

The Iceberg Theory of Campaign Contributions: Political Threats and Interest Group Behavior*

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Abstract

This paper presents a model of campaign contributions where a special interest group, using multilateral offers, can condition its contributions not only on the receiving candidate's support but also on the support of her opponent. This allows the interest group to pledge to gain support both from contributions as well as from implicit threats. These implicit out-of-equilibrium threats can help explain the "missing money" puzzle in the empirical literature. The theory contradicts standard theory in predicting (1.) that interest groups do not give to both sides in a race and (2.) that interest groups do not necessarily give more money per contribution to stronger candidates. Both of these predictions are verified in FEC data from 1984-2004 using both non-parametric estimation and linear splines. Also, the theory predicts that special interest groups will mainly target lop-sided races whereas general (partisan) interest groups will contribute mainly in close races. These two prediction are also verified empirically.

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