



University of Utah

Public-Private Contracting and Political Reciprocity

Author(s): Roland Zullo

Source: *Political Research Quarterly*, Vol. 59, No. 2 (Jun., 2006), pp. 273-281

Published by: Sage Publications, Inc. on behalf of the University of Utah

Stable URL: <http://www.jstor.org/stable/4148094>

Accessed: 18/12/2008 16:42

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/action/showPublisher?publisherCode=sage>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is a not-for-profit organization founded in 1995 to build trusted digital archives for scholarship. We work with the scholarly community to preserve their work and the materials they rely upon, and to build a common research platform that promotes the discovery and use of these resources. For more information about JSTOR, please contact support@jstor.org.



University of Utah and Sage Publications, Inc. are collaborating with JSTOR to digitize, preserve and extend access to *Political Research Quarterly*.

<http://www.jstor.org>



Public-Private Contracting and Political Reciprocity

ROLAND ZULLO, UNIVERSITY OF MICHIGAN

Prior research linking public-private contracts with political donations has not examined the dynamics of exchange. Evaluating data from Wisconsin, I test for a temporal association between the awarding of public-private construction contracts and political donations by construction firm owners and executives. My findings indicate that donation activity peaks near the months when contracts are approved; that contract-related donation premiums are comparable in magnitude to election cycle premiums; and that political giving varies across three separate procurement processes. I deduce that patterns of political giving reflect strategic expenditures during the negotiation phase of the public-private procurement process. These findings have implications for campaign finance reform and privatization policy.

Reciprocity between elected officials and private industry is a controversial and contemporary topic (Center for Public Integrity 2003). Representational equity (Schattschneider 1960), the fidelity of government regulatory systems (Stigler 1971), and the health of pluralistic democracy (Etzioni 1984) have been described as compromised by deal-making between public leaders and private interests. Social scientists have accordingly sought to understand transactions across private and public institutions with the aim of assessing whether political leaders disproportionately direct collective or public assets to their benefactors in the private sector, or the corollary, that private benefactors aid in the election of candidates who support narrow commercial interests at the expense of the general population.

Yet despite broad interest in this topic, few have modeled the dynamics of exchange. Prior research, in particular, has not matched the timing of private giving with the distribution of public assets, and therefore has not addressed the causal direction of exchange. We explore quid pro quo behavior by examining patterns of political support from the owners and managers of private firms securing public-private construction contracts. The political jurisdiction is Wisconsin, 1991 through 2000, a time period when public-private contracting expanded under the directive of Wisconsin's former Governor, Tommy Thompson. By modeling private political donations to Thompson as a function of the approval of public-private construction contracts, we are able to analyze the temporal order of these activities. We then compare the magnitude of contract-related donations with election-cycle donations, and discuss exchange behavior in relation to the public-private contracting processes.

NOTE: This research was made possible through financial support from the Joyce Foundation of Chicago. I thank George Fulton, Larry Root, Stan Sedo, Moshe Adler and three anonymous referees for comments on this manuscript, Mike McCabe for access to the Wisconsin Democracy Campaign data, and David Hetrick and Jackie Murray for technical assistance.

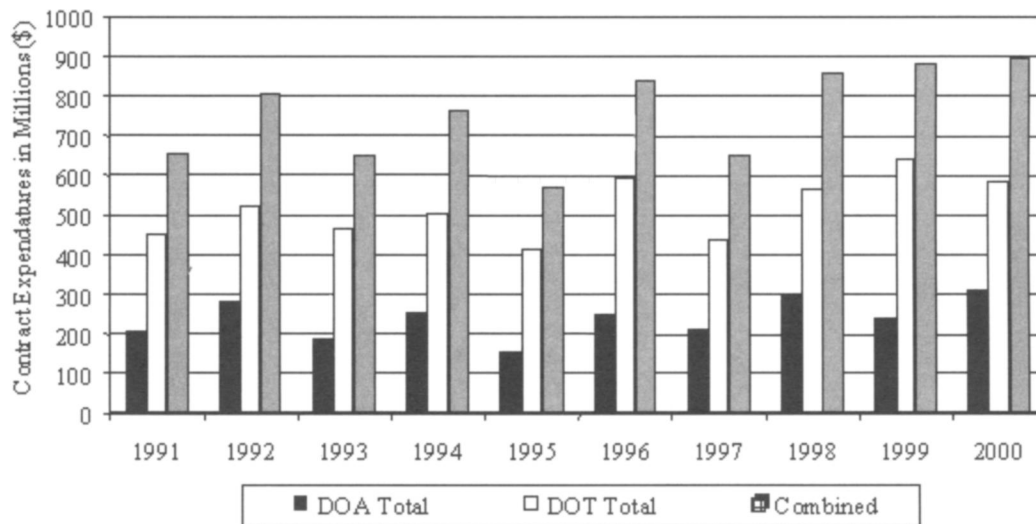
LITERATURE REVIEW

Smith's (1995) review of the political contribution literature itemizes the conditions where campaign contributions are said to positively affect political decision-making: (1) when the economic payoffs to the contributors are clear and the costs dispersed across the electorate; (2) when the issue is non-partisan and non-ideological; (3) when the public is indifferent, divided, or ignorant; and (4) when the position advocated by an interest group is unopposed by any other interest groups. In many respects, contracts issued by the state meet these criteria. Unlike the heterogeneous benefits that accrue through legislation, private firms reap direct economic rewards from public-private contracts, and costs are typically borne by taxpayers. Moreover, once fiscal policy is determined and department budgets are finalized, the technical details of agency expenditures rarely attract broad public scrutiny or serious opposition from organized interests. Judged by these standards, public-private contracting is ripe for observing exchange between politicians and private interests.

Prior research generally does report a correlation between commercial activity with government and corporate political activity. Masters and Keim (1985), Zardkoohi (1985), and Humphries (1991) model the existence of corporate PACs as a function of the ratio of industrial output purchased by the federal government, which is an average aggregated at (or near) the two-digit Standard Industrial Classification (SIC) code level and then applied across all firms in each SIC category.¹ Masters and Keim (1985) find no association between PACs and industry ratio of government purchases, but Zardkoohi (1985) and Humphries (1991) do. Grier, Munger, and

¹ Until the recent introduction of the North American Industry Classification System (NAICS), the SIC system was the federal standard for categorizing public and private organizations for statistical analyses and reports on economic activity. Under each Division (e.g., Division C: Construction) are two-digit Major Groups (e.g., Major Group 16: Heavy Construction Other Than Building Construction Contractors). Major Groups are further broken down into three-digit Industry Groups (e.g., Industry Group 161: Highway and Street Construction, Except Elevated Highways), and finally as four-digit industries (e.g., 1611 Highway and Street Construction, Except Elevated Highways).

≡ FIGURE 1
ADJUSTED DOA AND DOT CONTRACT EXPENDITURES, 1991-2000



Roberts 1994) replicate this measure at the more precise three-digit SIC level to predict aggregated industry contributions, and conclude that the ratio of government purchases predicts the existence of active PACs and level of political contributions. Hansen and Mitchell (2000) refine this approach further by calculating the ratio of government purchasing at the four-digit SIC level, and report that the sales-to-government ratio predicts PAC contributions, the number of lobbyists in the D.C. region, and the number of appearances at congressional hearings.

Evidence of reciprocity is more compelling when public-private contracts are directly matched with individual firms. Department of Defense contracts positively predict contributions to PACs (Boies 1989), executive donations to candidates who advocate defense spending (Burriss 2001), and broader measures of political activity (Hansen and Mitchell 2000). Lichtenberg (1989) examines the effect of federal contracts on firm political activity, and concludes that the firm-level government-sales ratio is positively associated with corporate sponsorship of PACs and disbursements by PACs, with the latter finding particularly strong for firms that receive federal revenue through a non-competitive process.

With varying amounts of precision, all of these analyses compare contract and donation data aggregated over an extended time period. While valuable in reaffirming the correlation between donations and public-private contracts, such cross-sectional methods limit our ability to model the dynamics of exchange, and hence, to address the fundamental question of whether contracts stimulate donations from private firms, or whether donations produce public-private contracts. By temporally matching monthly firm-level public-private contract approvals with firm-level political donation data, we are able to evaluate exchange activities when reward signals are most acute. Doing so enables an evaluation of the causal relationship between

public-private contracts and political funding, shedding light on the strategic use of political donations during the public-private contracting process.

BACKGROUND AND DATA

Several factors make Wisconsin an appealing political jurisdiction to analyze. Foremost is the availability of individual-level campaign contribution data for state elected officials compiled by the Wisconsin Democracy Campaign (WDC).² We examine donations to Wisconsin's former governor, Tommy Thompson, from January 1991 through December 2000. A second advantage is Thompson's longevity as governor (1986 to 2001). Because Thompson held the governor's seat during the full ten-year period under investigation, changes in donation patterns cannot be attributed to a shifting preference toward a new political figure. Third was Thompson's advocacy for public construction projects. As governor, Thompson was chair of the Wisconsin Building Commission and the Wisconsin Transportation Projects Commission. On the eve of his resignation as Wisconsin's governor to accept a federal cabinet appointment as Secretary of Health and Human Services, Thompson claimed state highway and building projects among his greatest accomplishments (Capital Times 2001).

Public data for highway and building construction projects were obtained from the Wisconsin Department of Transportation (DOT) and the Wisconsin Department of Administration (DOA). The DOT administers funds for highway construction and improvements, and the DOA oversees building construction and renovation. Figure 1 is a graph of

² Access to information on the Wisconsin Democracy Campaign is available on the Web at <http://www.wisdco.org>.

expenditures to private firms for highway and building construction in year 2000 dollars for the period covering this analysis. Aggregate contract levels for Wisconsin highway and construction increased between 1991 and 2000. Inflation-adjusted contract expenditures for the DOT and DOA averaged less than \$700 million during the 1991 to 1995 period, growing to an average of about \$825 million for 1996 to 2000 period. Equally notable is the positive correlation between construction spending and election years (state elections were held in 1992, 1994, 1996, 1998 and 2000).

The public-private construction data was combined with campaign contribution data from the WDC database by matching cases based on employer name. According to Wisconsin law, a citizen can donate up to \$10,000 annually to a candidate, group of candidates, or political party. A gubernatorial candidate can receive up to \$10,000 per election cycle from a single donor. There are no restrictions or limits on donating by households or firms.³ The final database includes donor identification information, employer, donation date and amount, and data on contracts, such as start date, project, and cost. The data include both contractors who donated and contractors who did not donate. The unit of analysis is the firm, and public-private contracts and donations for each firm are aggregated on a monthly basis.

Three types of contract relations are analyzed. The DOT has a well-developed system for competitively bidding road and bridge construction. Before a request for proposals is issued, DOT engineers estimate the cost of a project and prepare detailed specifications based on experience and industry standards. Bidders respond with comprehensive proposals and the lowest bid is selected. When proposals deviate significantly from the DOT estimate, a project is reevaluated or cancelled.

By comparison, DOA projects are more variable in type and scope, ranging from small renovations totaling a few thousand dollars to new building construction valued at tens of millions. New construction and major building renovations are approved through a two-stage process. First, architects and engineers submit proposals, competing on design factors such as functionality and project cost. At this stage, there is no requirement to choose the lowest bid. Once a design is selected, the DOA negotiates a fee for the architectural or engineering firm to supervise the project, often calculated as a percentage of the project cost. Specifications are then prepared and submitted to general contractors for bid.

General contractors arrange subcontractors and materials procurement costs in response to the specifications. The lowest bid is usually selected at this stage, and afterward the DOA and general contractors negotiate the details for a final contract. At the DOA, it is common for the parties to negotiate for two or more months to finalize details of complex construction projects. Here we emphasize an important difference between the contract processes at DOT and DOA. Because road construction can be standardized more easily

than building construction and renovation, engineers at DOT are able to include comprehensive specifications in requests for proposals, and post-bidding negotiations are relatively minor. By comparison, the complexity of building construction and renovation requires the DOA to negotiate numerous project details during the post-bidding phase of a project.⁴ Given these differences in contracting processes, a separate analysis is performed for DOT contracts, DOA architectural and engineering (A/E) contracts, and DOA construction contracts.

To analyze the temporal relationship between contracts and donations, it was necessary to identify a date for these events. A political donation is a discrete event that is public record, and the WDC data contained a complete and reliable field identifying the timing of political contributions. By comparison, construction projects involve a sequence of phases beginning with project conception and ending with final payment. For each of the three contract processes, a date was identified that marked the approval for projects. In the case of the DOT, the "let" date is the date that the winner of a competitive bid is formally announced. In most instances, a DOT contractor who wins the competitive bid performs the work. For the DOA, the chosen date field was the "notice to proceed" date, defined as the official notice to begin construction. An important distinction between the "let" and "notice to proceed" involves the formal contract negotiations prior to construction. At the DOT, a formal contract is negotiated after the "let" date. At the DOA, the "notice to proceed" date marks the conclusion of the project negotiation phase. The term used in this analysis signifying all these events is construction "approval" date.

THEORY AND EXPECTATIONS

Olson's (1965) statement that the political leverage of any interest group is directly related to member unity, where unity is defined in terms of homogeneity of interests and minimal free rider behavior, was developed by theorists at the Chicago School of Political Economy to explain why regulatory agencies tend to subsidize and protect the industrial groups they are chartered to regulate, often at the expense of unorganized consumers (Peltzman 1976; Posner 1974; Stigler 1971). Their major premise: that unified associations of private firms advocating for policy whose cost is broadly distributed across the polity tend to be more effective, can be adopted to predict that contractors with a strong, common dependency on state resources will be more cohesive, politically active, and successful at marshalling campaign contributions to support public-private contracting.

Furthermore, the literature indicates that corporations disburse resources strategically to enhance the probability of positive policy outcomes. Gopoian (1984) examines 27

³ Wisconsin Statutes, chap. 11.

⁴ Post-bidding negotiations also occur in road building, but this more typically happens when construction crews encounter unforeseen obstacles after groundbreaking. The industry term for such adjustments to the contract is "change orders."

corporate PACs, and concludes that the majority direct resources to House members that occupy relevant committee posts, to those in their congressional district, or on the basis of key votes. Box-Steffensmeier and Dow (1992) examine campaign contributions to the California Assembly during the 1984 and 1986 election cycles, and produce evidence that a disproportionate level of donations go to the Assembly Speaker and to assembly members holding important committee posts. In addition to providing evidence that corporate donors favor members of the Senate and House in influential committee seats and with pro-business voting records, Grier and Munger (1993) report that senior political leaders tend to receive more funds. Extrapolating the logic behind this literature, contractors in this study are expected to target their donations clearly to signal support for public-private contracts. In particular, contractors should donate in temporal proximity to the contract approval date, and preferably outside the election cycle, to distinguish their gifts from the influx of political giving that customarily occurs just before an election. In this analysis, we compare contractor donations near the contract approval date with contractor donations just prior to two gubernatorial elections.

EMPIRICAL MODEL

Following Stratmann (1998), we assume that the timing and magnitude of donations reflect the intent of the donor. Exceptional donation activity after contract approval implies that contractors use donations to signal their “gratitude” toward the political system. While not illegal, it is conceivable that gratitude forms of political patronage motivate elected leaders to sustain or expand public-private contracting. Exceptional donation activity prior to the contract approval, on the other hand, would imply that the intent is to influence the chance of a favorable approval for a pending contract, or that the system is open to “inducement” strategies by contractors.

To test for exceptional donation activity before and after the approval of public-private contracts, donation activity is modeled as a function of future, current, and lagged contracts. Donation activity, the dependent variable, is the amount of firm-level donations per month. With monthly units, it was relatively easy to include seasonal and election-cycle controls, but because donations are sporadic, the majority of months register zero values. Fixed-effect regressions are used to analyze these data.⁵

The fixed-effect models include the seven-month period surrounding contract and election cycle months, formally stated:

$$D_{iym} = \alpha + \alpha_i + \alpha_m + \beta_1 C_{iym[-3:3]} + \beta_2 E_m + \varepsilon_{iym}$$

where D_{iym} represents donations by firm i in month m and year y , $C_{iym[-3:3]}$ are contracts awarded to firm i in the three months prior to donations (i.e., a lead contract effect), the same month as donations, and three months after donations (i.e., a lagged contract effect). E_m is the donation activity during the months of August, September, October, and November during the 1994 and 1998 gubernatorial elections. Symbol α is the sample intercept, α_i are intercepts for fixed contractor traits, α_m are month intercepts to control for seasonal donation patterns, β are unstandardized coefficients, and ε_{iym} is a residual term.

Month intercepts are included to factor out systematic associations between the bidding and campaign solicitation cycles. Without them, associations between public-private contracts and political donations could reflect correlation between cyclical giving and seasonal construction activity.

Contractor intercepts factor out unobserved traits that might otherwise produce a spurious association between public-private contracts and political donations. Of specific concern is firm size: large firms have greater capacity to bid on and compete for large-scale public projects, yet they also hire more employees and therefore have a larger pool of potential donors. Including contractor intercepts theoretically controls for fixed traits such as firm size, or capacity to complete public contracts. However, one shortcoming of the fixed-effect approach is that it may control for political factors that explain reciprocity, such as the propensity for firm management to encourage employees to participate in politics, or a long-standing relationship between an elected leader and business owner. For this reason, fixed-effect models are expected to yield conservative point estimates of the association between public-private contracts and donations.

RESULTS AND ANALYSIS

Sample Descriptions

Comparative statistics in Table 1 support the general assertion that interest groups with fewer members, or those highly dependent on government, will donate in larger amounts and demonstrate greater political unity. Nationally, revenue for contractors involved in transportation construction comes predominately from public contracts, with highways the largest funding category (ARTBA 2001). Of the three contractor groups in this study, the DOT contractors are the fewest in number ($N = 250$) and, averaging over \$150,000 per month in contracts, are the most dependent on government for revenue. Predictably, road builders have the highest average monthly donations at \$12.21 and the highest donor participation rate at 26.7 percent.

Although public projects are an important source of revenue for many general contractors, unlike the road builders, general contractors have substantially more opportunities for building and renovating private commercial facilities,

⁵ Tobit regressions are an alternative method for analyzing data with significant clustering at zero. Yet as Segelman and Zeng (1999) explain, tobit models assume a truncated distribution where zeros can take on negative values. Tobit is inappropriate for these data because we assume that zero values represent the choice not to donate, rather than censored negative values.

≡ TABLE I
VARIABLE DESCRIPTIONS AND SAMPLE STATISTICS

| Variables and Descriptions | | Public-Private Relationship | | |
|----------------------------|--|-----------------------------|-------------------------------|----------------------------------|
| | | DOT Mean (Std. Dev) | DOA A/E Mean (Std. Dev) | DOA Const. Mean (Std. Dev) |
| Donations | Monthly value of donations by firm owners and executives (\$). | 12.21 (146.98) | 10.32 (166.23) | 4.09 (131.97) |
| Contracts | Monthly value of public-private contracts (\$ 1,000). | 157.03 (998.48) | 4.04 (66.84) | 12.41 (366.53) |
| Sample Statistics | | | | |
| | Number of firms | 250 | 393 | 1331 |
| | Number of donors | 69 | 84 | 144 |
| | Donor participation rate (percent) | 27.6 | 21.4 | 10.8 |
| | Average contract size (\$) | 1,093,018 | 84,000 | 360,000 |
| | Ten-year contract total (\$1,000) | 4,710,907 | 190,863 | 1,982,845 |

manufacturing, and industrial processing plants (ENR 2000). In this study, DOA general contractors are more numerous ($N = 1331$) and average approximately \$20,000 per month in state contracts. The relatively low average contract amount reflects the high variation in project scope and less dependency on government work. As theory would indicate, construction contractors have the lowest average monthly donations at \$6.64 and lowest donor participation rate at 10.8 percent. Finally, while it is difficult to assess the relative level of government dependency by the DOA A/E contractors,⁶ on the basis of group size ($N = 393$), DOA A/E contractors fall between the DOT road builders and DOA contractors, as do measures of donation activity and political unity. DOA A/E firms average \$10.32 in monthly donations and have a donor rate of 21.4 percent.

Fixed-Effect Results

Regression results in Table 2 show the expected increase in donations during election-cycle months. Election-year giving accelerates in September, peaks in October, and declines precipitously in November. One can calculate the election-cycle premium by multiplying the number of contractors in each group by the positive and significant coefficients for the election-cycle months.⁷ Thus, the 250 DOT contractors provided an estimated \$10,063 election-related premium in 1994 and 1998; election-related premiums from the 393 DOA A/E firms amount to \$22,629 per elec-

tion; and DOA contractors collectively produced a premium of \$25,250 in each election.

Donations also increase during the months surrounding the approval of public-private contracts, yet the timing of the premiums is not uniform across contractor groups. Beginning with DOT, results show a significant spike in donation activity after contract approval, a pattern consistent with gratitude behavior. Donations increase in the month following contract approval ($\beta = 0.28$; $\rho < 0.01$), peak in the second post-approval month ($\beta = 0.69$; $\rho < 0.001$), then decline in the third post-approval month ($\beta = 0.48$; $\rho < 0.001$). Assuming that the positive and significant coefficients for the seven-month contract period are associated with public-private contracts, it is possible to estimate contract-related donation premiums by imputing DOT contract totals for 1994 (approx. \$440 million) and 1998 (approx. \$540 million) into the equation. Using this method, contract-related fundraising in 1994 and 1998 is estimated at \$6,380 and \$7,830, respectively. For the full ten-year period, contract-related donation premiums are approximately \$68,300.

DOA A/E contractors do not compete on a sealed, lowest-bid basis, and this is reflected in donation patterns. DOA A/E contractors donate heavily prior to and after contract approval, a pattern consistent with inducement and gratitude behavior. Coefficient estimates show above-average donation magnitudes during the third pre-approval month ($\beta = 6.71$; $\rho < 0.001$), the second pre-approval month ($\beta = 3.01$; $\rho < 0.05$), the first pre-approval month ($\beta = 3.70$; $\rho < 0.01$), the contract approval month ($\beta = 3.28$; $\rho < 0.01$), and the first post-approval month ($\beta = 7.33$; $\rho < 0.001$). Imputing DOA A/E contract totals for 1994 (approx. \$24.6 million) and 1998 (approx. \$22.6 million) in the equation yields contract-related fundraising estimated at \$5,760 for 1994 and \$5,424 for 1998. For the ten-year period, contract-related donation premiums were approximately \$45,800.

⁶ It is difficult to compare average contract amounts for DOA A/E with DOT and DOA construction because road building and construction contracts include the cost of subcontractors and the purchase of building materials, whereas the comparatively low average contract amount for the DOA A/E largely represents direct service fees. The data did not separate out the cost of subcontractors and building materials.

⁷ The term "premium" is used throughout to denote a significant deviation above the average.

≡ TABLE 2
FIXED-EFFECT REGRESSIONS OF MONTHLY DONATION ACTIVITY

| | Public-Private Relationship | | |
|------------------------------|-----------------------------|--------------------|--------------------|
| | DOT | DOA/AE | DOA Const. |
| | β (s.e.) | β (s.e.) | β (s.e.) |
| Contract Variables | | | |
| Pre-Approval, Month 3 (t-3) | -0.17 (0.10) | 6.71*** (1.18) | 2.60*** (0.09) |
| Pre-Approval, Month 2 (t-2) | -0.01 (0.10) | 3.01* (1.18) | 5.13*** (0.09) |
| Pre-Approval, Month 1 (t-1) | -0.01 (0.10) | 3.70** (1.19) | 0.09 (0.09) |
| Contract Approval Month (t) | -0.18 (0.10) | 3.28** (1.19) | 0.79*** (0.09) |
| Post-Approval, Month 1 (t+1) | 0.28** (0.10) | 7.33*** (1.19) | -0.31*** (0.09) |
| Post-Approval, Month 2 (t+2) | 0.69*** (0.10) | -0.40 (1.20) | -0.71*** (0.09) |
| Post-Approval, Month 3 (t+3) | 0.48*** (0.10) | 0.34 (1.21) | -0.86*** (0.09) |
| Election Cycle Variables | | | |
| August | -4.41 (7.16) | 17.60** (6.41) | 0.79 (2.76) |
| September | 14.67* (7.16) | 18.27** (6.41) | 7.31** (2.76) |
| October | 25.58*** (7.25) | 21.71*** (6.45) | 11.66*** (2.78) |
| November | 1.26 (7.25) | -3.35 (6.45) | 1.98 (2.78) |
| Constant | 9.77* (4.07) | 8.72** (2.38) | 2.96** (0.87) |
| -Log Likelihood | 182,409 | 292,924 | 956,160 |
| Number of Firms | 250 | 393 | 1331 |
| Number of Time Periods | 114 | 114 | 114 |

Note: * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

All equations included seasonal and firm intercepts. Coefficient estimates for contract variables are based on a \$100,000 contract.

Like the DOA A/E, donation premiums from the DOA general contractors occur before the contract approval, but unlike the DOA A/E, post-approval months indicate a significant decline in donation activity. Coefficients for the third pre-approval month ($\beta = 2.60$; $p < 0.001$), the second pre-approval month ($\beta = 5.13$; $p < 0.001$), and the contract approval month ($\beta = 0.79$; $p < 0.001$) are positive, while coefficients for the first ($\beta = -0.31$; $p < 0.001$), second ($\beta = -0.71$; $p < 0.001$), and third ($\beta = -0.86$; $p < 0.001$) post-approval months are negative and statistically significant. This pre-approval spike and post-approval trough in donation activity suggests that politically active DOA contractors give strategically by earmarking the bulk of their donation budget for inducement. Imputing DOA construction totals

for the 1,331 contractors in 1994 (approx. \$197 million) and 1998 (approx. \$259 million) in significant pre-approval and post-approval months yields an estimated \$13,080 in donation premiums associated with contracts in 1994 and \$17,200 in 1998. By these estimates, DOA general contractors gave \$131,660 in contract-related premiums over the ten-year period.

DISCUSSION AND LIMITATIONS

Public-private contracting is not new, nor are allegations of reciprocity between politicians and private firms receiving public contracts. By combining two sets of public data, this research sought to contribute to this topic by testing for

≡ TABLE 3
PREDICTED MONTHLY DONATION AVERAGES

| | Public-Private Relationship | | |
|---------------------------------|-----------------------------|--------|------------|
| | DOT | DOA/AE | DOA Const. |
| No Election / No Contract | 9.77 | 8.72 | 2.96 |
| Election Period / No Contract | 19.05 | 22.28 | 8.40 |
| No Election / Inducement Period | 8.76 | 12.23 | 10.71 |
| No Election / Gratitude Period | 13.24 | 10.94 | 1.98 |

Note: Estimates are computed averages that include donors and non-donors.

variation in political donations associated with the timing and magnitude of public-private contracts. Across three contract processes, results indicate a significant and positive pattern between firm-level donations and months on or near contract approvals. Furthermore, contract-related campaign donations rival in magnitude the donations provided during the 1994 and 1998 election cycles. For all three samples, contract-related donation premiums aggregated over the ten-year period meet or exceed the estimated election-cycle donation premiums for the combined 1994 and 1998 elections. In the limited context of this analysis, public-private contracting did serve as an effective vehicle for political fundraising.

Group differences yield several insights. As our theoretical framework predicts, the smallest and most state-dependent contractor group, the DOT road builders, exhibit less free-rider behavior and higher average donation levels. When we compare election-cycle premiums to the contract premiums for the full seven-month contract approval period, DOT road builders paid contract-related premiums that were roughly 71 percent of the magnitude of election-cycle premiums. By comparison, DOA construction and DOA A/E firms provided contract-related donation premiums that were 60 percent and 25 percent of election premiums, respectively. These findings imply that the practice of shifting political resources to the contracting cycle was more refined among the DOT road builders.

For the three groups, donation activity varies across the phases of the public-private contracting process. To illustrate, Table 3 summarizes the predicted donation levels for the three groups by imputing contract averages from Table 1 into Table 2 results. The row labeled "No Election / No Contract" provides average monthly donations after factoring out seasonal giving, fixed contractor traits, elections, and public-private contracts. These figures are simply the constant values from Table 2. The row labeled "Election Period / No Contract" presents the average monthly donations during the months of August through November for the 1994 and 1998 elections. The row labeled "No Election / Inducement Period" shows the average donation levels for the four months encompassing the three pre-approval months and the approval month (i.e., $t-3$, $t-2$, $t-1$, and t). Similarly, the row labeled "No Election / Gratitude Period" offers the predicted average donations for the four months

comprising the approval month through post-approval month three (i.e., t , $t+1$, $t+2$, and $t+3$).

Using averages from Table 3, we can again judge the comparative size of election-cycle donations and contract donations. Donations from DOT contractors arriving in the gratitude phase of the public-private contract process are approximately 70 percent of the magnitude of election-cycle giving. For the DOA A/E group, contract-related donations are roughly 50 percent of election-cycle donations in both the inducement and gratitude phases. DOA general contractors provide inducement donations that are approximately 130 percent of their election-cycle donations.

Moreover, Table 3 highlights the variation in the contract-related donation patterns and provides insight on donor strategy. Specifically, note that DOT contractors give at exceptional levels after contract approvals, while DOA contractors donate at exceptional levels just prior to contract approvals. We offer two related explanations. First, this is partially an artifact of differences across departments in documenting project dates. As stressed earlier, the DOT contract approval date signifies the announcement of the competitive bidding results, whereas the DOA contract approval date is the official notice for an A/E or general contractor to begin a project. Donation-contract patterns for the three groups might be more similar if contract approval dates were identically aligned across all sources.

Second, differences in the project dates reflect variation in the procurement processes. Conceptually, contracting can be divided into three phases: bidding, negotiation, and project, where the bidding phase determines the favored contractor; the negotiation phase formalizes the contract; and the project phase signals the start of construction. Recall that for the DOT, the negotiation phase was relatively short and post-approval. For the DOA, negotiations were longer, particularly for large projects, and occurred pre-approval. Exceptional donation activity after DOT contract approvals and prior to DOA contract approvals both suggest that contractors donate heavily during the negotiation phase: after surviving the competitive bidding round but before receiving official authorization to break ground.

Such an inference parallels evidence that private contributors endeavor to direct resources efficiently toward actors and institutions that are pivotal to the decisionmaking process (Box-Steffensmeier and Dow 1992; Gopoian 1984;

Grier and Munger 1993). Our results indicate that donations are strategically timed: after projects are reasonably assured but before contracts are finalized. Donations during the negotiation phase might signal gratitude for advancing beyond the competitive bidding round; they might serve to insure consummation of a binding contract; or both. In Wisconsin, all DOT contracts, and any DOA contract valued over \$60,000 require the Governor's signature to be valid.⁸

These findings have implications for campaign finance reform policy. An essential fault line in the debate over campaign finance reform concerns the motives for making campaign contributions (Corrado et al. 1997). Campaign finance reform opponents argue against regulating donation activity, based on the belief that donations are largely expressions of support for a candidate or political party, and thus a form of constitutionally protected speech. Campaign reform advocates, on the other hand, argue that donations are speech plus influence. Unregulated political giving allows those with wealth to dominate the political agenda, achieve access, and distort the policymaking process. Accordingly, reformers have proposed campaign donation regulation aimed at preserving speech while reducing the corruptive influence of large donations. The association between the timing of public-private contract approvals and political donations in this study implies the presence of influence or, in the very least, an expectation of quid pro quo by a minority of contractors. Stricter regulation might serve to reassure non-donating contractors, as well as the public, that the state approves contracts on the basis of merit alone.

These findings also have implications for privatization policy. Researchers broadly acknowledge political factors in public-private contracting. However, opinions diverge over the major source of political influence, and by implication, the optimal level of public-private contracting. Most research to date has focused on public unions as an interest group that leverages votes and other resources to obstruct substantial levels of socially beneficial public-private contracting (Bennett and DiLorenzo 1983; López-de-Silanes and Vishny. 1997; McGuire, Oshfeldt, and Van Cott 1987). A second view maintains that a quid pro quo between contractors receiving public-private contracts and the politicians encouraging privatization leads to an overabundance of undesirable public-private contracting (AFL-CIO 1977; Hanrahan 1977). While we have no direct evidence that the increase in Wisconsin construction expenditures (Figure 1) was motivated by the donation behavior of contractors, overall these findings are consistent with the hypothesis that concentrated business interests can institutionalize support for expanding public-private contracting within the constraints imposed by existing donation law.

Further research is needed to advance our understanding of the mechanisms behind these results. An important unknown is the role of the public agencies responsible for

implementing public policy, in our case the DOT and DOA. One hypothesis is that private firms channel donations to political leaders, who in turn influence decisions within public agencies. Such a process would require pores in the firewalls erected between the policy-formation and administration arms of government, or other evidence that public agencies serve as an apparatus of the regime in power. Perhaps a more plausible scenario, since it implies neutrality on the part of agencies and career public servants, is that the regime in power coordinates political fundraising around public-private contracting. At various stages, the government procurement process generates public information (of the kind used in this analysis). Upon receiving contract award information, political staff may opportunistically solicit award winners for donations.

Limitations

Data limitations prevent a full assessment of the relationship between public-private contracts and political donations. Construction projects that are managed by a general contractor involve numerous other commercial interests: subcontractors, material suppliers, heavy equipment dealers, insurance firms, law firms, and so forth. Companies providing such products and services are prominent donors in the WDC database. Unfortunately, the DOT and DOA data identify only general contractors, thereby precluding an analysis that connects these other direct beneficiaries of public-private contracts to their donation activity. In all likelihood, the magnitude of the relationship between donations and public-private contracts is understated in this analysis.

Finally, the statistically strong association between the approval of public-private contracts and political donations raises the controversial prospect that firms were able to buy favoritism. Testing this supposition requires data on all contractors that bid on state work, the value of competing bids, and contractor qualifications. Such information was unobtainable because the data were classified as confidential and our request was denied. We therefore cannot draw the conclusion that less deserving contractors received work due to political contributions.

REFERENCES

- AFL-CIO. 1977. *Contracting Human Services: Recurring Scandals and Malperformance*. Washington, DC: Public Employee Department, AFL-CIO Press.
- ARTBA. 2001. *U.S. Transportation Construction Market Report. 2000: Year in Review*. Washington DC: American Road & Transportation Builders Association Press: January.
- Bennett, James T., and Thomas J. DiLorenzo. 1983. "Public Employee Unions and the Privatization of 'Public' Services." *Journal of Labor Research* 4 (1): 33-44.
- Boies, John L. 1989. "Money, Business, and the State: Material Interests, Fortune 500 Corporations, and the Size of Political Action Committees." *American Sociological Review* 54 (October): 821-33.

⁸ Wisconsin Statutes 84.06 and 16.87.

- Action Committees." *American Sociological Review* 54 (October): 821–33.
- Box-Steffensmeier, Janet M., and Jay K. Dow. 1992. Campaign Contributions in an Unregulated Setting: An Analysis of the 1984 and 1986 California Assembly Elections. *Western Political Quarterly* 45 (September): 609–28.
- Burris, Val. 2001. "The Two Faces of Capital: Corporations and Individual Capitalists as Political Actors." *American Sociological Review* 66 (June): 361–81.
- Capital Times. 2001. "Thompson on Thompson: Governor Looks Back, Ahead as He Prepares to Join Bush's Cabinet." *Capital Times* (Madison, WI), January 30, 29A.
- Center for Public Integrity. 2003. "Windfalls of War: U.S. Contractors in Iraq and Afghanistan." Washington, DC: Center for Public Integrity, October 30. <http://www.publicintegrity.org/dtaweb/home.asp>
- Corrado, Anthony, Thomas E. Mann, Daniel Ortiz, Trevor Potter, and Frank Sorauf. 1997. *Campaign Finance Reform: A Sourcebook*. Washington, DC: Brookings Institute Press.
- ENR, 2000. "The Top 400 Contractors." *Engineering News Record*, May: 244.
- Etzioni, Amitai. 1984. *Capital Corruption: the New Attack on American Democracy*. New York: Harcourt Brace Jovanovich.
- Gopojan, David J. 1984. "What Makes PACs Tick? An Analysis of the Allocation Patterns of Economic Interest Groups." *American Journal of Political Science* 28 (May): 259–81.
- Grier, Kevin B., and Michael C. Munger. 1993. "Company Interest Group PAC Contributions and House and Senate Incumbents 1980–1986." *Journal of Politics* 55 (August): 615–43.
- Grier, Kevin B., Michael C. Munger, and Brian E. Roberts. 1994. "The Determinants of Industry Political Activity, 1978–1986." *American Political Science Review* 88 (December): 911–26.
- Hansen, Wendy L., and Neil J. Mitchell. 2000. "Disaggregating and Explaining Corporate Political Activity: Domestic and Foreign Corporations in National Politics." *American Political Science Review* 94 (4): 891–903.
- Hanrahan, John. 1977. *Government for Sale: Contracting Out and the New Patronage*. Washington, DC: American Federation of State, County, and Municipal Employees.
- Humphries, Craig. 1991. "Corporations, PACs, and the Strategic Links between Contributions and Lobbying Activities." *Western Political Quarterly* 44 (June): 353–72.
- Lichtenberg, Frank R. 1989. "Contributions to Federal Election Campaigns by Government Contractors." *Journal of Industrial Economics* 38 (September): 31–48.
- López-de-Silanes, Florencio, Andrei Schleifer, and Robert W. Vishny. 1997. "Privatization in the United States." *RAND Journal of Economics* 28 (3): 447–71.
- Masters, Marick F., and Gerald D. Keim. 1985. "Determinants of PAC Participation Among Large Corporations." *Journal of Politics* 40 (November): 1158–73.
- McGuire, Robert A., Robert L. Ohsfeldt, and T. Norman Van Cott. 1987. "The Determinants of Choice between Public and Private Production of a Publicly Funded Service." *Public Choice* 54 (3): 211–30.
- Olson, Mancur. 1965. *The Logic of Collective Action*. Cambridge, MA: Harvard University Press.
- Peltzman, Sam. 1976. "Toward a More General Theory of Regulation." *Journal of Law and Economics* 19 (2): 211–40.
- Posner, Richard A. 1974. "Theories of Economic Regulation." *Bell Journal of Economics and Management Science* 5 (2): 335–58.
- Schattschneider, E. E. 1960. *The Semisovereign People: A Realist's View of Democracy in America*. New York: Holt Rinehart and Winston.
- Segelman, Lee, and Langche Zeng. 1999. "Analyzing Censored and Sample-Selected Data with Tobit and Heckit Models." *Political Analysis* 8 (December): 167–82.
- Smith, Richard A. 1995. "Interest Group Influence in the US Congress." *Legislative Studies Quarterly* 20 (February): 89–139.
- Stigler, George J. 1971. "The Theory of Economic Regulation." *Bell Journal of Economics* 2 (1): 3–21.
- Stratmann, Thomas. 1998. "The Market for Congressional Votes: Is Timing of Contributions Everything?" *Journal of Law and Economics* 41 (April): 85–113.
- Zardkoohi, Asghar. 1985. "On the Political Participation of Firms in the Electoral Process." *Southern Economic Journal* 51 (January): 804–17.

Received: January 18, 2005

Accepted for Publication: July 12, 2005

rzullo@umich.edu