

Small Donor-Focused Public Financing

What It Is and How It Performs on Key Democracy Criteria

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Summary of Evaluation of Impact on Criteria

- Voter turnout and political participation: 4
- Fair representation of parties and political groups: 3.5
- Fair representation of racial minorities and women: 4
- Electoral competition: 3.5
- Reduction of polarization in Congress: 3

Impact Scale Definitions

- 1** No impact or negative impact
- 2** Low impact or impact likely only if coupled with other reforms
- 3** Moderate impact
- 4** High impact, including significant long-term impact
- 5** Problem substantially solved, even without other reform

Description of Small Donor Public Financing of Elections

Currently a relatively tiny number of wealthy donors enjoy outsized influence over who runs for office, who wins elections, and what issues make it onto the agenda in Washington and cities and states across the country.² This leads to policy outcomes that are out-of-step with the needs and priorities of working and middle-class families, and more aligned with the preferences of the “donor class.”³

There are two main strategies to put people, rather than big money, at the center of political campaigns. One can limit the amount that wealthy individuals or institutions can contribute to or spend on electoral campaigns; and one can amplify the voices of ordinary citizens, giving more people more of a stake in the process. Financing election campaigns in part with public funds serves the latter strategy.

Public financing programs provide candidates for elected office with an option of funding their campaigns through a combination of small contributions from private actors (individuals and sometimes parties or other political committees) and public funds. In order to qualify to receive public funds, candidates must demonstrate a threshold level of public support (usually from within the jurisdiction they seek to represent). This ensures that public money goes to

serious, viable candidates rather than being wasted on fringe campaigns. Participating candidates are usually required to operate under certain restrictions intended to further focus their campaigns on ordinary constituents rather than large donors. Examples include lower limits on how much private money a candidate may raise from individual contributors, restrictions on what types of entities may contribute to the candidate's campaign (such as a ban on PAC contributions), or an overall limit on how much a candidate may spend on her campaign.

There are a few different ways that public funds can be allocated to campaigns.

Some programs provide candidates who raise a threshold number of very small contributions (often \$5) to prove viability with a lump-sum grant from a public fund to fund the remainder of their campaigns—no further fundraising is required (or allowed) and every participating candidate has equal financial resources with which to campaign. This is often called a “clean money” model, and Maine, Arizona, and Connecticut use variations of this type of program.

Other programs match each small contribution to a qualifying candidate with public funds according to a specified ratio, which can be as high as six-to-one (in existing programs) or ten-to-one (in a proposed bill).⁴ This means that a \$50 contribution from an individual donor can actually be worth \$350 or more to a participating candidate. Under this system candidates continue to raise funds from small donors throughout their campaigns, citizens control the allocation of public funding with their own contributions, and candidates with more grassroots support will end up with more campaign funds than their rivals. New York City employs a matching system,⁵ and the Government By the People Act is the leading federal matching proposal.⁶

Finally, some systems allocate public funding through contributors themselves by providing vouchers, refunds, or tax credits. Voucher programs provide a “coupon” to individuals who can contribute to a candidate (or sometimes a party or political committee) who can then redeem the voucher for campaign funds. A refund program reimburses a contributor directly after she makes a contribution. A tax credit reduces a contributor's tax liability (including below zero if the credit is refundable) by the amount of a contribution, or some percentage of the contribution. The federal government and various states have experimented with various tax credit and refund programs;⁷ activists in Seattle are currently working to pass the nation's first voucher system by ballot initiative.⁸

Current public financing systems also need provisions to help candidates remain competitive in a post-*Citizens United* world in which candidates are vulnerable to facing onslaughts of outside spending at any time. The Supreme Court made this more difficult by striking down triggered matching funds in 2011,⁹ but new proposals contain innovative provisions such as allowing candidates to raise matching funds beyond their initial public funding cap in exchange for forgoing the ability to hold any money over to the next election cycle.¹⁰

Why We Support Public Funding of Campaigns¹¹

American democracy is based upon the fundamental principle of one person, one vote—the simple notion that we are all equal before the law and should have an equal say over the government decisions that affect our lives. But unfortunately our system often more closely resembles one dollar, one vote as wealthy donors enjoy vastly disproportionate influence over who runs for office, who wins elections, and what issues make it onto the agenda in Washington, DC. This threatens the integrity and legitimacy of our democracy, as ordinary citizens come to the justified conclusion that the system is rigged and their voices are being drowned out in a sea of campaign cash.

Time and again, our government fails to produce the policy outcomes that the majority of Americans support—from strong investments in jobs, roads, and rails to a robust minimum wage and a fair tax burden for the one percent. Recent political science research points to a key reason why, empirically documenting the disproportionate influence of wealthy donors in our political process.¹²

The wealthy have sharply different policy preferences and priorities than does the general public—especially on basic issues of how to structure the economy.¹³ While differences in opinion are the lifeblood of democracy, the policy preferences of the wealthy are much more likely to translate into actual policy outcomes in the U.S. When the preferences of the top 10 percent of the income ladder diverge from the rest of the public, the 10 percent trumps the 90 percent nearly every time.¹⁴ This lead the author of the leading study on the topic to conclude that “under most circumstances the preferences of the vast majority of Americans appear to have essentially no impact on which policies the government does or doesn’t adopt.”¹⁵

The central reason for this dramatic gap in whose policy preferences receive attention is our big money campaign finance system.¹⁶ Since the Supreme Court’s 2010 *Citizens United* ruling, there has been a lot of discussion about the dramatic rise in outside spending driven by unlimited contributions by wealthy donors. In 2012, nearly 90 percent of Super PAC funding came in contributions of at least \$50,000 and almost 60 percent came in \$1,000,000 or more.¹⁷

But, many don’t realize that candidate fundraising is also dramatically skewed towards the wealthy. For example, 2012 candidates for the U.S. House of Representatives got the majority of the funds they raised from individuals (55 percent) in contributions of at least \$1,000—from just 0.06 percent of the U.S. population.¹⁸ The equivalent figure for Senate candidates was 64 percent of funds from just 0.04 percent.¹⁹

In some ways, the dominance of candidate fundraising by a small minority of wealthy donors is more significant than even the billions of dollars of outside spending. Candidate fundraising dynamics affect who runs for office, the views of those who do, and ultimately who wins elections.

Because candidates need to raise a threshold amount of money to run viable campaigns, those who can afford to give \$1,000 or \$2,000 to campaigns—the donor class²⁰—act as de facto

gatekeepers, filtering the pool of “acceptable” candidates long before voters have their say at the polls.

The need to secure large donations from a very small percentage of the population in turn influences how candidates spend their time, and with whom. And, in the end, money plays a substantial role in determining who wins elections. In the 2012 elections 84 percent of House candidates who outspent their general election opponents won their elections, and winners raised on average more than twice as much as losers.²¹ While correlation should not be confused with causation and there are complicating factors, it seems fairly apparent that money matters.²² At the very least all of the major players in the elections game—candidates, donors, campaign consultants, etc.—act as if it matters; and this fact alone leads fundraising to drive decision-making.

The bottom line is that big money in politics warps Congress’ priorities and erodes public trust. Americans’ confidence in government is at an all-time low. Significant majorities express the concern that the actions of their government are responsive to the wishes of financial supporters; that their government does not represent their interests or respond to the needs of the broad populace anymore; and that this reflects a corruption of government and its ability to serve the public.²³

In our distorted democracy, economic might is translated directly into political power and to a large extent the strength of a citizen’s voice depends upon the size of her wallet. This runs directly counter to core American values and threatens the very legitimacy of our democracy.

We must reduce the undue influence of wealthy donors by amplifying the voices of all Americans. Small donor-focused public financing programs increase the power of the small contributions that ordinary citizens can afford to give, providing incentives for congressional candidates to reach out to average constituents, not just dial for dollars from wealthy donors. It’s the single best policy we can immediately enact to democratize the influence of money in politics. Though the Supreme Court, in a long line of cases from *Buckley v. Valeo* to *Citizens United v. FEC*, has tied the People’s hands, blocking us from enforcing common-sense limits on the use of big money in politics, we remain free to tackle the problem from the other side of the equation—providing incentives to bring more small donors into the system.

Criteria Evaluation

In evaluating the efficacy of public funding of campaigns, it is critical to first point out that the most important reason to support these programs is not listed among the criteria below: ensuring that every citizen’s voice is heard and thereby producing policy outcomes that are not skewed by the influence of the donor class and so are more in line with the needs and priorities of the broader public. While the criteria listed are all in some ways means to produce the end of responsive government and hence better policy outcomes, none of these criteria directly addresses the role of money in skewing representation and policy outcomes. This is the

problem that public funding of campaigns is intended to directly address, and hence the programs should be judged primarily upon their ability to achieve this result.

Voter turnout and political participation: 4

Public funding of campaigns should have a modest positive impact on voter turnout, but a much more robust effect on political participation as a whole if this is defined to include contributing to campaigns and running for office.

The primary effects of publicly funding campaigns are a) to make the process of running for office more accessible to aspiring public officials who do not have friends or associates who can afford to contribute \$1000 or more to their campaigns; b) to alter the incentives of candidates and sitting officeholders such that they are less focused on raising large contributions from a small number of wealthy donors and more focused on reaching out to a broader section of constituents for both small contributions and votes; and c) to produce a government that is more representative of the general public and hence more focused on their needs.

Hence, public financing tends to increase the number of people running for office, as well as the economic and racial diversity of the candidate pool.²⁴ In many ways, the most profound impact of money in politics is the role it plays in filtering out potential candidates who lack access to networks of large donors—greatly narrowing the pool of potential public servants, and ensuring that those who do run successful campaigns are likely to hold positions acceptable to the financial gatekeepers who provide early resources in large chunks.²⁵ Public financing directly addresses this “wealth primary” system and opens up the process to those who cannot tap law partners, corporate colleagues, or country club associates for \$1000 campaign contributions.²⁶

Public funding programs also increase the number of people who make contributions to political campaigns, since political giving is driven largely by solicitation and public funding systems incentivize candidates to reach out to a broader swath of constituents.²⁷ Contributing to campaigns and running for office are essential forms of participation in the political process,²⁸ which have long been dominated by the relatively affluent.²⁹ One study, for example, found that just two percent of members of Congress have come from working class backgrounds over the past two centuries.³⁰ Removing wealth as a key factor for engagement in these ways is a significant benefit to our democracy.

Public financing boosts voter turnout in two ways—both indirect. First, people who contribute to or volunteer on a campaign are more likely to vote. So, to the extent that public funding provides candidates with incentives to reach out to more and different people for small contributions (as opposed to focusing their outreach on a relatively small number of wealthy contributors who already vote at high rates), the people being solicited and/or otherwise engaged are more likely to vote. Second, to the extent that the legislature is focused on issues of concern to the broad electorate and less distracted by the narrow (or countervailing) concerns of the donor class, this will increase general confidence in and engagement with the

political process leading to higher voter turnout. Hence, public funding has been shown to increase turnout, especially in down-ballot races.³¹ These effects are indirect as noted above (as opposed to streamlining voter registration, for example) and so tend to have a moderate rather than transformative impact on overall voter turnout.

Fair representation of parties and political groups: 3.5

Public funding would not meaningfully boost the prospects of third parties or third party candidates. While a properly designed system could help minor party candidates raise the funds to get campaigns off the ground, it is unlikely they would be able to cross the finish line. The entrenchment of our two-party system is due almost entirely to our voting system, which in most cases makes it very difficult for alternative parties to gain traction.

Public funding, however, can have a significant impact on the fair representation of other “political groups.” Currently interest groups like the Chamber of Commerce and other industry associations enjoy influence that is not commensurate with the number of citizens who support their views; while organizations that represent the public interest or groups of citizens without significant resources are outmatched. This is partially because of the amount of resources business groups can spend on lobbying,³² but also because members of Congress depend upon these associations and their members as a source of campaign funds.

In addition, public financing can help political groups that represent the interests of average or poor citizens rather than elites make headway within the two major political parties through building viable primary campaigns.

Fair representation of racial minorities and women: 4

Although people of color make up approximately 37% of the nation’s population, more than 90% of our elected officials are white, and women occupy far fewer positions of power than men.³³

There are several reasons for this disparity, but our big money campaign finance system—and specifically the need to raise large sums of money to run a viable campaign—is a huge barrier to women and people of color achieving adequate representation in elected bodies across the country.

Demos’ recent report [*Stacked Deck: How the Racial Bias in our Big Money Political System Undermines Our Democracy and Our Economy*](#) details how big money holds back fair representation and how publicly funded elections can help solve the problem.³⁴ Because the donor class and large campaign contributors are mostly white, fewer candidates of color run for office; those that do run raise substantially less money than their white counterparts (47% less in one study); and all else being equal have less of an opportunity to win.³⁵ In a recent survey, two-thirds of people of color (and 64% of whites) agreed that lack of access to donors is an

important reason preventing people of color from being represented in elected office.³⁶ Women face similar hurdles, and women of color face especially high barriers in our current system.

Small contributors better reflect the diversity of the general population,³⁷ so systems that empower small donors help to correct this imbalance. Arizona and New York City, for example, saw significant increases in the number of candidates of color once they adopted public financing systems.³⁸ And, New York City's matching system has led to a broader, more racially diverse donor base.³⁹

In addition, we must look at "fair representation" as encompassing but also transcending descriptive representation—i.e. candidates who share constituents' race and gender. Fair representation also entails an element of accountability. Representatives who must depend upon large, often out-of-district, donors for their elections may have a harder time fairly representing the true needs and views of women and/or people of color even when they do share descriptive characteristics.

To completely solve the problem of underrepresentation of women and people of color, we would have to address broader societal problems such as racism and racially polarized voting, sexism and stereotypes about women, and discriminatory voting procedures. But, public financing of elections may be one of the single most effective ways to open the doors to our democracy to candidates and contributors from all walks of life, helping reduce race and gender disparities in elected bodies.

Electoral competition: 3.5

Public funding of elections will have a moderately positive impact on *interparty* electoral competition, largely by helping challengers gain a foothold in districts represented by an incumbent with a large war chest—places in which challengers can find it hard to gain traction with traditional large donors who do not want to upset an incumbent or waste resources. Public financing systems generally lead to more candidates running and fewer incumbents running unopposed. But, the reality is that most general elections in the U.S. are not competitive because of the partisan makeup of gerrymandered districts—a problem that public funding of elections will do nothing to solve.

Public funding can have a meaningful impact on *intraparty* competition—in primary races. In primaries, the partisan makeup of a particular district is not a determining factor. Incumbents often run unopposed or with token opposition. Incumbents possess many electoral advantages, including name recognition and established networks of support. But, fundraising is typically a significant advantage to incumbency as well. Not only are incumbents able to build large war chests that scare off potential challengers, but these "outsiders" often find it difficult to raise significant private funds while attempting to buck the established party hierarchy—especially if they take positions that are not favorable to the donor class.

In addition, one can define competition somewhat differently: between candidates with access to networks of large donors—who are often white, disproportionately lawyers or other white collar professionals, and usually upper middle class or beyond—and those that do not, who are more likely to reflect the broader electorate. Along this axis, public funding of campaigns is essential to increase competition.

Reduction of polarization in Congress: 3

Public funding of elections can have a moderate positive impact on polarization in Congress. First, the largest donors typically have strong ideological commitments and can drive candidates to mimic these commitments in order to win their favor. The 2012 Republican primary elections provided a good example of this phenomenon, with figures such as Sheldon Adelson driving the intraparty debate through large Super PAC contributions. To the extent that public financing reduces the influence of the largest donors, it will tend to reduce polarization.

Next, public financing often forces candidates to reach out to a broader section of their constituents in order to fund their campaigns. Small donor matching programs and voucher or tax credit systems in particular ensure that successful publicly funded candidates must reach out to a broad swath of small donors to fund their campaigns. Most systems require that a significant percentage of funds come from within the jurisdiction the candidate seeks to represent. This means that rather than funding a campaign entirely from national fundraising lists filled with hard partisans, candidates must push broader and deeper within their constituencies.

In addition, public financing may help to alleviate a particular type of legislative gridlock that is often viewed as caused by “polarization.” One plenty of issues—from the need to reform our money in politics rules to raising the minimum wage, providing paid sick leave, or preserving the environment—public sentiment falls squarely on one side and yet Congress is unable to respond. In many of these cases, wealthy elites and the lobbyists who represent them sway Congress away from public sentiment. A small donor system can reduce this type of polarization and resulting gridlock by raising up the voices of constituents over the wealthy and well-connected.

Some have argued that small donor focused reforms would actually increase polarization in Congress.⁴⁰ This has been refuted by at least one academic study.⁴¹ And, the argument assumes that the donor base remains the same—filled with the hard partisans mentioned above—and ignores the fact that a major goal of public financing is to incentivize candidates to sharply change their fundraising strategies and reach out to a broad swath of potential donors they currently ignore because the shoe leather cost of identifying these in-district constituent donors is not overcome by a \$15 or \$25 contribution.

In addition, some of the types of participation that political scientists identify as “moderating,” such as large contributions from business-oriented political action committees (who often give to incumbent politicians on both sides of the aisle), present other significant problems for our

democracy. While the ability to compromise may be essential to a working democracy, the outsized influence of wealthy or business interests should not be mistaken for a fair and efficient process.

ENDNOTES

¹ Adam Lioz is Counsel and Senior Advisor for Policy & Outreach at Demos.

² Adam Lioz, *Breaking the Vicious Cycle: How the Supreme Court Helped Create the Inequality Era and Why a New Jurisprudence Must Lead Us Out*, Seton Hall Law Review; Vol. 43; Iss.4 (2013).

³ *Id.* See also Martin Gilens, *Affluence and Influence: Economic Inequality and Political Power in America* (2014).

⁴ Most programs limit the total amount of public funds available to each participating candidate, so contributions that a particular candidate raises after exhausting her public allowance are not matched. This ensures that public funding programs have a finite cost.

⁵ <http://www.nyccfb.info/candidates/candidates/publicmatchingfunds.aspx>

⁶ Adam Lioz, *The Government By the People Act: Legislation to Curb the Power of Wealthy Donors and Put Government Back in the Hands of Voters*, Demos (2014).

⁷ Thomas Cmar, *Toward a Small Donor Democracy: The Past and Future of Incentives for Small Political Contributions*, U.S. PIRG Education Fund (2004).

⁸ <http://www.seattletimes.com/seattle-news/politics/seattle-initiative-drive-seeks-public-campaign-financing-reform/>

⁹ *Arizona Free Enterprise Club's Freedom Club PAC v. Bennett*, 564 U. S. ____,

¹⁰ Lioz, *Government By the People Act*.

¹¹ This section is taken from Lioz, *Government By the People Act*.

¹² For a more complete discussion of this phenomenon and its causes, see David Callahan & J. Mijin Cha, *Stacked Deck: How the Dominance of Politics by the Affluent and Business Undermines Economic Mobility in America*, DEMOS (February 2013) and Adam Lioz, *Breaking the Vicious Cycle: How the Supreme Court Helped Create the Inequality Era and Why a New Jurisprudence Must Lead us Out*, 43 SETON HALL LAW REVIEW 1227 (Fall 2013).

¹³ *Stacked Deck* at 4-7.

¹⁴ MARTIN GILENS, *AFFLUENCE AND INFLUENCE: ECONOMIC INEQUALITY AND POLITICAL POWER IN AMERICA* (2012) at 37.

¹⁵ *Id.* at 4.

¹⁶ *Breaking the Vicious Cycle* at 1241-55.

¹⁷ Adam Lioz & Blair Bowie, *Billion Dollar Democracy: The Unprecedented Role of Money in the 2012 Elections*, DEMOS (January 2013) at 8.

¹⁸ *Id.* at 13.

¹⁹ *Id.*

²⁰ See e.g. Spencer Overton, *The Donor Class: Campaign Finance, Democracy, and Participation*, 153 U. PA. L. REV 73 (2004).

²¹ *Billion Dollar Democracy* at 18.

²² For a more complete discussion of these factors, see *Breaking the Vicious Cycle* at 1248-1255.

²³ See Demos' amicus brief in *McCutcheon v. FEC*, available at <http://www.demos.org/publication/amicus-brief-supreme-court-mccutcheon-v-fec>; Liz Kennedy, *Citizens Actually United: The Overwhelming, Bi-Partisan Opposition to Corporate Political Spending and Support for Achievable Reforms*, Demos 4 (Oct. 25, 2012).

²⁴ J. Mijin Cha & Miles Rapoport, *Fresh Start: The Impact of Public Campaign Financing in Connecticut*, Demos (2013); [Stacked Deck](#).

²⁵ Dana Mason & Adam Lioz, *Look Who's Not Coming to Washington*, U.S. PIRG Education Fund (2005); Adam Lioz & Karen Shanton, *The Money Chase*, Demos & U.S. PIRG Education Fund (2015).

²⁶ Jamin Raskin & John Bonifaz, *Equal Protection and the Wealth Primary*, Yale Law and Policy Review; Vol. 11; No. 2 (1993).

²⁷ [Fresh Start](#).

²⁸ Spencer Overton, *The Participation Interest*, Georgetown Law Journal; Vol. 100; Iss. 4 (2012).

²⁹ Kay Schlozman, Sidney Verba & Henry Brady, *Unheavenly Chorus: Unequal Political Voice and the Broken Promise of American Democracy* (2012).

³⁰ Nicholas Carnes, *White-Collar Government: The Hidden Role of Class in Economic Policymaking* 4-5 (2013).

³¹ Michael Miller, *Subsidizing Democracy: How Public Funding Changes Elections and How It Can Work in the Future* (2013).

³² Lee Drutman, *The Business of America is Lobbying* (2015).

³³ Women Donors Network, wholeads.us

³⁴ Adam Lioz, *Stacked Deck: How the Racial Bias in our Big Money Political System Undermines Our Democracy and Our Economy*, Demos (2014).

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.* at 22-13.

³⁸ *Id.* at 27.

³⁹ *Id.* at 36.

⁴⁰ See e.g. <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/05/10/big-money-corrupts-washington-small-donors-polarize-it/>

⁴¹ Michael Malbin, *Small Donors: Incentives, Economies of Scale, and Effects*, *The Forum: A Journal of Applied Research in Contemporary Politics*; Volume 11, Issue No. 3 (October 2013), p. 385-411.