is a function of the competitive balance in the district and a vector of other variables representing election characteristics. Receipts are a function of the competitive balance in the district, cash-on-hand, and a vector of election characteristics. Cash-on-hand depends on factors correlated with the disturbance term in the receipts equation. Hence, cash-on-hand is
endogenous. Because the error terms in the two equations are correlated the covariance is not equal to zero and therefore violates an assumption of ordinary least squares regression.

To correct for this endogeneity I will use a two stage least squares regression to estimate incumbents’ cash-on-hand and receipts. In equation one I will use cash-on-hand at the beginning of the 1993-94 election cycle as an instrument in predicting cash-on-hand at the beginning of the 1995-96 election cycle to identify the model. I will predict incumbents’ receipts in equation two using predicted cash-on-hand as an explanatory variable. Using predicted cash-on-hand instead of actual cash-on-hand will remove the covariance between the independent variables and the error term, and correct for the endogeneity.

The variable of interest is the competitive balance variable indicating whether the congressional district is competitive. In addition, I control for incumbents’ personal characteristics (party id and seniority); financial behavior (lagged receipts and cash-on-hand as described above); lagged election characteristics (high quality challenger in 1994, defeated an incumbent in 1994, and ran unopposed in 1994); interaction variables interacting each of the control variables with the competitive balance variable; and a variable indicating whether the incumbent serves in a noncompetitive district that should be represented by an incumbent from the other party (fish out of water).

In the first stage of the model I predict cash-on-hand for use in the second stage. The results for the first stage are reported in column one of table 6.3. The most important result from this model is that cash-on-hand is mostly affected by short term election
effects not long term effects. The statistically significant variables in this model are cash-on-hand at the beginning of the previous election cycle, receipts collected during the previous election cycle, seniority, and the interaction term interacting the competitive balance variable with running unopposed in 1994.

First, it is important to note that like in the earlier analysis, the competitive balance in the district does not appear to affect cash-on-hand. Short term characteristics are much more important. Previous cash-on-hand appears to be the strongest predictor of contemporary cash-on-hand. A coefficient near one suggests that cash-on-hand grows slowly over time and during any campaign cash-on-hand is likely to end close to the amount at the beginning of the election. Receipts from the previous election also affect cash-on-hand. As incumbents raise more money, cash-on-hand increases marginally. One odd result from this regression is that seniority causes cash-on-hand to decrease by over $5,000 per term of experience. This is surprising because the lagged cash-on-hand variable suggested that cash-on-hand increases over time. An explanation for this puzzling result could be that as more senior members are redistricted they need to spend more money to maintain their reelection constituency and cash-on-hand therefore decreases.

The final statistically significant variable is the interaction term interacting running unopposed with the competitive balance. This coefficient has a rather large impact on incumbents serving competitive districts. Running unopposed in a competitive district causes cash-on to increase rather substantially. This is an interesting result but the two variables making up the interaction were not statistically significant on their own.
Summarizing the results from the first stage, it appears that cash-on-hand is a function of short term financial patterns, not short term electoral success or long term partisan success in the district. These results confirm my earlier finding that cash-on-hand is a residual effect of raising unspent campaign funds, not a strategic account.

I will now discuss the results from the second stage of the model reported in column two of table 6.3. I will first discuss the competitive balance and lagged vote share variables. Second, I will address the financial variables of lagged receipts and predicted cash-on-hand. Third, I will discuss the lagged opponent variables of high quality challenger, defeated an incumbent and running unopposed. Finally, I will discuss the personal characteristics variables of party id and seniority.

In the second stage, the most interesting result is the statistically significant relationship between serving a competitive district and aggregate receipts. Serving a competitive district, rather than a noncompetitive district, causes receipts to increase by $893,871, other things being equal. This result suggests that incumbents' fundraising patterns are based in part on the long term competitive situation in incumbents' districts. I created the competitive balance variable using the average presidential vote in each district over three election in the 1990s, so the variable approximates how competitive the district was over the course of the decade. Serving a competitive district has a large effect on incumbents' fundraising patterns. If long term competition in the district affects incumbents' fundraising behavior, does short term competition?

In the model, short term competition is captured by the incumbents' previous share of the major party vote. Short term competition is therefore the incumbents' most
recent electoral experience which should be freshest in the incumbents' mind when running for reelection. It is interesting that incumbents' previous vote share fails to reach statistical significance. Short term competition measured through vote share does not appear to affect incumbents' receipts, though the interaction term interacting lagged vote share with representing a competitive district is statistically significant.

Interpreting the previous vote share variable and the interaction with representing a competitive district provides an interesting result. As expected, both coefficients are negative. Increasing the previous vote share by one percentage point causes receipts to decrease by $3,361. When including the interaction term in the interpretation, increasing a competitive district incumbent's previous vote share by one percentage point causes receipts to decrease by $9,916. The same change for a noncompetitive district incumbent decreases receipts by only $3,361. Winning by a large margin has more of an effect on competitive district incumbents than on noncompetitive district incumbents. Competitive district incumbents collect $6,556 less for every percentage point than noncompetitive district incumbents. This finding suggests that while winning by a large margin in a noncompetitive district might be expected and therefore does not alter fundraising behavior too much, winning by a large margin in a competitive district might prove an incumbent's prowess and lead to less fundraising in the future.

On the whole, the results for the competitive district and previous vote share variables reflect that incumbents rely on their understanding of the long term competitive balance for making fundraising decisions rather than evaluations of short term success based on the fluctuation of each successive election result. While previous vote share
provides the incumbent and potential challengers information about how well the incumbent ran against a specific challenger under a specific set of election parameters the long term competitive balance provides information about how much support the incumbent is likely to have against any challenger and under different election circumstances. This information provides a better prediction of how well an incumbent is likely to fare, and therefore, how much money an incumbent is likely to need to meet the challenge.

The second set of variables in the model are the financial variables. As expected, one of the best predictors of incumbent receipts is incumbents' lagged receipts. Increasing lagged receipts by one dollar causes receipts to increase by $1.39. This statistically significant relationship reflects that incumbents raise about the same amount of money in each election with total amounts raising steadily over time. Conventional wisdom states that campaign receipts generally increase over time above and beyond inflation. The result in this regression is consistent with that inflationary pattern. If incumbent receipts were stagnant over time, we would expect to see a coefficient of one.

I also interacted lagged receipts with representing competitive district. This interaction term was statistically significant, but had a negative relationship with receipts. This interaction term indicates that lagged receipts had a different relationship with receipts in competitive and noncompetitive districts. For ease of interpretation, I will use the average receipts for sample incumbents during the 1995-96 election cycle of $555,728 as the example amount while interpreting this interaction term. Raising $555,728 during the previous election cycle and representing a competitive district would
cause an incumbent to raise an additional $1,344,011, while collecting the same amount of lagged receipts and representing a noncompetitive district would cause receipts to increase by $772,462. A competitive district incumbent would therefore raise $571,549 more than a noncompetitive incumbent that raised the same amount of money in the previous election.

Receipts represent electoral uncertainty and danger. Receipts collected during the previous election cycle are important because they indicate how secure the incumbent felt during the previous election cycle. Earlier I determined that incumbents in competitive districts raise more money than incumbents in noncompetitive districts. In addition to raising more money, previous receipts cause incumbents in competitive districts to raise even more money.

The negative coefficient for the interaction term is interesting. Subtracting the coefficient for the interaction term from the coefficient for lagged receipts in competitive districts yields an effect of 0.81. This means that for every lagged dollar raised by competitive district incumbents their receipts increase at a slower rate than incumbents in noncompetitive districts during the subsequent election cycle. This decrease in the rate helps offset part of the large coefficient for representing a competitive district.

Predicted cash-on-hand at the beginning of the election cycle was a statistically significant predictor of receipts, adding contradictory evidence to my earlier findings. Earlier, I found that cash-on-hand appears to be a residual of past electoral behavior. But, in this analysis, cash-on-hand had a positive and statistically significant effect on receipts. Supporters of the war chest hypothesis might conclude that high amounts of cash-on-
hand are indicative of incumbents intentionally trying to build a war chest. If this were the case, we would expect to see incumbents with increased cash-on-hand raising more money during subsequent elections to further solidify their war chests. The positive coefficient for predicted cash-on-hand suggests that increasing cash-on-hand at the beginning of the election cycle causes incumbent receipts to increase during the election cycle. According to the regression, a one dollar increase in cash-on-hand causes receipts to increase by $1.05.

The interaction term, however, reduces the effect of cash-on-hand on receipts in competitive districts. The interaction term interacting predicted cash-on-hand at the beginning of the 1995-96 election cycle and representing a competitive district is $-0.92$. Holding $107,699$ in predicted cash-on-hand, the average predicted cash-on-hand in the sample, causes competitive district incumbents to raise $907.871$. Holding no cash-on-hand causes incumbents in competitive districts to raise just $14,000 less. Clearly, cash-on-hand is not affecting receipts in competitive districts.

In noncompetitive districts, however, there is more of an effect. Holding $107,699$ in cash-on-hand will cause an incumbent in a noncompetitive district to increase receipts by $113,084$. From these results it is clear that holding high amounts of cash-on-hand in a noncompetitive district has a greater impact on fundraising behavior than holding the same amount of cash-on-hand in a competitive district.

I expected that incumbents’ cash-on-hand would have a negative effect on receipts because as cash-on-hand increases it suggests that the incumbent had easier reelection bids in the past and would need less money to run a successful campaign in the
future. It appears that in a competitive district incumbents’ cash-on-hand has very little impact on receipts. In a noncompetitive campaign the coefficient is positive, but not too large. With a coefficient of 1.05 it appears that cash-on-hand might serve as a slush fund from which incumbents spend while they raise more money as needed. A coefficient value near one suggests that these incumbents might be replacing that slush fund during the campaign.

Next I will discuss the variables representing the quality of the opposition in the previous campaign. I will discuss the variables representing facing a high quality challenger, an incumbent, running unopposed, and interactions of each with the competitive balance variable. I will also discuss the variable interacting previous vote share with facing a high quality challenger. Among these variables only running unopposed reaches statistical significance, but the coefficients are nonetheless important.

First, running unopposed was the single statistically significant variable but had an unexpected result. According to the regression, running unopposed in the previous election causes a $263,960 increase in receipts. This is a shocking result because running unopposed should be a sign of electoral strength and incumbents might therefore raise less money after running unopposed. There are two plausible explanations for this result. First, it is possible that incumbents facing no competition in 1994, when faced with competition in 1996, interpreted the mere presence of competition as a threat and therefore collected more money. The second explanation is that this is some sort of war chest effect where incumbents running unopposed collect more money in the following election campaign to ward off future challengers.
The interaction variable interacting running unopposed in the previous election with the competitive balance variable, was not statistically significant, but had a negative sign. This result is more consistent with my expectations. Even with the negative sign for the interacted variable, running unopposed in 1994 within a competitive district caused incumbents to raise $82,071 more than competitive district incumbents who did not run unopposed in 1994. Running unopposed in a noncompetitive district in 1994 caused incumbents to raise $263,960. It makes sense that incumbents in competitive districts should receive more benefit and need fewer receipts from running unopposed than incumbents in noncompetitive districts. Running unopposed in a competitive district shows more strength than running unopposed in a noncompetitive district.

Second, running against a high quality challenger in 1994 caused incumbents to increase their receipts by $349,033. The rational for such an increase is that facing a high quality challenger in the previous election causes incumbents to expect another high quality challenger in the next election cycle. Based on those expectations of competition, the incumbent raises more money in anticipation. The interaction variable, however, had a negative coefficient. Facing a strong challenger in a competitive district causes incumbents to raise $1,114,109 more in the subsequent election. This variable suggests that facing a high quality challenger in a competitive district causes the incumbent to decrease receipts by $128,795 in comparison with a competitive district incumbent that did not face a high quality challenger.

In terms of the difference between incumbents from competitive and noncompetitive districts, while facing a high quality challenger in a competitive district
causes receipts to increase by $1,114,109. Facing a high quality challenger in a noncompetitive district causes receipts to increase by $349,034. Facing a high quality challenger in a competitive district, therefore, has a much greater impact on incumbent behavior than in a noncompetitive district. Like other interaction terms in the model, the effect of this interaction term appears to dampen the impact of a competitive district.

I also included an interaction of the incumbents’ lagged vote share and defeating a high quality challenger to see if defeating a high quality challenger by a wider margin of victory affected incumbents’ fundraising behavior. Goodliffe (2001) found that this variable had a statistically significant effect on challenger quality so it may also impact aggregate receipts. In this model, the interaction of lagged vote share and high quality challenger was not a statistically significant predictor of receipts. The negative coefficient was in the expected direction. The interpretation of this interaction is that increasing an incumbent’s vote share by one point over a high quality challenger caused the incumbent’s receipts to increase by $7,026. Alternatively, increasing an incumbent’s vote share by one percentage point over a low quality challenger causes the incumbent’s receipts to decrease by $3,361. This result suggests that defeating a high quality challenger slightly decreases receipts, but the difference is not too substantial.

Finally, the coefficient signs for the variable indicating whether the incumbent defeated an incumbent in the previous election and the term interacting the defeated an incumbent variable with the competitive balance variable are positive. Substantively, defeating an incumbent in a competitive district causes first term incumbents’ receipts to increase by $1,150,708. Defeating an incumbent in a noncompetitive district causes an
incumbent's receipts to increase by $144,593 in the subsequent election. The data have
three such cases. In all three cases the first term incumbent defeated a fish out of water.
The effect of defeating an incumbent appears to be most strongly felt in a competitive
district. Evidently, defeating an incumbent in a competitive district causes incumbents to
prepare for a strong challenge by raising a large amount of money, while defeating an
incumbent in a noncompetitive district causes an incumbent to raise a much smaller
amount of money. It is also important to remember that while these results are consistent
with conventional wisdom, they are not statistically significant.

The last three variables in the model are party id, seniority, and a dummy variable
indicating whether or not the incumbent is a fish out of water (a Republican serving what
should be a Democratic district or vice versa). Of the three, only party id is statistically
significant. Confirming most research on receipts, Democratic partisanship causes
receipts to decrease. Conventional wisdom states that Republicans collect more money
than Democrats. The sign of the seniority variable was in the expected direction.
Serving more terms in the House causes receipts to decrease. The fish out of water
variable was also in the expected direction. I expected that a fish out of water would
need to raise more money to defend him or herself against a strong challenge.

In sum, the model explained a great deal of variance in incumbent receipts, with
an adjusted r squared of .58. The most important factors in explaining incumbent receipts
appear to be the competitive balance within a congressional district, lagged receipts, and
cash-on-hand. It is surprising that lagged election performance variables did not perform
as well. This suggests that once one controls for the competitive nature of a congressional district, lagged election performance has very little effect on incumbents’ fundraising behavior.

**Conclusion**

This chapter reflects the importance of the competitive balance within congressional districts. Incumbents from noncompetitive districts hold a competitive advantage over their counterparts in competitive districts. Incumbents’ financial patterns in competitive district are significantly different from the patterns of incumbents from noncompetitive districts. Incumbents from noncompetitive districts hold this advantage not through their own actions or strategies but only because they had the good fortune of living in a noncompetitive district. In chapter 3, I hypothesized that incumbents in competitive districts, due to the underlying support for both major parties in the district, would collect more receipts and have lower cash-on-hand than incumbents from noncompetitive districts. Through comparisons of mean values and the TSLS regression this appears to be the case for receipts.

In this chapter I sought to explain incumbents’ financial patterns. Through a combination of analyzing mean amounts and regression analysis I found that an incumbents’ financial patterns are determined by long term expectations about competition in the district. These expectations are formulated by taking into account the underlying partisan support for the incumbent’s party in the district, the amount of money collected and saved in the previous campaign. These characteristics help determine how much money an incumbent will collect during an election cycle.
I also found that cash-on-hand appears to be a function of short term characteristics like receipts and lagged cash-on-hand and is therefore a residual of electoral success. In the first analysis in this chapter I found that cash-on-hand varied considerably overtime and there was not a statistically significant difference between cash reserves in competitive and noncompetitive districts. In the TSLS regression I found that the only statistically significant predictors of cash-on-hand were seniority, receipts, and previous cash-on-hand. This result supported my earlier finding that cash-on-hand is a residual of money left over from previous campaigns and fundraising, not a strategic reserve.

Taken together, these analyses suggest that the competitive balance within a congressional district is an empirically important election characteristic that should be included in models of money in congressional elections. This variable is doubly important because it is exogenous to other election characteristics. These analyses have provided evidence suggesting that the competitive balance theory explains a great deal about congressional elections. Both the earlier analyses of mean values and the later regressions provide consistent support for the competitive balance theory. These analyses suggest that the competitive balance theory is a consistent and valid explanation for congressional elections.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Competitive District</th>
<th>Noncompetitive District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td>Positive</td>
<td>Negative</td>
</tr>
<tr>
<td>Cash-on-Hand</td>
<td>Negative</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Table 6.1: Hypothesized Relationships Between Competitive Balance in Congressional Districts and Financial Portfolio Values
### Table 6.2: Hypothesized Relationships Between Competitive Balance in Congressional Districts and Financial Patterns

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean Receipts</th>
<th>Mean Cash-on-Hand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competitive Districts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>91 – 92</td>
<td>158</td>
<td>545,574</td>
<td>103,698</td>
</tr>
<tr>
<td>93 – 94</td>
<td>222</td>
<td>579,961</td>
<td>63,836</td>
</tr>
<tr>
<td>95 – 96</td>
<td>222</td>
<td>786,672</td>
<td>91,671</td>
</tr>
<tr>
<td>97 – 98</td>
<td>180</td>
<td>744,744</td>
<td>169,804</td>
</tr>
<tr>
<td>99 – 00</td>
<td>163</td>
<td>900,797</td>
<td>257,906</td>
</tr>
<tr>
<td><strong>Noncompetitive Districts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>91 – 92</td>
<td>109</td>
<td>485,176</td>
<td>127,722</td>
</tr>
<tr>
<td>93 – 94</td>
<td>127</td>
<td>513,371</td>
<td>89,185</td>
</tr>
<tr>
<td>95 – 96</td>
<td>127</td>
<td>612,386</td>
<td>135,717</td>
</tr>
<tr>
<td>97 – 98</td>
<td>109</td>
<td>608,866</td>
<td>160,706</td>
</tr>
<tr>
<td>99 – 00</td>
<td>101</td>
<td>697,726</td>
<td>229,886</td>
</tr>
</tbody>
</table>

**Difference: Competitive District Values minus Noncompetitive District Values**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>91 – 92</td>
<td>267</td>
<td>60,398</td>
<td>-24,024</td>
</tr>
<tr>
<td>93 – 94</td>
<td>349</td>
<td>66,590 *</td>
<td>-25,349</td>
</tr>
<tr>
<td>95 – 96</td>
<td>349</td>
<td>174,286 ***</td>
<td>-44,046 **</td>
</tr>
<tr>
<td>97 – 98</td>
<td>289</td>
<td>135,878 *</td>
<td>9,098</td>
</tr>
<tr>
<td>99 – 00</td>
<td>264</td>
<td>203,071 ***</td>
<td>28,020</td>
</tr>
<tr>
<td>Average: 91 – 00</td>
<td>128,044</td>
<td>-11,260</td>
<td></td>
</tr>
</tbody>
</table>

* statistically significant at the .1 level  
** statistically significant at the .05 level  
*** statistically significant at the .01 level

Table 6.2: Hypothesized Relationships Between Competitive Balance in Congressional Districts and Financial Patterns

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<table>
<thead>
<tr>
<th>Variable</th>
<th>Regression 1 Cash-on-Hand Coefficient (SE)</th>
<th>Regression 2 Receipts Coefficient (SE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democrat</td>
<td>-16,343.63 (11621.05)</td>
<td>-157,164 *** (47797.7)</td>
</tr>
<tr>
<td>Seniority</td>
<td>-5,474.57 *** (1358.96)</td>
<td>-119.50 (5443.26)</td>
</tr>
<tr>
<td>Receipts 1993 - 94</td>
<td>0.06 *** (0.03)</td>
<td>1.39 *** (0.11)</td>
</tr>
<tr>
<td>Predicted Cash-on-Hand 1995</td>
<td>---</td>
<td>1.05 *** (0.14)</td>
</tr>
<tr>
<td>Cash-on-Hand 1993</td>
<td>1.06 *** (0.04)</td>
<td>---</td>
</tr>
<tr>
<td>HQ Challenger 1994</td>
<td>-169,773 (119215.4)</td>
<td>349,033.5 (490625.5)</td>
</tr>
<tr>
<td>Defeated Incumbent 1994</td>
<td>-8,694.20 (57899.31)</td>
<td>112,245.7 (238188.7)</td>
</tr>
<tr>
<td>Unopposed 1994</td>
<td>426.42 (26668.92)</td>
<td>263,959.8 *** (109698.5)</td>
</tr>
<tr>
<td>1994 Vote Share</td>
<td>1,024.90 (806.88)</td>
<td>-3,360.76 (3333.27)</td>
</tr>
<tr>
<td>X HQ Challenger 1994</td>
<td>2,454.46 (1817.05)</td>
<td>-3665.35 (7477.32)</td>
</tr>
<tr>
<td>Competitive District</td>
<td>-82,993.66 (66651.82)</td>
<td>893,870.5 *** (274306)</td>
</tr>
<tr>
<td>X Receipts 1994</td>
<td>-0.03 (0.03)</td>
<td>-0.58 *** (0.14)</td>
</tr>
</tbody>
</table>

Table 6.3: TSLS Regression Predicting Incumbents' 1995-96 Receipts (continued)
Table 6.3: Continued

<table>
<thead>
<tr>
<th>Term</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Cash-on-Hand 1995</td>
<td>-0.92 ***</td>
<td>(0.20)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash-on-Hand 1993</td>
<td>-0.07</td>
<td>(0.05)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HQ Challenger 1994</td>
<td>19,225.13 (34289.5)</td>
<td>-128,795.3 (140979.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defeated Incumbent 1994</td>
<td>5,735.63 (60213.39)</td>
<td>144,592.8 (247715.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unopposed 1994</td>
<td>114,076.3 *** (39521.42)</td>
<td>-181,888.8 (163688.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994 Vote Share</td>
<td>1.217.01 (851.22)</td>
<td>-6,555.96 * (3530.21)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fish out of Water</td>
<td>-25,333.89 (29272.64)</td>
<td>66,447.86 (120441.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-23,517.65 (63621.33)</td>
<td>45,916.2 (261843.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R Squared</td>
<td>.8382</td>
<td>.5849</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n=349 incumbents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* statistically significant at the .1 level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>** statistically significant at the .05 level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*** statistically significant at the .01 level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 7

CONCLUSION

Early work on challenger entry found that factors beyond incumbent’s control were primarily responsible for challenger entry. Scholars agreed that factors like national tides, economic conditions, and district level forces were responsible for determining whether challengers entered elections. This perspective suggests that elections are fair in the sense that incumbents cannot easily manipulate the competitiveness of their reelectios.

The war chest hypothesis, however, suggests that incumbents can easily manipulate the competitiveness of elections. Under this perspective, incumbents can deter competition by accumulating large cash reserves. If this is the case it is welcome news to incumbents, unwelcome news for challengers, and bad news for democratic elections. In this dissertation, I have proposed a theory and presented empirical evidence that calls this perspective into question. In this chapter I will review my theory of competitive balance and summarize my conclusions from the analyses testing the theory.
The Theory of Competitive Balance

My thesis is that candidates' cash-on-hand and fundraising are strategic responses to their competitive situations as determined by district demographics and partisan composition. Thus, fundraising and cash-on-hand are a function of the basic competitive structure within their districts, not determinants of candidates' electoral fortunes. Election outcomes are therefore a factor largely beyond their control.

My theory of competitive balance is that incumbents with large amounts of cash-on-hand are less likely to engage in additional fundraising than incumbents without large initial reserves, and that incumbents who invest heavily in new fundraising tend to face stronger challengers than incumbents who engage in little fundraising. Candidates accumulate large amounts of cash-on-hand because they experience easy reelection and do not spend down their reserves. Finally, candidates face weak challengers because they represent inherently noncompetitive districts, not because they have large cash reserves.

Congressional candidates therefore serve one of two districts: the competitive district, and the noncompetitive district. In a competitive district, incumbents and challengers have a good chance to win an election because both major parties have enough support in the district to elect their candidate. Alternatively, incumbents in noncompetitive districts are nearly unbeatable because the incumbents' party holds an overwhelming advantage in the electorate. The challenger, therefore, does not have a large enough base of support to win in the district.

In addition to the distinction between incumbents' chances of winning in competitive and noncompetitive districts there are other disparities between competitive
and noncompetitive districts. In competitive districts we should expect to see more high
quality challengers because challengers have a wide base of support in the district.
Furthermore, challengers should be entering earlier in the election cycle to maximize
their time for raising money and campaigning. When higher quality challengers enter, or
when challengers enter earlier, it should increase the cost of campaigning for both the
challenger and incumbent. We should therefore expect to observe more receipts and
expenditures in competitive districts than in noncompetitive districts. When challengers
have a good chance of winning, their campaigns attract much more funding than the
average challenger. This increased cash flow allows challengers to spend more on their
election bid. Correspondingly, as challengers raise and spend more money we would
expect incumbents to follow suit. As candidates spend more it is likely that they will
save less. We should observe less cash-on-hand in competitive districts since candidates
in competitive districts are more likely to spend all of their available resources to win the
election. Finally, we should find that incumbents in competitive districts lose more often,
and come closer to defeat, than incumbents in noncompetitive districts.

In noncompetitive districts we should observe just the opposite. In
noncompetitive districts we should expect to observe lesser quality challengers because
the challengers' party has less support in the district and high quality challengers enter
when there is a good chance of winning. Additionally, challengers should enter the race
later in the election cycle because with less support in the district there should be less
money available to challengers. If the money supply is lower then challengers can afford
to campaign for a shorter period of time unlike in a competitive district where there is
more money available to challengers. A smaller money supply also affects incumbents.
If challengers are of lower quality, entering later in the election cycle, and collecting less
money, then incumbents need not fundraise to maximum capacity. We should therefore
see fewer receipts and expenditures in noncompetitive districts than in competitive
districts. Since there is less competition in noncompetitive districts incumbents need not spend heavily to win and consequently they should have more money left in reserve at the end of campaigns. Incumbents in noncompetitive districts should have more cash-on-hand than incumbents in competitive districts. Finally, we should observe incumbents with wider margins of victory in noncompetitive districts.

**Empirical Evidence**

I began my analysis by examining the relationship between cash-on-hand, receipts, and safe seats. This analysis suggested that incumbents operating under different electoral circumstances generate large amounts of cash-on-hand and large amounts of new receipts. Incumbents experiencing easy reelection generate a large amount of cash-on-hand and incumbents experiencing close races generate a large amount of receipts. If incumbents in different electoral circumstances generate different financial patterns, it is important to include both cash-on-hand and receipts in models of congressional election characteristics because the two measures provide different information about incumbents that would otherwise be lost if including only one measure.

There were several implications from this analysis. First, since different election circumstances motivate incumbents to accumulate cash-on-hand and receipts, combining
cash-on-hand and receipts in a measure of an account balance it is inappropriate because combining the different kinds of money masks the differences between election circumstances. Combining the different types of money, therefore, interferes with an analysis of challenger deterrence because one cannot discern the effects of receipts and cash-on-hand. Second, cash-on-hand alone is not a sufficient measure of incumbent's financial activity as cash-on-hand does provide the same information as receipts.

In chapter 4, I found that adding receipts to a typology of cash-on-hand and seat safety differentiated between incumbent types that were consistent and inconsistent with the expectations of the war chest hypothesis. Receipts added information to the typology about incumbents' perceived need for new funds. I concluded that only 20 percent of the incumbents' financial patterns were consistent with the expectations of the war chest hypothesis.

The preliminary analyses found little support for the war chest hypothesis. The war chest hypothesis did not explain the relationship between cash-on-hand, receipts, and seat safety particularly well. The war chest hypothesis cannot explain why some incumbents have safe seats and others experience close reelection, or even lose. If a war chest cannot insulate an incumbent from close races, even if it can deter high quality challengers, then it should be of little use to incumbents. After all, election outcomes are what really count, not the quality of the challenger.

In chapter 6, I found that incumbents' financial patterns are a function of short and long term competition. Cash-on-hand is a function of short term competition, but incumbents make fundraising decisions based on the long term support in the district for
the incumbents' party. Cash-on-hand appears to be a residual of easy reelection, and as incumbents' vote shares increase, their cash reserves grow. Tough reelection campaigns appear to have the opposite effect as incumbents spend down their reserves to survive against a strong challenge. Cash-on-hand is a residual because reserves are accumulated not by design, but by a miscalculation by incumbents on how much money they need for reelection. This interpretation is consistent with the earlier result that incumbents secure safe seats before accumulating large cash reserves. Cash-on-hand builds up overtime as a side effect of winning easy reelection.

Receipts are generated under different circumstances. Representing a competitive district causes incumbents to raise much more money than incumbents representing noncompetitive districts. The competitive balance is therefore an important factor in predicting incumbents' financial patterns specifically, and reelection behavior more generally. Even when controlling for candidate and election specific characteristics, the competitive balance is a statistically significant predictor of incumbents' receipts.

One of the most surprising results from this analysis was that short term competition as measured through previous vote share did not have a statistically significant relationship with incumbents' receipts when controlling for the competitive balance in a district. This result suggests that incumbents raise money based on long term partisan support in the district rather than on short term fluctuations in electoral success. Short term success appears to affect fundraising at the margins, but the driving force behind incumbent receipts appears to be the competitive balance in congressional districts.
The most important implication of this dissertation is that the competitive nature of congressional districts has a measurable effect on incumbent behavior. Incumbents in competitive districts must behave differently than incumbents from noncompetitive districts if they want to win reelection. Incumbents from competitive districts must raise more money to defeat stronger challenges. Incumbents in noncompetitive districts have an easier time securing reelection and therefore need less money and save more of their money. Incumbent behavior in competitive districts is therefore vastly different than in noncompetitive districts. The advantage gained by incumbents in noncompetitive districts is not a function of strategic behavior but the good fortune of representing a district in which the incumbents' partisans demographically dominate the electorate.
LIST OF REFERENCES


