Campaign Donations and Public-Private Contracts

Wisconsin 1991–2000

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Executive Summary

At the center of the debate over campaign finance is a disagreement over why people donate to political campaigns. 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, 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 policy-making process. Thus, reformers have proposed campaign donation policy aimed at preserving speech while reducing the corruptive influence of large donations

This study presents an empirical test of the relationship between campaign donations and public policy. The context is the State of Wisconsin from 1991 through 2000, and the public policy is public-private expenditures for highway and building projects. Construction records from the Department of Transportation (DOT) and Department of Administration (DOA) were collected and matched against campaign donations by construction firms to then-Governor Tommy Thompson. If donations resemble pure "speech," as campaign reform opponents argue, then there should be no relationship between the donations to the governor and the timing and magnitude of construction contracts. A systematic relationship, in contrast, would imply that donations serve as a mechanism for influencing construction policy.

Several findings indicate a strong association between campaign donations and policy, supporting the views held by campaign reform advocates. First, an analysis of all donations to Thompson during the 1991 through 2000 period indicates an accelerated

presence of large donations during state budget cycles. Second, is the strong correlation between the magnitude of state construction projects and the magnitude of donations: the most generous construction industry donors are firms that earned the lions share of state contracts during the 1991 to 2000 period. Third, in our regression analyses, the timing and magnitude of construction projects explain 32 percent of donation activity occurring outside of election cycles for average contractors and 60 percent of the donations from large contractors. Fourth, the accumulated level of contracts prior to an election explain 29 to 36 percent of election-cycle donations from average contractors, and 74 to79 percent of election-cycle giving from large contractors. Finally, the analysis indicates that exceptional levels of donations arrived to the former governor just after the approval of DOT contracts, and just prior to the approval of DOA contracts.

These findings are consistent with a pattern of "inducement" and "gratitude" behavior between some construction firms and the former Thompson administration. While the quantitative analysis does not provide details on the dynamics of this phenomenon, it does suggest the need for further research to understand the relationship between elected officials who shape public policy and the beneficiaries of public-private contracts. Specifically, we recommend collecting and evaluating additional detail on public-private construction contracts; moving beyond the construction industry to evaluate data for newly privatized services; extending this analysis to other Wisconsin elected officials; and conducting a historical and descriptive assessment of the laws and policy that seek to separate the administration of public funds from direct political influence.

Table of Contents

List of Charts and Tables

Introduction

An essential fault line in the debate over campaign finance reform concerns the motives for making campaign contributions.[1] One side maintains that donations are an expression of approval for a political party or candidate. As expressions, donations are constitutionally protected "speech," and any law restricting the voluntary payment of funds to a political party or candidate breaches the First Amendment. Furthermore, any compulsory arrangement that channels funds toward political parties or candidates denies citizens the right *not* to speak. Accordingly, advocates within this camp oppose limiting or regulating the donations of individuals, which are viewed as voluntary. Likewise they support restricting the political use of funds by organizations that impose mandatory dues on members, most notably labor unions, as well as the use of public revenues for political campaigns, because these contribution types are viewed as involuntary. This "donations equals speech" argument is the primary intellectual counter to campaign finance reform.

Campaign finance reform advocates, on the other hand, argue that donations are speech *plus* influence. Due to the close relationship between wealth and the capacity to donate, unchecked giving produces baneful forms of influence on two interdependent fronts. First, disparate levels of campaign dollars allow a party or candidate to purchase enough political advertising to overwhelm competing views and dominate the public debate. According to the "unequal wealth yields unequal influence" argument, donation activity can distort the electoral process through the unbalanced promulgation of ideas, issues, and candidate positions. Second, to finance a competitive run for office,

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[1] For a thorough discussion on the debate, see *Campaign Finance Reform: A Sourcebook* (Washington, D.C.: Brookings Institute, 1997).

politicians will court wealthy prospective donors who, in turn, gain access to politicians and attention toward their concerns. On this front, contributions distort the policy-making process as politicians seek to reward donors at the expense of a broader constituency. Either manifestation is an affront to the democratic ideal of equal political representation. Campaign finance reformers have therefore recommended policy proposals designed to preserve free speech while minimizing the corruptive influence of large contributions.

This study addresses the "speech" versus "influence" debate by exploring the connection between campaign donations and public policy. Accomplishing this task requires the identification of a public policy area in which there are retrievable records involving direct benefits to prospective campaign donors. State contract awards to private firms (hereafter, "public-private contracts") meet this criterion. Observers have asserted a *quid pro quo* between private firms receiving public-private contracts and politicians encouraging private contracting.[2] Yet to date, evidence of a connection between campaign donations and public-private contracts has been based on case studies or historical accounts.[3]

This project involved matching data on public-private contracts with political donation data, and performing empirical tests for a relationship between the magnitude

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[2] For a general statement, see Paul Star, *The Limits of Privatization* (Washington, D.C.: Economic Policy Institute, 1987).

[3] John Hanrahan, *Government for $ale: Contracting Out and the New Patronage* (Washington, D.C.: American Federation of State, County and Municipal Employees, 1977); AFL-CIO Public Employee Department, *Contracting Human Services: Recurring Scandals and Malperformance*. (Washington, D.C.: Public Employee Department, AFL-CIO, 1997); Moshe Adler, "Been there, done that! The Privatization of Streetcleaning in the Nineteenth Century," *New Labor Forum* (Spring/Summer 1999):88-99.

and timing of political contributions and the magnitude and timing of state contracts. An absence of a systematic relationship between public-private contracts and donations would support the view that campaign donations resemble "speech," whereas the presence of a systematic relationship would imply the intent to "influence" public policy.

Data and Background

The public-private contract and political donation data are from the State of Wisconsin. Several factors make Wisconsin an advantageous political jurisdiction for this project. Foremost is the availability of longitudinal campaign contribution data compiled by the Wisconsin Democracy Campaign (WDC), a non-profit organization advocating campaign finance reform. The WDC regularly collects public information on campaign donations, and maintains a database on donor information such as donor name, home address, corporate affiliation, and fund recipient.[4] By providing access to their data files, the WDC has made possible empirical evaluations of campaign donation activity. This study examines donations to Wisconsin's former governor, Tommy Thompson, from the period from January 1991 through December 2000.

Wisconsin's other advantages stem from the tenure and policy of former Governor Thompson. From a methodological perspective, Thompson's longevity as governor (1986 to 2001) simplifies the analysis by naturally controlling for political personality. Since Thompson held the governor's seat during the full ten-year time period under investigation, variation in donation activity to the governor's office cannot be attributed to a shift in preference toward a new political figure.

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[4] Access to the data, as well as information on the Wisconsin Democracy Campaign, is available on the Web at http://www.wisdc.org.

From a public policy perspective, Governor Thompson expanded the use of public-private contracting. Under his directive Wisconsin privatized numerous public functions, including state information systems, prison services, the lottery, building maintenance services, welfare, and child protection. To simplify the task of collecting data, this analysis is limited to public-private contracts for major capital 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 as his greatest accomplishment.[5]

Public data for highway and building construction projects were obtained from the Wisconsin Department of Transportation (DOT) and the Wisconsin Department of Administration (DOA) for the time period under investigation. The Wisconsin DOT is responsible for administering funds for highway construction and improvements, while the Wisconsin DOA handles building construction and renovation. The public-private construction project data was then combined with campaign contribution data from the WDC database by matching cases based on employer name. A final database includes donor identification information, donor employer, the donation date and amount, and data on contracts, such as start date, project, and dollar amount.

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[5] "Thompson on Thompson: Governor Looks Back, Ahead as He Prepares to Join Bush's Cabinet," *Capital Times* (Madison, WI, January 30, 2001):9A.

Levels of Analysis and Research Questions

Campaign donation activity is evaluated on two levels. The first level uses the complete WDC data set, and evaluates the frequency and magnitude of donations over the ten-year period with respect to elections and budget cycles. For simplicity, in this preliminary analysis donations that occur in the three months prior to the elections are classified as "speech," while donations made during the budget process will be viewed as "influence." The following questions are addressed:

1. What are the frequency and magnitude of donations during the election cycle?
2. What are the frequency and magnitude of donations during the budget cycle?
3. How do election-cycle donations differ from budget-cycle donations?

The second level is a more refined evaluation of the donations to Thompson by contractors receiving revenue from at least one public-private contract between 1991 and 2000. Every attempt was made to include all contracts issued by the DOT and DOA based on the information collected from those departments, and to match contractors with the donation records from the WDC. In all analyses the unit of analysis is the firm, and the data include both contractors who donated and contractors who did not donate.

First, public-private contract revenue and political donations are evaluated on a monthly basis, where monthly donation totals are modeled as a function of the monthly total of public-private contracts. An advantage of the monthly aggregation is that it permits an analysis that controls for election-cycle donations. Donations that are unrelated to the timing of public-private contracts are assumed to be "speech," while donations that systematically vary with the timing of public-private contract awards indicate "influence." This section of the analysis also relaxes the assumption that

election-cycle donating constitutes pure speech and models election-cycle giving as a function of prior contract awards. The following questions are addressed:

1. To what extent do contractors donate?
2. In terms of contract amounts, how do non-donors differ from donors?
3. To what extent do public-private contracts predict the level of donations, controlling for election cycles and prior donations?
4. To what extent do public-private contract accumulations predict election-cycle donation activity, controlling for prior donations?

A second analysis aggregates public-private contracts and donations on a quarterly basis, modeling quarterly contract amounts as a function of quarterly donation amounts for both the DOT and DOA. Exploring the relationship between contract and donation activity on a quarterly basis allows for an analysis that controls for seasonal fluctuations in construction activity. The following questions are addressed:

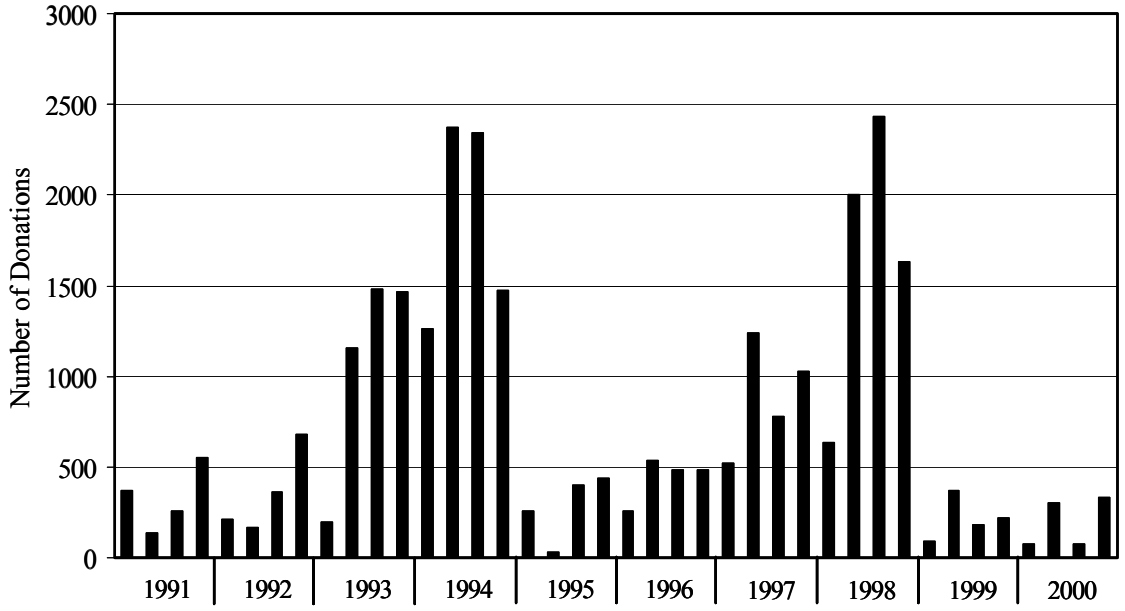
1. To what extent do donations arrive during the same quarter that contractors receive approval for public-private contracts?
2. To what extent do donations arrive in the quarter after contractors receive approval for public-private contracts?
3. To what extent do donations arrive in the quarter just before contractors receive approval for public-private contracts?

Political Donations to Thompson, 1991 through 2000

This section explores donation patterns to former Governor Thompson over the ten-year period using all donations from the WDC data set. Chart 1 presents donation frequency, by quarter, from January 1991 through December 2000.

It is clear that donation activity, measured by the number of donations, is positively correlated with gubernatorial elections. Thompson ran for reelection in 1994 and 1998, and as one would expect, there is a spike in the number of donations during the

Chart 1. Donation Frequency by Quarter

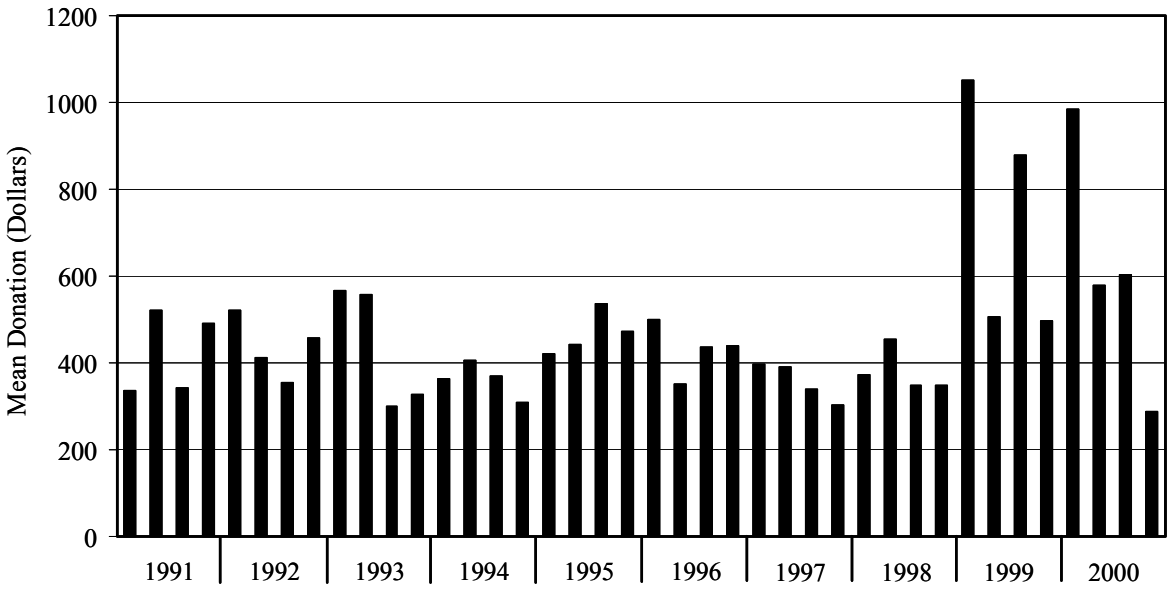


quarters leading up to and including the November elections. This pattern reflects the rhythm of the election cycle: supporters accelerate their donation activity with the approach of an election, and dramatically reduce their giving afterward.

Chart 2 provides the average size of the donation, by quarter, from January 1991 through December 2000. While the pattern is not as striking, donor activity, measured by the average size of the political contribution, is negatively correlated with the gubernatorial elections. On average, donations that occur outside of the election cycle are greater in magnitude than donations during the election cycle. The decrease in the average size, coupled with the increase in the number of donations, suggests the presence

of many small contributions flowing into the political campaign at the time of elections. Likewise, the higher average size and less frequent donation patterns outside the election

Chart 2. Average Size of Donation by Quarter



cycle are a result of the ongoing presence of large donors.

To explain these patterns, donation frequencies and magnitudes were compared for months representing the election and budget cycles. There were two gubernatorial elections, 1994 and 1998, during the time period under investigation, with primaries in September and the election in November. The data were coded to estimate donation levels in November, October, September, and August for both election cycles. State budgets are formulated every two years. Between 1990 and 2000, there were five budget cycles in Wisconsin: 1991, 1993, 1995, 1997, and 1999. Budget cycles begin in March with the governor's recommendation to the Joint Finance Committee. In the ensuing months, the budget is revised by the Assembly and Senate. If everything goes according

to schedule, by June, the draft budget is returned to the Governor for line-item vetoes and his signature.[6] Often, however, the budget process concludes at a much later date.[7] For the five budget cycles, data were coded to indicate donation activity during the months prior to the governor's signature. Table 1 presents estimates for donation frequency and average donation size for election and budget cycles.

Table 1. Donation Frequency and Magnitude, 1991 to 2000

	Election Cycle		Budget Cycle	
	Average Number of Donations	Average Size of Donation	Average Number of Donations	Average Size of Donation
Month of event (election or budget)	317	$342	136	$307
One month before the event	1,053	$328	229	$295
Two months before the event	937	$396	156	$471
Three months before the event	729	$324	145	$600

Election Cycle

During the 1994 and 1998 election cycles, Thompson received an average of 729 donations in August, 937 in September, 1,053 in October, and 317 in November. The peak in October indicates the participation of many small donors just prior to the election. The sharp drop in November reflects the fact that Election Day occurs during the first full

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[6] Wisconsin governors have partial veto authority that allows them to strike individual letters, numbers, and punctuation marks from the budget. Partial veto authority gives considerable discretion in shaping the outcome of the final budget.

[7] Biennial budgets and their dates of enactment: 1991-93, August 8, 1991; 1993-95, August 10, 1993; 1995-97, July 26, 1995; 1997-99, October 11, 1997; 1999-2001, October 27, 1999.

week of November, and supporters generally stop donating afterward. The average size of the donation during the four-month time period varies between $324 and $396, with average donation size peaking in the primary month of September.

Budget Cycle

As with the election cycle, donation frequency increases in the budget cycle months, reaching a peak during the month before the budget is finalized. For the five budget cycles, the average number of donations three months prior to the enactment of the budget is 145; two months prior, 156; one month prior, 229; and 136 in the month the budget is complete. The average donation size varies between $295 in the month before the budget is finalized to $600 three months before the budget is signed. Compared with donations during the election cycle, donations during the budget cycle tend to be fewer in number and larger in magnitude, and demonstrate greater variation in average size.

This preliminary analysis suggests the presence of speech and influence. The flurry of small contributions in the months leading up to the election is a pattern of political giving that is consistent with the "speech" perspective. Small-scale donors are expressing approval for their candidate by donating. Large donations, however, evident during the election cycle and budget cycle, support the "influence" argument. Donations during the budget cycle, in particular, imply the presence of large contributors seeking to influence appropriations decisions.

Highway and Building Construction Contracts, 1991 to 2000

One substantial area of state investment is for transportation and buildings. State appropriations for transportation, which encompasses a broad range of projects including highway construction, are in the magnitude of $2 billion to $3 billion for each budget

cycle. The Department of Transportation (DOT) administers funds earmarked for highway construction and repair. State appropriations for buildings, most of which are targeted for new construction and building renovations, range from one-half to three-quarter billion dollars per budget cycle.[8] The Department of Administration (DOA) oversees projects involving building construction and renovation.

Nearly every large project is subjected to a formal bidding process. When a new highway or building is planned for construction, the appropriate agency drafts project specifications and then solicits bids from qualified private firms. Generally, contractors must demonstrate the capacity to complete the work to become eligible to bid. The bids are received and evaluated, and then by Wisconsin law, agencies are required to choose the lowest bid. Either party, the state agency or the private contractor, can withdraw from the project after the winning bid is announced. There is also a limited window period for losing bidders to appeal the final decision.

Expenditures for contracted highway and building projects were obtained from the DOT and DOA. Chart 3 provides annual totals for the DOT, the DOA, and the combined amounts for 1991 through 2000 adjusted for inflation in year 2000 dollars.

Several observations can be drawn from Chart 3. First, in any given year, the contract expenditures for DOT are approximately twice the magnitude as DOA. Second, the overall levels of construction by DOT and DOA demonstrate an upward trend during the decade, even after adjusting for inflation. Combined annual contracts were roughly $650 million in 1991 (in year 2000 dollars), growing to nearly $900 million by 2000.

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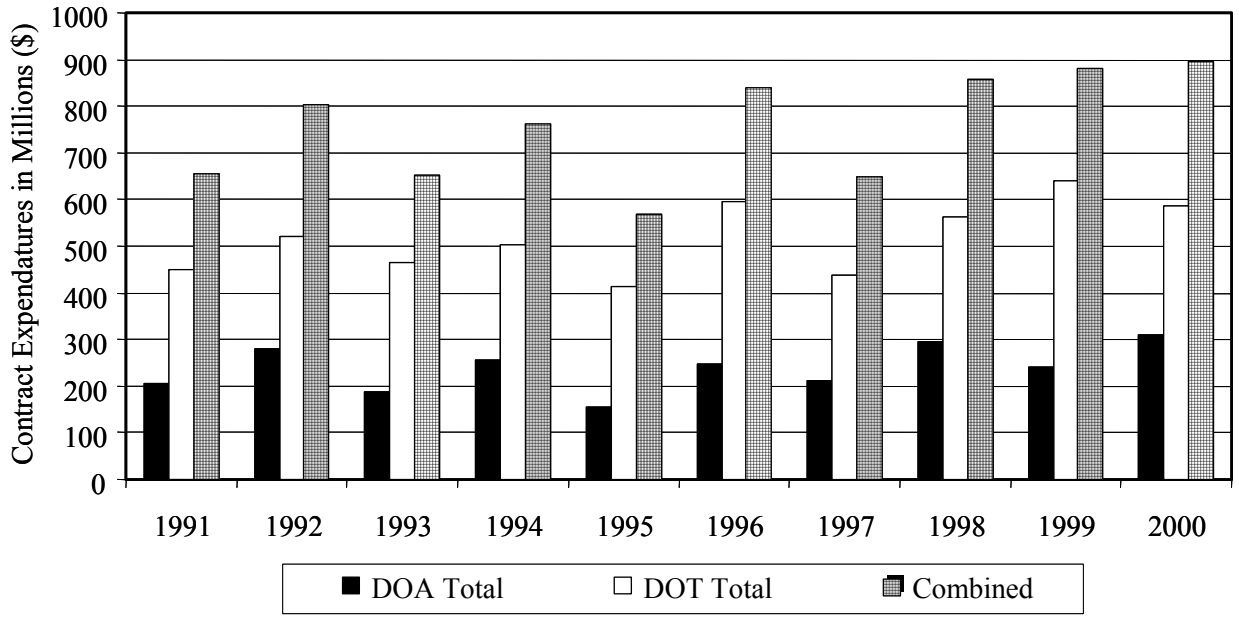
[8] These approximations are based on documents obtained from the Wisconsin Legislative Fiscal Bureau.

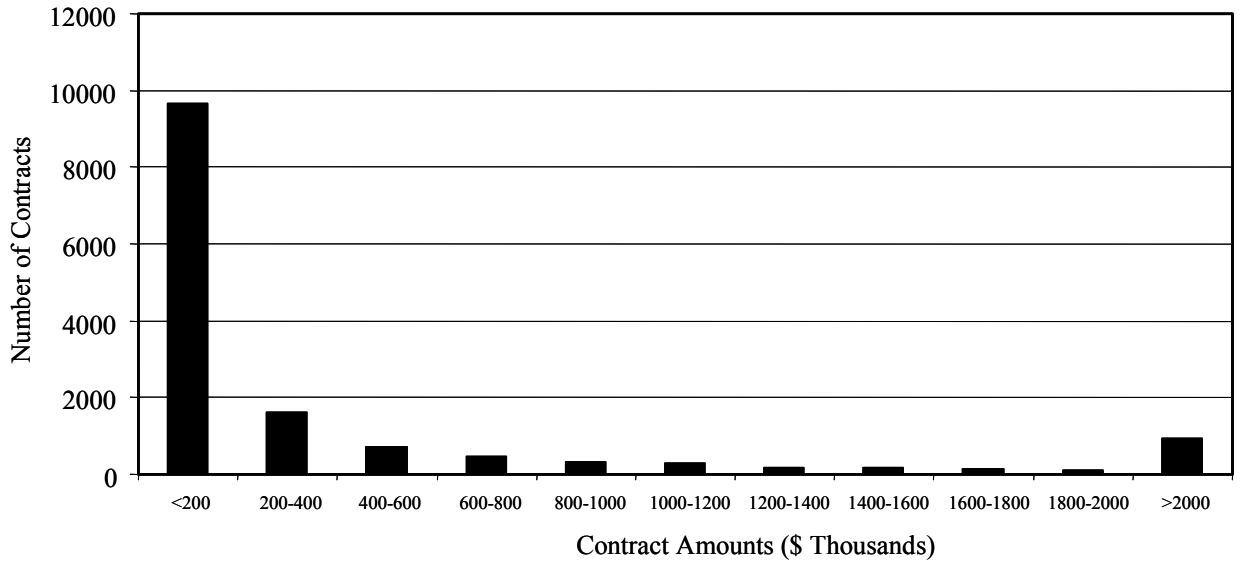
Chart 3. Adjusted DOA and DOT Contract Expenditures, 1991–2000



Third, construction spending is cyclical, with troughs during budget years and peaks during election years.

In all, the data gathered from the DOT and DOA include 14,626 contracts. The smallest contract was $200, the largest $55.8 million, with an average of $545, 300. Chart 4 provides the distribution of contracts in $200,000 increments.

Chart 4. Contract Frequency by Total Dollar Amount, 1991–2000



Over two-third of the contracts (n = 9,679) are under $200,000, while roughly one-third (n = 4,947) are greater than $200,000. The distribution is therefore highly skewed: the majority of contracts are relatively small, perhaps involving renovation work rather than new construction. There are, however, a significant number of relatively large contracts associated with major state projects.

Much of the variation in contract magnitude is due to the aggregation of DOT and DOA contract data. Charts 5 and 6 present separate graphs of DOT and DOA contract size and frequencies over the ten-year period.

In any given year, the average DOT contract is three to four times the size of the average DOA contract. The average DOT contract size across the ten-year period is about $1.1 million, while the average contract size for the DOA is $285,000. However, the DOT has roughly half as many contracts as the DOA in any given year. The average annual number of DOT contracts is 431, while the average annual number of DOA

Chart 5. Average Size and Frequency of DOT Contracts, 1991–2000

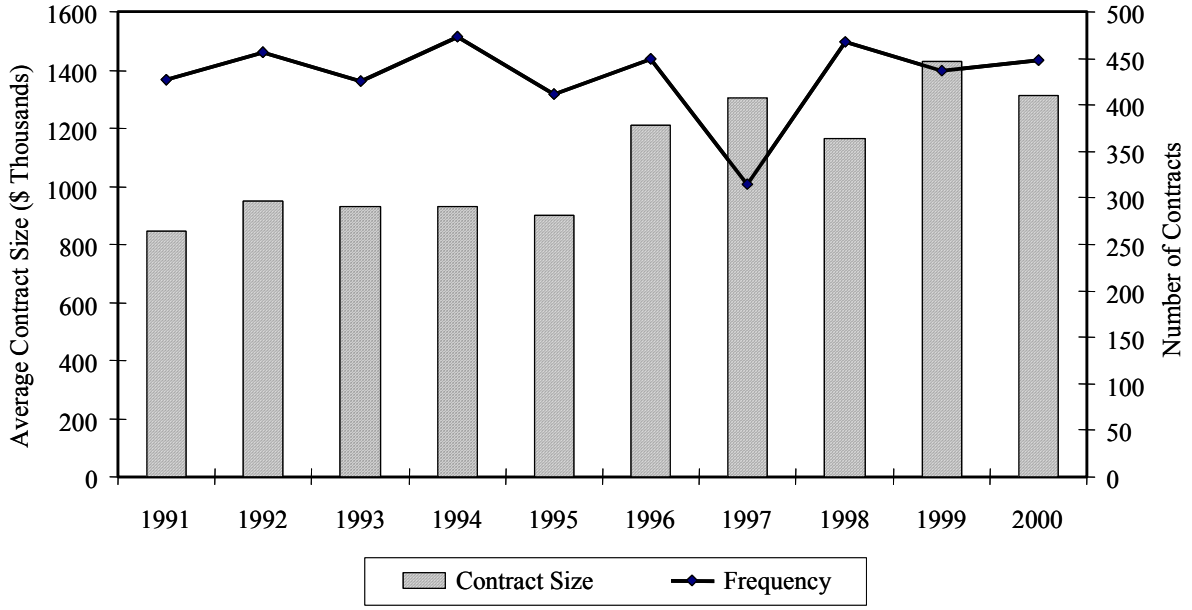
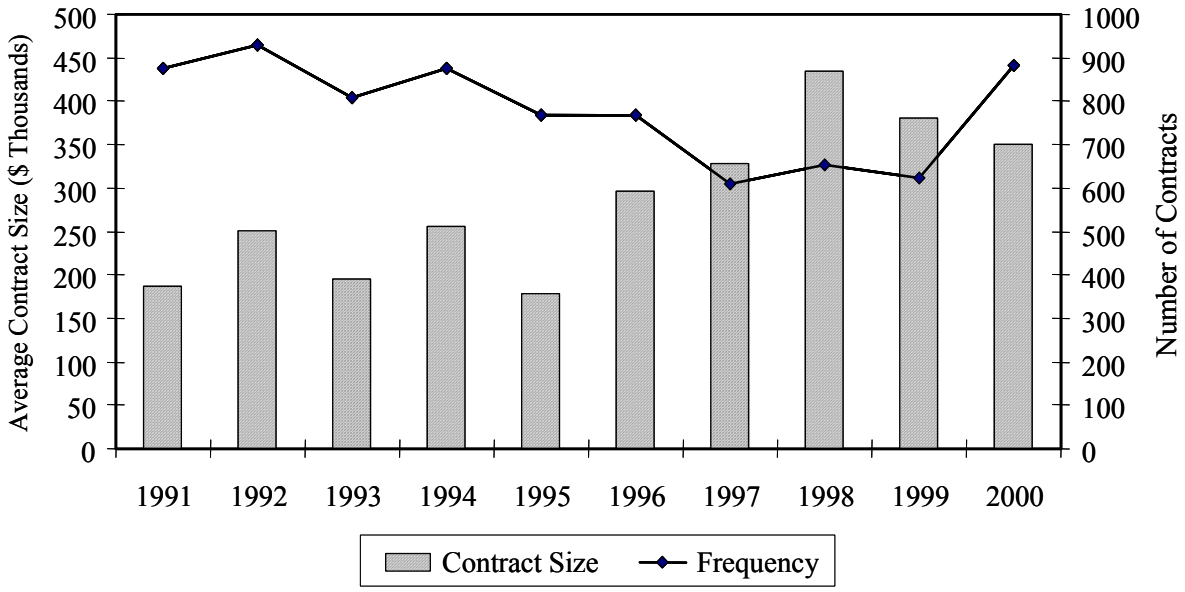


Chart 6. Average Size and Frequency of DOA Contracts, 1991–2000



contracts is 779. Combining the relatively expensive, less frequent DOT contracts with the less expensive and more numerous DOA contracts contributes to the skewed distribution overall. To accommodate this difference, the remaining analysis on donations by persons employed by the construction firms receiving these contracts uses both combined and separate group analyses.

Contractors and Political Donations

It is important first to put into perspective the level and frequency of political giving by persons in the construction industry. Overall, the combined DOT and DOA data yield 1,932 contractors. For over 86 percent of these contractors (n = 1,668), the WDC database contains no record of a political donation to Thompson. The remaining 13.7 percent of contractors (n = 264) averaged $4,267 worth of donations over the ten-year period. Whether a contractor donated to Thompson is clearly related to the level of

contracting performed: donors averaged $20,600,000 in public-private contracts over the ten-year period, whereas non-donors averaged $870,210. Thus, the donation activity of Wisconsin contractors is largely concentrated in the hands of a relatively small number of firms that have enjoyed significant success in securing state work.

While these statistics may suggest that political giving among contractors is not widespread, it should be mentioned that data limitations prevent a full assessment of the relationship between public-private contracts and political donations. Large construction projects that are managed by a general contractor involve numerous other commercial interests: subcontractors, material suppliers, heavy equipment suppliers, insurance firms, law firms, and so forth. Companies providing such products and services appear as 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.

Moreover, although the WDC database identifies political contributions from members of the same family, we only considered donations from persons owning or employed by construction firms. Donations by family members who are not registered as employees were excluded. So, for example, donations by a spouse of someone who owns a construction firm would be treated as a political contribution only if the spouse was an employee of the firm. The decision to omit donations by family members absent a direct employment relationship with the construction firm will tend to understate the association between public-private contracts and political donations in this analysis.

A final comment is required concerning the timing of events and, more specifically, the use of dates in this analysis. Analyzing the timing of the two types of

events, public-private contracts and campaign donations, required the identification of a date for each event. A political donation is a relatively discrete event that is part of the public record. Consequently, the WDC data contained a complete and reliable field that identified the timing of political contributions. In contrast, construction projects are more complex, involving a sequence of phases beginning with project conception and ending with the final payment to the contractor. Consequently, the DOT and DOA databases contained several date fields, each signifying a specific phase in the project. Many of these date fields had significant levels of missing data.

Date fields were selected based on two considerations. First, every attempt was made to locate the date a contractor would be notified of approval for a project. In practice, this involved targeting the earliest date within the DOT and DOA database. Second, we favored date fields with the fewest missing data in order to compile the most complete set of construction records. Fortunately, in both the DOT and DOA data, the date field marking an early phase of the projects was also the most complete. For the DOT, the date field chosen was the "let" date, defined as the date that the winner of the competitive bid for a project was formally announced. In most instances, at DOT the contractor who wins the competitive bid performs the work. For the DOA, the date field chosen was the "notice to proceed," defined as the official notice to a contractor to begin a project.[9] The difference between the "let" and "notice to proceed" is the time required to establish the formal contract prior to construction. At the DOT, the formal contract is negotiated after the "let" date. At the DOA, the "notice to proceed" date includes the

time period for negotiating the contract to perform the work. Negotiating a construction project can require two months to two weeks, depending on the complexity of the project. For this analysis, it is important to note that the "notice to proceed" date happens after contractors for the DOA are officially informed that they have been selected for a project. The term used in this report signifying all these events is construction "approval" date.

Monthly Donations and Contracts

Month-by-month contract totals are compared with month-by-month donation totals for all DOT and DOA contractors. One advantage of the monthly analysis is that it compares donations and contract activity while controlling for the donation activity that takes place during the election cycles. Election cycles are defined in this analysis as the three months preceding a gubernatorial election (August, September, and October). The analysis also controls for the donation activity that occurred over a three-month time period, one year earlier. The reason for including these controls is to factor out donation patterns that are extraneous to the analysis, such as political giving related to company budget cycles. The formal regression analysis is reported in Table A1 in the appendix.

The contract period is defined in this analysis as the month of the approval date plus the three months before and three months after. So, for example, if a contractor received a contract in February 1995, then the contract period would include October 1994 through May 1995. Using this specification, every $1,000 in contracts is associated

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[9] The database compiled from DOA data combined information on both construction and architectural and engineering (A/E) contracts. The date field from the A/E contracts was the "contract date," defined as the date the state formally contracted for services.

with 5.3 cents worth of donations. Most of this money, about 77 percent, arrives in the three months prior to the construction approval month.

For a perspective on how this relates to total donation activity, donation levels were estimated by imputing contract amounts into the equation described in the appendix and presented in Table A1. Estimated monthly donation levels, controlling for prior donation activity and election cycles, are provided in Table 2. An average monthly contract level at just under $30,000 is associated with an average monthly donation of $1.59. In months that are outside of the election cycle, the $1.59 represents 32.3 percent of the $4.91 average monthly donation. In the months of an election cycle, the $1.59 represents 12.8 percent of the average $12.41 monthly donation.

These estimates, however, are based on average contract levels. To understand the relationship between larger construction firms and donation activity, above-average contract amounts were imputed into the equation in Table A1, where "above average" is defined as one standard deviation above the mean. Under these calculations, the average monthly donation outside the election cycle is $42.94, of which 60.0 percent ($25.33) is related to public-private contracts. During the election cycle, the average monthly donation is $50.44, of which 50.2 percent ($25.33) is related to public-private contracts. Thus, approximately 50 to 60 percent of the donations made by large contractors can be traced to the months surrounding the approval of public-private contracts.

Table 2. Estimated Monthly Donation Totals

	Average Contractor		Large Contractor	
	Outside Election Cycle	During Election Cycle	Outside Election Cycle	During Election Cycle
Average monthly donation	$4.91	$12.41	$42.94	$50.44
Donation during contract period	$1.59	$1.59	$25.33	$25.33
Percent of donation linked to contract	32.3%	12.8%	60.0%	50.2%

The foregoing analysis assumes that the donations during the election cycle are unrelated to public-private contracts. Restating this assumption in the language of the research topic, the estimates in Table 2 treat election-cycle donations as pure speech. It is reasonable to suspect, however, that election-cycle donations partially reflect the gratitude of construction firms that successfully secure public-private contracts. To explore this theory, the next analysis models election-cycle donations as a function of the public-private contracts gained since the previous election cycle. The formal equations are in Table A2 in the appendix. The predicted values for election-cycle donations in 1994 and 1998 are presented in Table 3.

Table 3. Estimated Monthly Donation Totals: Election Cycle Only

	1994 Election Cycle		1998 Election Cycle	
	Average Contractor	Large Contractor	Average Contractor	Large Contractor
Average monthly donation	$12.66	$39.04	$12.82	$35.64
Donations associated with accumulated contracts	$4.58	$30.96	$3.71	$26.53
Percent of donation linked to accumulated contracts	36.2%	79.3%	29.0%	74.4%

Table 3 indicates that the average contractor paid $12.66 per month in donations to Thompson during the 1994 election cycle. Approximately 36.2 percent ($4.58) was associated with the contracts accumulated prior to the 1994 election. Large contractors paid an average of $39.04 per month during the 1994 election cycle, of which 79.3 percent ($30.96) can be linked to the public-private contracts received since 1991.

Results for the 1998 election cycle are comparable to 1994. Donations from average contractors were $12.82 per month during the 1998 election cycle, of which 29 percent ($3.71) was related to public-private contracts gained since December 1994. For large contractors, the average monthly donation was $35.64, of which 74.4 percent ($26.53) was associated with accumulations in public-private contracts. In sum, the timing and magnitude of public-private contracts explain about one-third of election-cycle donations from average contractors, whereas public-private contracts explain roughly three-quarters of election-cycle donations from large contractors.

Quarterly Analysis

By establishing a relationship between donations and public-private contracts, the monthly analysis provides support to the "influence" argument. This final analysis seeks to distinguish among different patterns of influence by exploring whether donations predict public-private contract approvals. Here, quarterly construction totals are modeled as a function of the quarterly donation totals for both the DOT and DOA. To control for the size of the construction firm, the equations include lagged public-private construction totals for the previous quarter and the previous season. The formal equations are in Table A3 of the appendix.

Political donations may arrive before, during, or after the approval of a public-private contract. Exceptional levels of donation activity after contract approval suggest that contractors receiving public-private awards use donations to influence future contract decisions by rewarding the political system soon after an approval of a public-private contract. While presumably not illegal, such a pattern is consistent with a "gratitude" model of political patronage. Exceptional levels of donation activity prior to the contract approval, on the other hand, would imply that the intent of donations is to influence the chance of a favorable approval for a pending contract. This more serious pattern implies that the system is open to "inducement" strategies by contractors. Table 4 provides predicted quarterly construction amounts for the DOT and DOA. The first two rows present the estimated construction totals with and without donations, respectively.

Table 4. Predicted Quarterly Public-Private Contract Totals

	DOT	DOA
Contract amount with average donations in all quarters	476,734	32,082
Contract amount if donations are zero in all quarters	446,348	22,999
Number of contractors	250	1,708

The substantial difference in the average quarterly contract amounts across the DOT and DOA reflect the fact that many more contractors were hired by the DOA over the ten-year period, and that the average DOA contract is smaller. Under conditions where there are average donation levels, the predicted quarterly revenue from public-private contracts was $476,734 for the 250 contractors performing work for the DOT. Under the same conditions, the predicted quarterly revenue was $32,082 for the 1,708

contractors performing work for the DOA. For both the DOT and DOA, quarterly public-private contract levels decline when donations are zero. With zero donations, the average DOT quarterly contract amount declines by $30,386, or about 6.7 percent, while the average DOA quarterly contract amount declines by $9,083, or about 28.3 percent.

While donations are associated with larger contracts for both the DOT and DOA, the temporal association between donations and public-private contracts demonstrates varying patterns across the two departments. To illustrate these patterns, as well as the sensitivity between donations and contract levels, Charts 7 and 8 present the estimated quarterly construction totals for the DOT and DOA, respectively, assuming that any given contractor provides a $1,000 donation in the present quarter, the post-approval quarter, and the pre-approval quarter.

Chart 7. Predicted Quarterly Contract Amounts, DOT

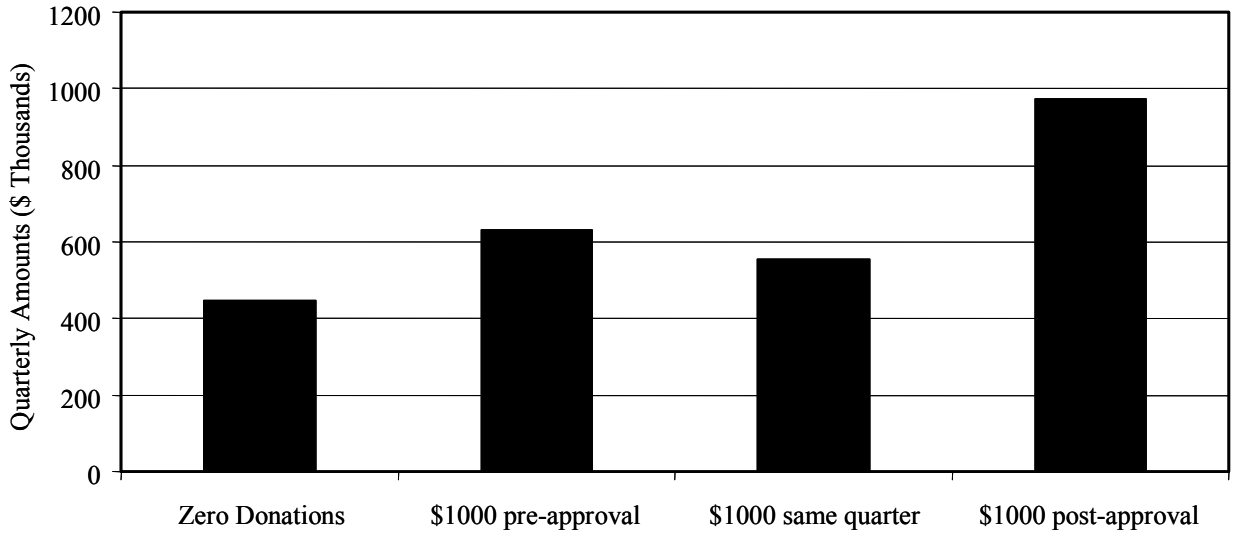
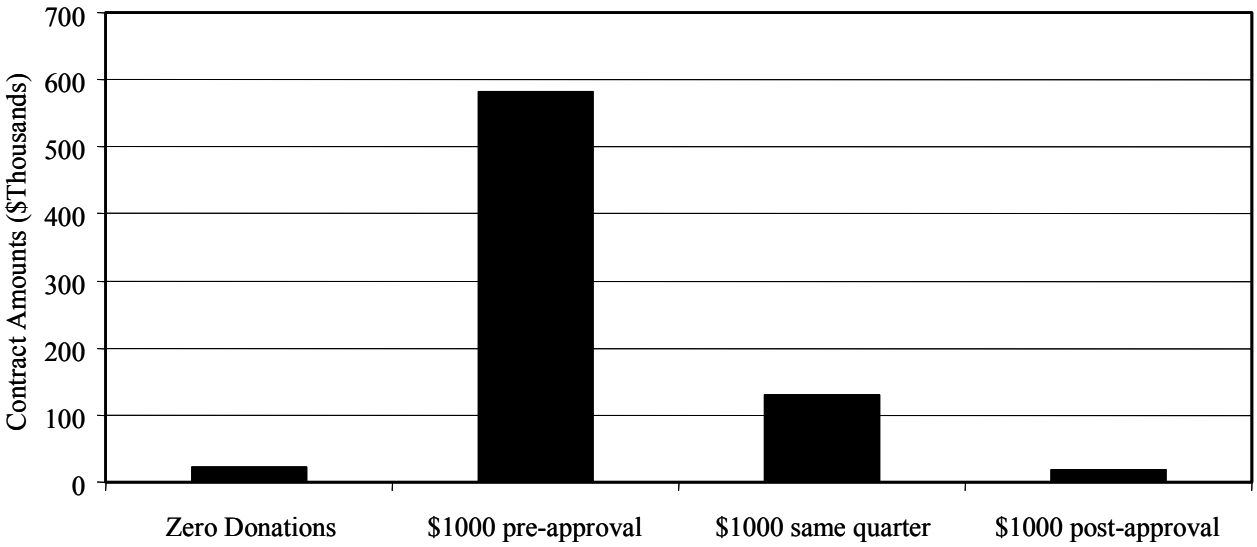


Chart 8. Predicted Quarterly Contract Amounts, DOA



A $1,000 donation imputed into the quarter in which the contract occurs is associated with an increase in predicted monthly contracts of $106,721 (or 23.9 percent) for the DOT and $107,232 (or 466.2 percent) for the DOA, compared with when there are zero donations. When a $1,000 donation is imputed in the quarter following a contract, the predicted DOT public-private contract increases by $527,366 (or 118.2 percent), while the DOA declines by an average $4,468 (or 19.4 percent). When a $1,000 donation is imputed into the quarter just prior to the contract, the monthly contract level increases by $185,025 (or 41.5 percent) for the DOT and by $559,621 (or 2,433.2 percent) for the DOA. In general, donations arrive before, during, and after the quarters when public-private contracts are approved by the DOT, but the bulk of these donations happen after

the approval date. At the DOA, donations are concentrated before and during the same quarter that the public-private contracts are approved.[10]

An important caveat in quantitative research such as this is that correlation does not necessarily mean causation. Undoubtedly, the sharp differences in the quarterly contract levels that are associated with a $1,000 donation are partially attributable to unmeasured factors relating to firm size and construction capacity. Yet the two primary conclusions from this analysis—(1) on average, DOT contractors donated heavily to Thompson just after contracts were approved; (2) on average, DOA contractors donated heavily to Thompson just prior to the contract approval date—are robust results. These patterns are evident and statistically significant across all models, regardless of the firm-level controls. Consequently, we recommend additional data gathering and analysis before definitively concluding that these patterns represent "gratitude" or "inducement" behavior on the part of contractors, or that donation activity influenced construction policy. This study found a correlation between the timing and magnitude of campaign donations and the timing and magnitude of public-private contracts. More work is needed, however, to understand the complex relationship between state administrative agencies, public-private contractors, and elected officials.

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[10] One consideration in this analysis was that the positive relationship between donations and public-private contracts was related to firm size. Big firms employ more people, thereby increasing the likelihood of a donation during any given period. Big firms also, due to their capital and manpower, are more likely to receive large state contracts. To address the possibility of a spurious association between donations and public-private contracts, we ran models that control for fixed firm traits, such as size. Those models supported the results described in this text, and are available from the author.

Conclusions

The goal of this research was to test for a relationship between political donations and public policy. Our context was the state of Wisconsin from 1991 through 2000. Donations to then-Governor Tommy Thompson were matched against the public-private construction contracts issued by the DOT and DOA. According to our empirical test, political donations representing pure speech should be unrelated to the approval for public-private contracts. A systematic association between donations and contracts, on the other hand, implies that donations influence public policy. Below is a summary of the major conclusions with reference to the "speech" and "influence" framework.

- Consistent with the "speech" perspective, donation activity increases during the months before an election. Consequently, the average size of the donation declines during election cycles as many small donors participate.
- Consistent with the "influence" perspective, the data indicate an ongoing presence of large donors. In particular, the results suggest accelerated donation activity by large donors during the state budget cycle.
- Contrary to the "influence" perspective, the majority of contractors performing state projects for the DOT and DOA (86.3 percent) did not donate to former Governor Thompson during the decade under investigation. Contractors that refrained from donating averaged $870,000 in contracts over the ten-year period.
- Consistent with the "influence" perspective, the minority of contractors (13.7 percent) who did make at least one contribution to Thompson during the 1991 to 2000 period earned a disproportionate share of public work. Firms that gave at least one donation averaged over $20 million in public-private contracts during the ten-year period.

- Consistent with the "influence" perspective, the timing and magnitude of public-private contracts explain a significant proportion of donation activity that occurs outside of the election cycle. For an average contractor, public-private contracts explain 32 percent of such donations. For large contractors, public–private contracts explain 60 percent of donations.
- Consistent with the "influence" perspective, the accumulated level of public-private contracts prior to an election explain significant proportions of election-cycle donation activity. For average contractors, the accumulation in public-private contracts explains 29 to 36 percent of election-cycle donations. For large contractors, the accumulation in public-private contracts explains 74 to 79 percent of election-cycle donations.
- Building on the overall support for the "influence" perspective, a separate department analysis indicates varying patterns in the association between donations and public-private contracts. Contractors for the DOT tend to donate at exceptional levels in the quarter just after they receive approval for a public-private contract, a pattern consistent with "gratitude" behavior. Contractors for the DOA tend to donate at exceptional levels in the quarter just prior to approval for a public-private contract, a pattern consistent with "inducement" behavior.

Directions for Future Research

Although there exists a set of institutional arrangements that seek to separate the administration of Wisconsin public policy from direct political influence, the conclusions here suggests a reciprocal system of political patronage between major recipients of public-private construction contracts and a leading political figure. Given the limitations

inherent in a study of this type, we recommend further research to verify the presence of a patronage system, as well as to understand the mechanisms for communicating and sustaining such a system. This final section outlines possible extensions to this analysis for the purpose of building a larger body of research on this topic.

1. Collect and evaluate additional detail on public-private construction contracts. For example, it would be valuable to distinguish between contracts that are competitively bid and those that are not subject to the bidding process. If "inducement" behavior did occur, then we should expect to see a stronger relationship between donations and contracts for the non-bid cases. Similarly, knowing the number of bids per project and their monetary proposals may shed light on the effect of competition on the strength of the relationship between donations and contracts.

2. Collect and evaluate data on public-private contracts for services privatized during the 1991 through 2000 period. To simplify the data collection task, this analysis was limited to construction projects, a product that has a long history of public-private collaboration. One valuable extension is to perform an analysis of the donation patterns from newly privatized services, such as information technology, human services, the lottery, and so forth. If the motive for shifting work to the private sector is the prospect of campaign donations, then we should expect to see a significant increase in donation activity from the principals of the private firms that secured contracts during the 1991 through 2000 period.

3. Expand this analysis to other Wisconsin elected officials. If the purpose of donations is to influence public policy, then there should be a relationship between donations

and public-private contracts for other political figures that shape construction policy. Start with the elected officials that serve on the state Transportation Commission and Building Commission. Expand by matching specific construction projects to political districts, and evaluate the donation history for the representatives in those districts. Compare the donations to elected officials who are in a position to affect construction policy with the donations to elected officials who are not in a position to affect construction policy.

4. Conduct a historical and descriptive assessment of the laws and policy that seek to separate the administration of public funds from direct political influence. Critically review whether any "gaps" exist within these institutions, and if so, evaluate policy options for filling these gaps. Explore specifically whether campaign finance reform offers a solution to any linkage between the formation and administration of public policy and campaign donations.

Appendix

Monthly levels of campaign donations were estimated based on the following specification:

$D_{it} = \alpha + \beta_1 C_{it} + \beta_2 D_{is} + \beta_3 E + \varepsilon_{it}$

Where D_{it} is the level of donations by firm *i* in month *t*, C_{it} represents public-private contract amounts for firm *i* in month *t*, D_{is} is a control for donations by firm *i* during the prior season *s*, and E is a vector of indicator variables for the 1994 and 1998 election cycles. The symbol α is a constant term, β represents unstandardized regression coefficients, and ε is an error term for firm *i* at month *t*. Table A1 presents the results.

Table A1. Random Effects Estimates of Donations by Construction Firms: Monthly Data

	Descriptive Statistics		GLS Regression	
	Mean	(SD)	β	(SE)
Construction variables				
Three months before approval	29.702	475.151	0.0127	0.0007
Two months before approval	29.798	475.260	0.0270	0.0007
One month before approval	29.820	476.315	0.0012	0.0007
Month construction is approved	29.695	474.799	0.0052	0.0006
One month after approval	29.772	476.364	0.0023	0.0006
Two months after approval	29.686	475.5514	0.0033	0.0006
Three months after approval	29.692	475.192	0.0017	0.0006
Control variables				
Donations 11 months earlier	5.054	126.654	0.0520	0.0024
Donations 12 months earlier	5.096	127.219	0.0396	0.0024
Donations 13 months earlier	5.141	127.806	0.0255	0.0024
1994 election cycle	0.025	0.156	7.4633	1.7961
1998 election cycle	0.025	0.156	7.5072	1.7961
Constant			2.7245	0.3118
Number of firms			1,932	
Number of observations			200,928	
R-square			0.0242	
Wald chi-square			4974.36	

Monthly election-cycle donations were estimated based on the following specification:

$D_{it} = \alpha + \beta_1 \sum C_i + \varepsilon_{it}$

Where D_{it} is the level of donations by firm *i* in election-cycle month *t*, and $\sum C_i$ is the accumulated public-private contract amounts for firm *i* prior to the election cycle. Again, the symbol α is a constant term, β is unstandardized regression coefficients, and ε is an error term for firm *i* at election-cycle month *t*. Table A2 presents the results for the 1994 and 1998 election cycles.

Table A2. Random Effects Estimates of Donations during the 1994 and 1998 Election Cycles

	1994 Election		1998 Election	
	β	(SE)	β	(SE)
1994 contracts	0.0040	0.0003		
1998 contracts			0.0028	0.0003
Constant	8.0796	2.3498	9.1072	2.7635
Number of firms	1,932		1,932	
Number of observations	5,796		5,796	
R-square	0.0393		0.0185	
Wald chi-square	177.35		94.02	

Quarterly public-private contract levels were estimated using the following specification:

$C_{it} = \alpha + \beta_1 D_{it} + \beta_2 C_{it-1} + \beta_3 C_{it-4} + \varepsilon_{it}$

Where C_{it} is the level of public-private contracts received by firm *i* in quarter *t*, D_{it} represents public-private contract amounts for firm *i* in quarter *t*, C_{it-1} is a control for the construction totals from the prior quarter, and C_{it-4} is a control for construction totals from the prior season. The symbol α is a constant term, β represents unstandardized regression coefficients, and ε is an error term for firm *i* at quarter *t*. Table A3 presents the results.

Table A3. Random Effects Estimates of Construction Contract Magnitudes: Quarterly Data

	State Department			
	DOT		DOA	
	β	(SE)	β	(SE)
Donation variables				
Donations in pre-approval quarter (t-1)	0.185	(0.066)	0.560	(0.009)
Donations in approval (same) quarter (t)	0.107	(0.067)	0.107	(0.009)
Donations in post-approval quarter (t+1)	0.527	(0.067)	–0.042	(0.009)
Control variables				
Quarterly lagged construction (t-1)	0.216	(0.010)	0.121	(0.004)
Seasonal lagged construction (t-4)	0.499	(0.010)	0.177	(0.004)
Constant	116.303	(18.424)	13.754	(2.320)
Number of firms	250		1,708	
Number of observations	8,750		59,780	
R-square	0.4041		0.1135	
Wald chi-square	5929.96		7650.67	

Table A4 provides the descriptive statistics that were used to generate estimated values from Tables A.2 and A.3.

Table A4. Descriptive Statistics for Variables in Tables A.2 and A.3

	Mean	(SD)
Variables used in Table A.2		
1994 contracts	1141.752	7715.988
1998 contracts	1329.039	9502.586
Variables used in Table A.3		
DOT analysis		
Donations in pre-approval quarter (t-1)	36.376	268.692
Donations in approval (same) quarter (t)	36.632	266.917
Donations in post-approval quarter (t+1)	37.442	270.164
Quarterly lagged construction (t-1)	468.603	2111.462
Seasonal lagged construction (t-4)	458.204	2029.891
DOA Analysis		
Donations in pre-approval quarter (t-1)	14.561	240.270
Donations in approval (same) quarter (t)	14.395	237.595
Donations in post-approval quarter (t+1)	14.688	240.546
Quarterly lagged construction (t-1)	32.169	580.222
Seasonal lagged construction (t-4)	30.311	541.987