Testing Schattschneider’s theory of how party competition affects policy: A state level analysis

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This paper analyzes the impact of party competition on policy decisions in the United States. Each state is evaluated for the level of party competition within that state. The null hypothesis is that there is no difference in policy outcome as a result of party competition. The alternative hypothesis suggests that different policies will result in a competitive two-party system compared to a one-party dominant system. The results of this paper show that states with high levels of party competition do have different policy outcomes. However, the difference seems to be the result of Democratic Party involvement rather than the environment created by competition.

Keywords: party competition, welfare expenditure, sales tax exemptions.

INTRODUCTION

For students of the party system, one of the fundamental questions is whether the parties offer meaningful alternatives. That is, can voters expect different policies when a different party is in power? The question does not center on party rhetoric, but on the actual policy decisions made by the parties when they take office. If in fact there is a substantive difference between the parties—more than just a political difference but an actual ideological difference in terms of beliefs and policy decisions—then a second question must be asked. If one party dominates the political system, will the resulting policies fundamentally differ from what would have occurred had the other party been dominant at the same point in time? No matter the answer to this question, one must still ask a follow-up question. Does a two-party dominant system lead to different policies than a one-party dominant system? E.E. Schattschneider raises these questions and is the originator of the theory which motivates this paper.

Schattschneider writes in reference to the North and the South of the late 1890s and early 1900s, “Both sections became more conservative because one-party politics tends strongly to vest political power in the hands of people who already have economic power” (Schattschneider 1960, p. 80). Not only does Schattschneider force us to ask interesting questions, he gives us insight into how such questions can be investigated. If his statement is true, then systems which are dominated by a single party should be unwelcoming to the economically disadvantaged regardless of which party is dominant. Conversely, in systems which have a healthy level of party competition, policies should emerge that benefit more than just the economically advantaged. For Schattschneider politics is determined by conflict, and who controls the conflict can have a significant impact on politics. The scope of the conflict is determined by the actors. When one party is out of power its sole focus is on regaining power. The way to accomplish this task successfully, according to Schattschneider, is to “bring in the spectators.” Schattschneider offers a vignette illustrating this point. The idea is that rather than crafting one’s policy position to attract those who are already voting, or to persuade those who are voting to switch parties, the party out of power targets those who are currently not voting with a message that will attract them to their party and motivate them to vote. The major changes in American public policy have been a result of this process—Jefferson, Jackson, Lincoln, and Roosevelt. The well-known party realignment theory attributes certain types of realignment to this phenomenon of bringing in the spectators. Therefore, in a system with a competitive two-party system, all of the spectators have been brought into the fold, and their interests are represented in government by the elected officials.

To test these claims properly, one can look to the American states. The American states offer the opportunity to compare one-party and two-party dominant systems while controlling some important variables. Ideally, all recognizable factors must be controlled between test groups in order properly to isolate the variable of interest (Campbell & Stanley 1966; King, Keohane, & Verba 1994). This is done in an attempt to ascertain the influence of that single variable. For this reason alone state-level analysis is preferable to country-level analysis, in this particular circumstance, given the similarities in rules, institutions, cultures, and values between states. Such similarities cannot be found among any group of 50 nations. A similar point is made by Dawson and Robinson (1963) who write, “The fifty states share a common institutional framework and general social structure, political activity, and public policy. Therefore, they provide a large number of political and social units in which some important variables can be held constant while others are varied” (Dawson & Robinson 1963, p. 265).
One of the most popular studies of state policy adoption was done by Erikson, Wright, and McIver (1989)—EWM (1989) from here on—which shows the connection between electorate, representatives, liberalism, and policy adoption. The authors find that states with strong Democratic leadership and control tend to have policies that are more liberal. They conclude that state opinion influences state parties which then influence policy (EWM 1989, p. 729-730). They find agreement with other studies that have found similar results in European nations (Hicks & Swank 1984; Alt 1985).

Barrilleaux (1997) sets out to replicate the study by EWM (1989). He finds that the findings of EWM (1989) are accurate, and in fact can be pushed further. Barrilleaux writes:

Electoral competition leads to increased public policy liberalism; greater liberalism among the public leads to the enactment of more liberal public policies ...and the percentage of Democrats in state legislature is related significantly to policy adoptions (Barrilleaux 1997, p. 1462).

These findings, in both Barrilleaux (1997) and EWM (1989), show what Schattschneider had anticipated.

Barrilleaux, Holbrook, and Langer (2002) find strikingly similar results in a study which builds on this earlier work. The primary difference in Barrilleaux et al. (2002) from the earlier studies is that the authors find that in the absence of serious competition Democrats become less liberal and drift towards the center, but when there is competition from the Republicans, they become more liberal. So when there is strong competition from an opposing party, Democratic support for welfare spending increases (Barrilleaux et al. 2002, p. 422). The results from this study support the Schattschneider thesis.

The study by Barrilleaux et al. (2002) is the most recent attempt to test the role party competition plays in policy outcome; however, it builds upon an extensive literature that cannot be ignored. The earlier literature found that when economic resources were controlled, the liberalizing effect of party competition seemed to fade away (Dawson & Robinson 1963; Dye 1966; Hofferbert 1966). Other, more recent studies of party influence on policy outcomes at the state level have not focused so much on competition, but on who dominates the system, and have found that Democratic control leads to more liberal policy decisions and Republican control leads to more conservative policy decisions (Garand 1985; Alt & Lowry 1994; Ringquist et al. 1997). This essay attempts to provide relevant insight for those who are interested in party competition as well as those who are interested in the difference between policies advanced under a Republican controlled system versus a Democratic controlled system. I develop and test two competing hypotheses. First, the Schattschneider thesis, party competition creates policies which are beneficial to the economically disadvantaged. Second, the Democratic control, not party competition, leads to policies directed at the benefit of the economically disadvantaged. This second hypothesis suggests that it is not the competition that matters but the level of involvement of the Democratic Party.

The next section of this essay introduces the explanatory variables used and describes how the variables are constructed and the models chosen to evaluate the hypotheses. The following section will also reveal two contributions this study makes to the literature. First, this study takes into account both state expenditure and revenue collection as a reflection of policy choices at the state level. Other studies have tended to focus on one or the other, not both. Second, I utilize two measures of party competition in order to help better understand the effects we see associated with party competition.

Data and method

This essay focuses on welfare expenditure and sales tax exemptions as expressions of a state’s commitment to the economically disadvantaged. Others studies, such as EWM (1989), utilize a liberalism index; the interest of this essay is with party competition and its relation to policy directed at the economically disadvantaged, not the ideology of the policies necessarily. The approach I have chosen is similar to that adopted by Barrilleaux et al. (2002). I use two policies, one for revenue expenditure and the other for revenue generation, with the expectation that such an approach will provide more thorough findings than studies that choose to focus only one or the other, such as Barrilleaux et al. (2002).

Models

The first set of models uses welfare spending as the dependent variable, the second employs sales tax exemptions as the dependent variable. I use data on state welfare spending and sales tax exemptions from 2002, collected from The Book of the States (Council of State Governments 1989-2003). The level of spending on welfare is arrived at by computing the general assistance and income maintenance provided by the state, excluding state contributions to AFDC and national government transfers. All dollar values are in 2002 dollars. Every state is included except for Nebraska, whose unicameral legislature makes the competition score difficult to compute based on the methods I have chosen to employ. Although adjustments can be made to include Nebraska, those adjustments in the index calculation would apply only to Nebraska and thus it would simply be a different measure of party competition for a single state. So rather than
compromise the integrity of the competition measures, I have chosen to drop Nebraska from the sample, a common practice when these measures for party competition are adopted. The welfare spending models are analyzed using OLS regression, as the dependent variable is continuous.

The second set of models uses sales tax exemptions as the dependent variable. If there are sales tax exemptions on unprocessed foods on the state is considered to have favorable policies towards the poor. For instance, if a state does not have exemptions on unprocessed food then it is coded 0, if it does, then the variable is coded 1. Due to this coding method OLS regression cannot be used, and instead I use a logit to estimate the model. Sales tax exemptions make sense to code in this fashion as there are only two options, either there are or there are not exemptions offered. The assumption is that poor people will be hurt in a system which does not have exemptions for basic necessities, so the more competitive a state, the more likely it is to offer exemptions. It is important to note that few studies which focus on policy outcomes as a function of party involvement and party competition deal with anything but government expenditures, thus ignoring the fact that decisions on how the government generates revenue reflect a liberal-conservative divide. Simply put, by focusing solely on government expenditures, studies ignore an important aspect of what the government does. Barrilleaux, et al. (2002) write that “Welfare policy represents an area in which state Republican and Democratic constituency interests are clearly divided, with Democrats’ core constituents holding a stronger preference for governmental redistribution of income than Republican loyalists” (Barrilleaux et al. 2002, p. 420). Can the same not be said about tax policy? Is tax policy not as much of a redistribution effort as spending? Is there not a consistent divide between Republicans and Democrats over tax policy? I believe the answer to each of these questions is yes, which is why I provide models which address the state’s sales tax policy.

Martinez (1997) critiques the literature’s limited use of tax policy when he writes, “Nevertheless, this literature is incomplete in the sense that its focus on welfare spending has ignored the mechanisms that states use to raise revenue. Redistribution involves both spending and taxing” (Martinez 1997, p. 896). Studies by Lowery (1987), and EWM (1987) highlight the impact political variables have on tax policy. Martinez (1997) clarifies this point by writing, “Some recent analyses have found that political variables do add to the power of economic, historical, and structural variables to explain state tax progressivity” (Martinez 1997, p. 896). Since the political science literature is deficient in studies which focus on the impact of political variables on taxation, I have chosen to include sales tax exemptions as a dependent variable to capture the influence of political variables on state tax policy. The Schattschneider hypothesis predicts sales tax exemptions in states with a high level of competition. The second hypothesis predicts Democratic controlled states, not competitive states, will have sales tax exemptions.

**Independent variables**

The key independent variable is party competition. The party competition variable takes two forms; both are modified versions of the Ranney Index. The first measure of party competition is computed by, and adopted from, Holbrook and Van Dunk (1993), an index which has maintained its relevance, evidenced by its use in recent literature (Bibby & Holbrook 2004; Hall 2001). Their measurement is an average of the percentage of the popular vote won by the winning candidate in a district, the winning candidate’s margin of victory, whether the seat is safe, and whether the election was contested. This measure ranges from 0.0000 which indicates a one-party Republican state to 1.0000 which indicates a one-party Democrat state, 0.5000 indicates perfect party balance. This measure can also be seen as a measure of party control, though it does measure party competition and it is frequently used in such a fashion.

The other measure I adopt for party competition comes from Patterson and Caldeira (1984); it too is based on the Ranney Index. Like Patterson and Caldeira I calculate the Ranney Index for each state, then “fold” it to create a scale ranging from one-party dominance (0.5000) to a competitive system (1.0000). The literature uses these two measures as if they were complementary, or as if the choice between the two were arbitrary. Although Holbrook and Van Dunk point out that their measure is really one of party control rather than competition, little consideration is given as to which measure should be used, or rather, what the results from these two variables tell us. I employ both independent variables in this study to see if, when applied to the same data set, they yield consistent or inconsistent results. That is, are the results we find when employing these measures merely artifacts of variable construction or rather accurate reflections of how party competition affects state policy choices?

In order to assess whether it is the competition that produces the policies as Schattschneider suggests or if the economically disadvantaged can benefit under a one-party dominant system I create dummy variables for Democrat and Republican. The coding for these variables is based on the Holbrook-Van Dunk Index. A state is coded 1 for Democrat if the state falls between 0.6500 and 1.0000 on the Holbrook-Van Dunk Index and 0 for all others. For the Republican dummy a state is coded 1 if it falls between 0.0000 and 0.3499 on the Holbrook-Van Dunk Index. The cut-off points I use to classify states are adopted from Bibby and Holbrook (2004).
Also included in the model is the standard set of control variables:

1. **Voter turnout**: The average level of turnout in each state for national elections in 2002. Conceptually this makes sense. If we expect that party competition will provide more liberal policies because the government will represent a larger number of people, then voter turnout would be expected to create the same effect as an increase in voter turnout would indicate that more people have entered the system through voting. Studies that ignore voter turnout run the risk of confusing party competition with increased turnout, as fundamentally the theory which motivates the party competition hypothesis could easily be applied to voter turnout as well. This hypothesis finds support in a recent study by Martinez (1997).

2. **Racial diversity**: The percentage of a state’s population which is composed of minority groups. Racial diversity becomes an important variable to control for once the findings of Gilens (1999) are considered. Gilens and others, find that welfare spending is opposed when the recipients are perceived to be minorities. I anticipate that as racial diversity increases welfare spending will decrease.

3. **Income**: The per capita income for individuals within the state. Per capita income was gathered from The Book of the States. Income is expected to be positively linked to welfare spending according to Barrilleaux et al. (2002) and others. A state’s capacity to spend money is a determinant of the amount of money it spends (Fellowes & Rowe 2004). This measure allows one to assess the wealth of the citizens and serves as a proxy for overall state wealth, thus approximating a state’s capacity to spend.

4. **Poverty**: The percentage of the state’s population below the poverty line. Welfare spending is expected to be positively related to the number of people who live below the poverty line, as welfare spending might be a function of the number of people who need the help. This is also true of decisions regarding tax policy. States with a large number of people below the poverty line are expected to offer sales tax exemptions and increase welfare spending in an effort to help those below the poverty line.

5. **State ideology**: This measure is adopted from EWM (1989) and measures the liberalism of a state’s population. It is expected that the more liberal the state the more money will be spent on welfare and the more the state’s tax policy will be designed to benefit lower income groups.

**ANALYSIS**

I will discuss each of the policies independently, beginning with welfare spending and ending with sales tax exemptions. Generally speaking, the findings from all three tables suggest that the impact of party competition is not what has previously been thought. It seems that the involvement of the Democratic Party plays a major factor in determining policy choices. Also, the argument that it is important to look beyond government expenditure, to tax policy as well, finds support.

### Welfare spending

Table 1 offers results for the two measures of party competition whose interpretation is not entirely obvious. The Patterson-Caldeira Index demonstrates the predicted effect, as party competition increases, so does welfare spending. The results from the Patterson-Caldeira Index support the Schattschneider hypothesis that party competition results in policies which benefit the economically disadvantaged. The coefficient for the Holbrook-Van Dunk Index is also positively correlated, but a more in-depth discussion of what this correlation means is required.

The Holbrook-Van Dunk Index exhibits a positive correlation as well, but this is where confusion can set in. This does not mean, as some have suggested, that party competition plays an important role in policy outcome. Rather, it seems that as the level of Democratic involvement increases, welfare expenditure increases. It is not necessarily competition that increases welfare spending; it is the increasing role of the Democratic Party in state politics. The coefficient for the index shows a positive correlation in Table 1, and we will see it does so in Table 3 as well. This means, as the index is constructed, a move from one-party Republican to two-party balance will yield policies that benefit the economically disadvantaged. Likewise, a move from two-party balance to one-party Democrat control will also yield policies that benefit the economically disadvantaged. Therefore, any study that concludes party competition increases welfare spending, or

<table>
<thead>
<tr>
<th>Welfare spending as a function of party competition.</th>
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<tbody>
<tr>
<td>Holbrook-Van Dunk</td>
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<td>-------------------</td>
</tr>
<tr>
<td>Poverty</td>
</tr>
<tr>
<td>Diversity</td>
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<tr>
<td>Voter turnout</td>
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<tr>
<td>Income per capita</td>
</tr>
<tr>
<td>State ideology</td>
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<tr>
<td>Party competition</td>
</tr>
</tbody>
</table>

Holbrook-Van Dunk Adjusted R-Square=0.131 % Correctly Predicted=92
Patterson-Caldeira Adjusted R-Square=0.078 % Correctly Predicted=90
N=49 *p<0.05
some other policy directed to benefit the economically disadvantaged, based on the Holbrook-Van Dunk has misinterpreted the index. It is necessary, as I have done, to include dummy variables for Republican and Democratic control to flush out an accurate interpretation. That is, it cannot be concluded from the Holbrook-Van Dunk Index whether Democratic Party involvement or party competition is the determining factor.

However, regardless of which measure for party competition is used the other variables are unaffected. That is, the statistical significance and correlation direction for the control variables remains the same across the two models. In both models the only variable not to reach statistical significance is voter turnout, meaning the impact of voter turnout on welfare spending is inconclusive in this study. The only negatively signed statistically significant variable in Table 1 is diversity. This finding suggests that as diversity increases the level of welfare spending decreases. This is consistent with expectations. As Gilens (1999) and others have found, the greater the percentage of minorities in the state’s population the less money will be spent by the state on welfare programs.

The results in Table 1 also show that as poverty and per capita income increase, and as the state becomes more liberal, the greater the state’s welfare expenditure. Poverty indicates demand. The more people in a state below the poverty line the greater the number of people requiring assistance and government appears to be responsive to this demand. Moreover, the richer the state, the better equipped it is to spend money on all policies, including welfare, and thus it will do so according to these results. This result is not a new finding, nor is it one that is unexpected in light of previous research. A state’s capacity to spend money determines how much money it spends (Soss, Schram, Vartanian & O’Brien 2001).

While the information reported in Table 1 shows interesting results in light of previous work, the results do not tell us much about the relationship between party competition and welfare spending. In order to create a clearer understanding, Table 2 uses dichotomous variables for Republican and Democratic dominated states. What the results show is that even in a one-party dominated state, welfare spending will increase as long as the one party that is dominant is the Democratic party. Furthermore, Republican dominated states will see decreased spending levels. While the results in Table 2 do not provide a complete answer to the questions left open after the examination of the results reported in Table 1, what can be said is that one-party dominance does not necessarily lead to policies which benefit only the economically advantaged. Likewise, increased party competition does not necessarily benefit the economically disadvantaged as Schattschneider and others suggest.

The other variables in Table 2 exhibit a high level of consistency across models. What can be said with regard to the control variables in Table 1 can also be said in a discussion of Table 2. While the magnitudes of some of the coefficients change, the interpretation and results remain consistent.

### Sales tax exemptions

As government policy is not defined solely by expenditure, as discussed earlier, a measure for government revenue generation is used to assess the impact of party competition on policy choices. This set of equations uses sales tax exemptions as the dependent variable. States which provide sales tax exemptions on unprocessed food products were coded 1, those that did not were coded 0, creating a dichotomous variable which was analyzed using logit. Creating a dichotomous variable is appropriate for sales tax exemptions, as states either provide exemptions or they do not; there is no scale for sales tax exemptions that would require a multichotomous or continuous variable.

From Table 3 we see that party competition functions in the way the Schattschneider hypothesis anticipates when using the Patterson-Caldeira Index for party competition. What can be said is that according to the Patterson-Caldeira measure, party competition does result in policies that help the economically disadvantaged. But this conclusion is too hasty in light of the discussion above and the other findings reported in Table 3.

First, an index that is designed to measure competition does not mean the results are because of the competition. I suggest

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Table 2. The party which is more likely to spend money on welfare when it is the dominant party.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
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<tbody>
<tr>
<td>Poverty</td>
<td>0.351*</td>
<td>0.097</td>
</tr>
<tr>
<td>Diversity</td>
<td>-0.067*</td>
<td>0.024</td>
</tr>
<tr>
<td>Voter turnout</td>
<td>0.068</td>
<td>0.055</td>
</tr>
<tr>
<td>Income per capita</td>
<td>0.0005*</td>
<td>0.00007</td>
</tr>
<tr>
<td>State ideology</td>
<td>14.072*</td>
<td>2.997</td>
</tr>
<tr>
<td>Republican</td>
<td>-5.401*</td>
<td>0.682</td>
</tr>
<tr>
<td>Democrat</td>
<td>1.548*</td>
<td>0.594</td>
</tr>
</tbody>
</table>

Adjusted R-Square=0.205
% Correctly Predicted=94
N=49  *p<0.05
that the results show it is the involvement of the Democratic Party, not competition per se, that creates the policies that advantage an economically disadvantaged population. Or, as the results of Table 3 suggest, the less control exhibited by the Republican Party the more likely sales tax exemptions are to come about. The Holbrook-Van Dunk Index also shows a positive correlation, but as discussed above more extensively, it is not clear what this actually means. The best approximation is that as Democratic involvement increases so do policies directed at the benefit of the economically disadvantaged.

Also interesting in Table 3 is the lack of statistical significance achieved by state ideology given the high level of statistical and substantive significance achieved by that variable in Tables 1 and 2. It appears that among the general population tax policy does not take on a clear ideological distinction. It may be that regardless of ideology, people want sales tax exemptions. This does not seem too far fetched. Furthermore, income per capita is a consistent factor in determining policy output which shows that if the wealth of a state increases states will adopt policies that benefit the economically disadvantaged. While this may seem counterintuitive to some, the reader must realize that a high per capita income also means a greater tax base which allows for more government spending as well as revenue generation from sources other than sales tax. This is a point discussed above and more extensively in other literature which concerns itself with welfare policies as a function of state wealth.

With regard to the impact of party competition, from the results in Tables 1-3, it appears that party competition cannot be counted on as a consistent influence on policy choice, and the manner in which the variables are constructed can distort the interpretation in favor of competition when it appears the level of Democratic Party involvement is the determining factor. I suggest that studies which employ a measure of party competition reevaluate their results in light of the alternative explanation I have provided. It seems more likely that party competition is irrelevant. That is, it is not the dynamics of the competition that make the difference but the increased involvement of a party which has a platform directed at aiding the economically disadvantaged. The results suggest that parties do in fact matter and offer distinguishable alternatives to the attentive observer.

**CONCLUSION**

The data I employ do not support the claims of Schattschneider, or the conclusions of current studies, such as Barrilleaux, Holbrook, and Langer (2002). I find that the policies which result in states with high levels of party competition may be a function of Democratic involvement rather than the dynamic created by competition. Schattschneider’s hypothesis does not assume differences between the parties; he is instead concerned with competition for the reasons best explained by James Madison in Federalist #10. Schattschneider adopts the idea of extending the sphere of government to include more demands on the government.
by including a larger number of interests and groups. For Schattschneider this is accomplished only when there is a high level of party competition. The competition between parties allows new groups to enter since the parties reach out to new groups when they are out of power, in order to gain support for their party, in an effort to regain power. What the findings of the current essay show is that the party matters; competition may be a contributing factor, but not the deciding factor as far as influence on policy is concerned. The findings also suggest that the state parties offer more than rhetoric; they offer viable policy alternatives.

Schattschneider overlooked the significance of the party positions and focused exclusively on competition. Perhaps a time-series approach might be able to capture the effect that Schattschneider had anticipated. A time-series would be able to connect with the realignment literature. Schattschneider might be saved if competition was a factor in developing new parties or new positions. That is, if increased competition for voters causes a party to realign itself, such as the case in the 1890’s, or even the Progressive Era, then perhaps Schattschneider was not incorrect.

This study has not purported to nor does it bring closure to any of the questions raised. It only helps bring to light some possible alternatives to the positions supported by the policy literature. This essay should force the reader to refocus on parties and then ask how they affect policy, why they affect policy, and what motivates them to do so. These questions are not new, but they need to be reexamined as evidenced by this essay.

Works cited


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