THE CAMPAIGN FINANCE INSTITUTE

CITIZEN FUNDING FOR ELECTIONS

What do we know?
What are the effects?
What are the options?

Michael J. Malbin

202.969.8890

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CONTENTS

EXECUTIVE SUMMARY

Political campaigns have always been financed disproportionately by people with above average incomes. You have to have at least some discretionary money before you can give it away. But the balance has tilted almost beyond recognition since the Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission*. Consider these facts: Ronald Reagan received nearly half of his presidential campaign contributions in 1980 (47%) and 1984 (46%) from hundreds of thousands of contributions of $200 or less (CFI, 2003). In contrast, half of the money during the first six months of the 2016 campaign came from only 474 donors who gave $100,000 or more to the presidential campaign committees and their post-*Citizens United* single-candidate Super PACs. (Thirty-one percent came from only 56 donors who gave $1 million or more). The balance of forces in federal election campaigns has shifted markedly, and this shift is beginning to work its way into state and local elections.

As a result, a number of jurisdictions have been looking recently to rebalance the incentives through new (or updated) citizen funding programs or tax credits to enhance the role of small donors. (See the footnote for a list.[1]) When looking at these new programs and proposals, it is striking how common impulses have led to such a variety of policy ideas – and an even wider set of justifications and expectations about what the new programs are meant to accomplish. Some want to drive money out of politics; some to increase competition; some to bring a different type of politician into office; and some to enhance participation. In light of this policy ferment, this report seeks to lay out for policy makers what is known and not yet known about whether citizen funding and other incentive programs have accomplished or are likely to accomplish their stated goals. The focus will be on programs for candidates. There is a strong case to be made for similar programs for political parties, but that will not be the focus here. It is not an advocacy document for the general public. Neither will this report settle the arguments among those who debate whether the objectives are worth their financial cost, which will normally be modest.[2] Rather, this report is written for those who are seriously considering citizen funding programs or tax credits, whether they lean pro or con, as a first step toward evaluating the claimed benefits of the programs along with the potential risks. It is a guide to what is known (or can be inferred) from scholarly research about what the various forms of incentive programs have accomplished and might accomplish, along with what they might not or will not.

[1] The following list covers 2013-2015: Los Angeles' newly revised matching fund program was put into effect in 2013. Montgomery County (Maryland) adopted a new system in 2014. Minnesota reinstated its political contribution refund program in 2013. Tallahassee (Florida) adopted political contribution tax credits in 2014. Seattle's voters in 2015 approved a ballot initiative to enact the country first voucher program, to be used for partial public financing for local office. Maine voters decided by initiative in 2015 to revise its full public funding program. Chicago's voters in 2015 overwhelmingly approved a referendum advising its city council to enact a new system. The New York State Senate failed to pass public financing in 2014 by only two votes (after it passed the Assembly) but the issue may well revive there. Significant movements are also under way in California, New Mexico and Hawaii. And while federal enactment is not likely soon, new ideas have been put forward in Congress that undoubtedly will be on the discussion agendas for states and localities.

[2] Financial costs will vary with a program's details and therefore cannot be included in a report meant to apply broadly. Generally speaking these will be very low as a percentage of government spending or tax breaks. For example, the officially estimated cost of a small donor matching fund program in New York State was about $56 *million* per year. The state's annual budget for 2015-16 is $142 *billion*. (New York State, 2013 and 2015.)

To preview the conclusions:

- It is obvious – certainly in the new world of independent spending – that citizen funding programs cannot squeeze private money out of politics (p. 12).
- However, a properly designed program can increase the proportional importance of small donors to candidates and increase participation by an economically and demographically more representative cadre of campaign supporters (pp. 21-26). Candidates may choose to depend on large donors if they wish, but a well-structured program can make it possible for a candidate to choose otherwise. In the most effective programs, substantial percentages of the candidates make this choice and participate (pp. 10-12).
- Interestingly, these results probably do not occur because small donors react spontaneously and directly to matching funds or tax credits (p. 22). Instead, the research suggests (but is not yet conclusive) that the incentives work by affecting candidates (or political parties and other intermediary actors). The small donors are worth more (both financially and as volunteers – see p. 28), so the candidates and others are willing to spend more time and resources to mobilize them.
- Whether increasing small donors will favor political polarization will depend on a program's details, but small donors generally are not more polarized than other individual donors (p. 27).
- Citizen funding may also affect other aspects of a candidate's behavior – from deciding to run (p. 18), to how they conduct campaigns (p. 20). However, the research here is not fully settled.
- The findings are similarly mixed with respect to electoral competition (pp. 16-18). Public money seems to help when competition is defined one way (focusing on whether races are uncontested or whether candidates run), but not if defined differently (with a focus on the margins of victory in competitive races, or the defeat of incumbents).
- Research on the post-election effects in government finds more of an impact on agenda-setting than end-stage roll call votes (p. 29).
- Policy-makers need to be aware that answers often depend upon the precise questions asked.
- Finally, and very importantly from a policy-maker's perspective, the research shows clearly that a program's *fine-grained details can make a huge difference in outcomes* (pp. 30-31). For supporters of citizen funding or tax incentives, this means that passing a program that carries a good-sounding label will not be enough to accomplish their goals. Neither will it be enough to focus only on what their supporters think they can "sell". Selling may be a necessary condition for accomplishing goals, but not a sufficient condition. The politics of persuasion is not policy analysis. A program that works will be based on the best available evidence – including the best practices for implementation after a bill becomes law.

INTRODUCTORY THOUGHTS ABOUT INCENTIVES AND GOALS

Using public money is never an end it itself. Money, whether public or private, is a means toward something else. In the hands of a candidate, money is most often spent to gain votes. Public concern about how candidates raise money is about what the incentives of fundraising do to the candidates and office holders. Those who support policies to change those incentives do so because of the public goods they believe will result. Those who oppose them do so because they foresee perverse consequences or a waste of good money. The discussion, therefore, would be more fruitfully framed as being about means and ends. The questions, to paraphrase Alexander Hamilton, are whether the ends are appropriate and whether the means be the most effective.

Campaign finance policies writ large have been pursued in the name of a variety of goals. For the sake of simplicity we can think of some goals as being to prevent bad things from happening; others are about encouraging positive outcomes. Contribution limits are permissible constitutionally only in the name of preventing a bad – corruption or the appearance of corruption. Disclosure involves a mixture of preventing bad things (sunlight as a disinfectant) and promoting good ones (supporting voters' knowledge). Financial incentive programs – when stripped of their frequent but not logically necessary regulatory accompaniments – are usually about positive goals. They are promoted in the name of improving competition; giving more (or more diverse) candidates an incentive to run; improving campaign conduct; increasing the number and diversity of donors; altering the mix of donors on whom candidates depend; and enhancing citizen participation more broadly. Any one of these goals, if accomplished, would qualify as what economists would call a public good.

It is constitutional to use public resources to pursue a public good.

The spirit of this report therefore picks up a challenge laid down by the current Chief Justice of the United States. In an Opinion of the Court that struck an important part of Arizona's public financing law, the Court stated unequivocally that public financing *is* constitutional [*Arizona Free Enterprise Club PAC* vs. *Bennett, et al*. 564 U.S. ___ (2011)]. It is permissible for a legislature to decide it wants to use public resources to pursue a public good. The caveat is that the program cannot harm the speech rights of those who do not participate. The Court even reaffirmed that it is alright to require candidates who voluntarily choose to take public money to accept burdens (such as spending limits) that would be unconstitutional if they were required of everyone *[Buckley v. Valeo* 424 U.S. 1 (1976)].

But to be constitutional is only a threshold requirement. The question for any policy maker is whether the programs can achieve goals that are important enough to be worth the costs. That question is especially difficult when considered in light of an earlier Roberts Court decision that freed corporations to make unlimited independent expenditures [*Citizens United* v. *Federal Election Commission,* 558 U.S. 50 (2010)]. Why, it might be asked, should anyone throw taxpayers' money into political campaigns when the money can be overwhelmed by negative advertising paid for by a handful of wealthy mega-donors? In that kind of a setting, do (or can) public incentives really work?

THE VARIETIES OF PUBLIC SUPPORT

Answering the question is more complicated than asking it. For one thing, no one set of programs defines the full set of publicly supported incentives in effect for U.S. political campaigns. As of this writing, there are roughly three-dozen state and local incentive programs that use public grants, matching funds or tax incentives aimed at candidates, political parties, or donors. They combine program elements in an impressive variety of combinations. Any one element might act differently when combined with others, and each combination's effects will depend upon the local political context. In addition, one must define what it means for a program to "work". A program's sponsors may have had more than one objective, and a particular program may have more of an impact on some goals than others. This report will review the research on these programs, including what we know about the connections between some details and significant risks.

There are roughly three-dozen state and local incentive programs.

Before evaluation, however, we need to describe the programs. As of this writing, thirteen states, the federal government, and at least seventeen local jurisdictions offer direct support to candidates in the form of lump-sum payments or matching grants. Six states give rebates or tax incentives to donors; eleven offer some form of financial assistance to political parties. The programs make more sense if they are separated by type of program and placed in an historical narrative. Table 1 lists the programs for candidate assistance by type; states are listed alphabetically within each program type (with the federal program included among states), followed by localities. Each row for a state or locality includes the year of initial enactment, description of the form the financial support takes, and the major conditions to which a candidate must agree as a condition for receiving support. The table borrows from charts created by the National Conference on State Legislatures for state programs (2013) and by the Center for Governmental Studies on both states and localities (2007), revised and updated through 2014.

Table 1. SYSTEMS FOR CANDIDATES

Jurisdiction	Year *	Office(s)	Distribution Formula	Conditions
MATCHING GRANTS				
MORE THAN TWO-FOR-ONE				
Los Angeles CA	1990	Citywide + council	Beginning 2013, 2:1 for primary; then lump sum + 4:1 for general election. Match first $250 for council, first $500 for citywide. (1:1 matching in elections before 2013.) Public funding cap is about one-fourth to one-third of spending limit.	Spending ceiling removed against non-participating candidate who exceeds limit or if sufficient indep. expend.
Montgomery County MD	2014	County exec. + council	For donors who give $150 or less (which is the contribution limit for participating candidates), the following formulas: County exec. – 6:1 for first $50, 4:1 for second $50, 2:1 for final $50. Council: 4:1 for first $50, 3:1 for second $50, 2:1 for final $50.	Public fund cap. No spending limit. Contribution limit of $150 for participant, $6,000 for non-participant.
New York NY	1988	Citywide + council	$6 public funds for $1 private for first $175 of qualified contributions from individual city residents. (6:1 began 2009. 4:1 for first $250 began 2001. 1:1 for first $1,000 before 2001.)	Spending limits; public funds cap; debates.
TWO-FOR-ONE OR LESS				
Florida	1986	Gov., other statewide	Contributions to qualify for public funds are matched 2:1. Subsequent contributions of $250 or less matched 1:1.	Spending limit.
New Jersey	1974	Gov.	Qualified participating candidates receive 2:1 match for all contributions	Spending limit; debate
Rhode Island	1988	Gov., other statewide	2:1 match of the first $500 from a donor to a candidate, 1:1 on remainder.	Spending limit, public fund cap.
Boulder CO	2000	City Council	1:1 match	Spending limit.
Long Beach CA	1994	Citywide + council	$1 public match for $2 private.	Spending limit; public fund cap.
Oakland CA	1999	City Council	1:1 match for first $100 per donor	Spending limit; public fund cap.
Richmond CA	2003	Mayor + Council	$1 public match for $2 private.	Public fund cap. No spending limit.
Sacramento CA	2003	Mayor + Council	1:1 match up to $250 per donor.	Spending limit; public fund cap.
San Francisco CA	2000	Mayor, Supervisors	Partial grant, 2:1 match for the initial contributions, then 1:1 match. (Initial match was 4:1; reduced in 2011).	Spending limit; debates
Tucson AZ	1985	Mayor + Council	1:1 match	Spending limit
VOUCHERS				
Seattle WA	2015	Mayor, City Attorney, City Council	Four $25 vouchers to registered voters, who may give them to participating candidates.	Spending limit, with escape for high spending opponents or indep. expend; $500 contribution limit for all candidates, but $250 for participating council candidates

LUMP-SUM GRANTS				
FULL PUBLIC FUNDING ("CLEAN ELECTIONS")				
Arizona	1998	Statewide + legislature	Full public grant after privately raised seed money and qualifying contributions	Seed money + qualifying + grant = spending ceiling
Connecticut	2006	See AZ	Full public grant after privately raised seed money and qualifying contributions	See AZ
Maine	1996	See AZ	Full public grant after seed money and qualifying contributions. 2015 initiative allows all candidates to receive supplemental funds with additional qualifying contributions.	Qualifying + grants (including supplemental) = spending limit.
New Mexico	2003	Judiciary + Pub Regulation Commission	Full public grant after privately raised seed money and qualifying contributions	See AZ
Vermont	1994	Gov., Lt. Gov.	Full public grant after qualifying contributions	Qualifying + grant = spending ceiling
Albuquerque NM	2005	Mayor + Council	Full public grant after privately raised seed money and qualifying contributions	See AZ
Chapel Hill NC	2008	Mayor + Council	Full public grant after privately raised seed money and qualifying contributions	See AZ
Santa Fe NM	1987	Mayor, council, judge	Full public grant after privately raised seed money and qualifying contributions	See AZ
PARTIAL GRANTS				
Hawaii	1979	Gov., Legislature	Partial grant, subject to availability of public funds, not to exceed 10% of the spending limit for gubernatorial candidates and 15% for legislative.	Spending limit.
Massachusetts	2003	Statewide	Up to half of the applicable spending limit, if funds are available.	Spending limit.
Minnesota	1974	Statewide, legislature	Up to half of the applicable spending limit. Participating candidates may also receive contributions from donors eligible to receive political contribution refunds from the state.	Spending limit.
Austin TX	1992	Mayor + Council	Runoff election only	Spending limit
Miami-Dade County FL	2001	Mayor; Commission	Grant is about half of the spending limit	Spending limit
Suffolk County NY	1998	Countywide, Legislature	Grant is less than half of the spending limit	Spending limit
MIXED SYSTEMS				
MATCHING IN THE PRIMARY; GRANT IN THE GENERAL				
Maryland	1974	Gov., Lt. Gov.	1:1 matching in the primary (1:3 if unopposed); full grant up to the spending limit for the general election (assuming funds are available).	Spending limit.
Michigan	1976	Governor	2:1 matching for first $100 in primaries; partial flat grant for the general election.	Spending limit.
US Federal	1974	President	1:1 match for first-$250 pre-nomination; full grant for major party nominees in general.	Spending limit.
INITIAL GRANT FOLLOWED BY MATCHING WITHIN THE SAME ELECTION				
New Haven CT	2006	Mayor	Grant, then 2:1 matching for contributions for first $25.	Spending limit; public fund cap.

*Refers to the year the program was enacted, not the latest version.

Many of the older systems were enacted during the 1970s in the wave of legislation that followed Watergate (Moncreif and Thompson 1998; Malbin and Gais 1998). Maryland (1974) followed the federal presidential lead by using a 1:1 matching system in gubernatorial primaries and then a full public funding for the general election. Michigan (1976) used a 1:1 matching system in the primary and a partial funding grant for the general election. New Jersey (1974) and Florida (1986) offer 1:1 or 2:1 matching funds for gubernatorial candidates only. Massachusetts' partial lump-sum grant (2003) is still on the books, but stripped of its funds. Wisconsin's support for gubernatorial and legislative candidates was repealed in 2011. Among the older systems, Minnesota's is the only one that has been continually updated and remains the most heavily used. It will be discussed more fully with the new hybrid systems below.

All of these programs require participating candidates to abide by spending limits. Like the presidential system, the programs have fallen into disuse (or decreased use) among candidates as spending limits have failed to keep pace with campaign costs and candidates have deemed the public money not to be worth the restrictions. The programs often fail to give the candidates enough of an incentive to accept the restriction, particularly if the spending limit is below current competitive campaign costs. But spending limits logically concern only candidates who would not be likely to raise more from private funds alone. Such candidates are generally not viable contenders, but sometimes they are. For example, Hawaii's program has been used only rarely in recent years because the partial public funding grant is only 10% of the spending limit for gubernatorial candidates (15% for legislative candidates) and the spending limit is pegged to population but not indexed for inflation. Despite this, the Democratic candidate David Ige used Hawaii's partial grant in 2014 to help win the general election after he used small donor fundraising to defeat the incumbent, Neil Abercrombie, in the primary. Similarly, the underdog Republican Lawrence Hogan of Maryland accepted a full public funding grant of $2.6 million for the general election, after having received $332,000 in matching funds for the primaries. Hogan defeated the heavily favored Democratic candidate, Anthony Brown, who raised and spent more than $16 million. Hogan was the first general election candidate for Governor in Maryland to use the grant in twenty years. He was able to do so because enough money had been accumulating to pay the full amount. With the money depleted, one of Hogan's early actions as Governor was to support and sign a law in April 2015 to replenish the fund for a future election.

With many of the older systems falling out of favor with candidates, the next set of programs to be adopted took the form of full public funding grants for legislative as well as executive elections. In these systems, called "Clean Elections" by supporters, candidates raise "seed money" with a low contribution limit and then raise an additional number of "qualifying contributions" (of $5 each in Arizona and Maine). Once qualified, candidates are eligible for a lump-sum grant to pay for all of their campaign expenses, with no privately funded spending allowed. The payment is meant to be sufficient for a robust campaign. However, a candidate who faced independent spending or ran against a high-spending privately funded opponent was originally meant to be eligible for additional public payments referred to as "matching" or "trigger" funds. (We shall use the term "trigger" to avoid confusing them with systems in which private donors' contributions are eligible for public matching.) The trigger funds were held unconstitutional in the U.S. Supreme Court in the 2011 *Arizona Free Enterprise Club v. Bennett* case mentioned earlier.

States with Clean Elections systems for legislative and executive races include Maine (adopted by initiative in 1996), Arizona (initiative, 1998) and Connecticut (legislative adoption in 2006). Vermont has had a full public funding system for Governor and Lieutenant Governor since 1994. New Mexico adopted one for the judiciary and public regulatory commission in 2003. Among cities, Albuquerque (NM), Chapel Hill (NC) and Santa Fe (NM) use full public financing for Mayoral and City Council elections. The systems were used by a high proportion of eligible candidates until the Supreme Court banned trigger funds. Participation rates have been going down since then in Arizona and Maine, but have held up so far in Connecticut, which offers higher levels of public funding. The affected jurisdictions are all considering repairs to their systems ranging from larger grants to hybrid systems (described below). Additional jurisdictions since the Supreme Court's decision have seemed reluctant to sign on to the full Clean Elections formula without adaptation.

Newer programs have experimented with alternative formats. New York City's program began in the late-1980s as a system that would offer 1:1 matching for the first $1,000 that a donor might give to a candidate. The city then changed its formula for the 2001 election to use its matching funds to heighten participation by small donors. It shifted the formula to offer a 4:1 match for each of the first $250, and then shifted again for 2009 to a 6:1 match for the first $175. The multiple-matching concept has also been embraced by Los Angeles, which in 2013 offered a 2:1 match in the first round of California's top-two primary system, followed by a 4:1 match in the runoff or general election. Matching the "first $175" six-for-one means that a $175 contribution will be matched by $1,050 in public funds, making it worth $1,225 to the candidate. It also means that any contribution greater than $175 will generate the same $1,050 in public funds. Critics of this approach (among those who support public financing) say that it still leaves too much power in the hands of large donors. They would prefer to see matching funds available only for donors who give no more than the matchable amount to the candidate for the entire election period. Supporters of the "first-$175" approach say that multiple-matching already skews the incentives successfully to favor small donors. They also say that it would not be good policy (and would be an administrative headache) to require candidates to refund matching money because a donor is enthusiastic enough to give a second and third time.

Newer programs have experimented with alternatives.

A number of jurisdictions lately have been looking at "hybrid" systems that borrow from more than one model. The most significant one in effect now is Minnesota's, which offers donors up to a $50 rebate per year for contributions to parties or to candidates who participate in the partial public financing system. (The rebates are described with the tax credits below.) New concepts are also beginning to appear in bills not yet in place. Seattle adopted a ballot initiative in November 2015 that would distribute four $25 vouchers to residents which could then be given to candidates. (For previous writing on vouchers see Adamany and Agree 1975; Hasen, 1996; Ackerman and Ayres 2002; Lessig 2011.) Rep. John Sarbanes' proposed federal bill, the "Government by the People Act of 2015" (H.R. 20, 114th Congress) includes all of the new features described so far, and then some. As currently drafted, the Sarbanes bill includes an initial lump-sum grant for qualified candidates, multiple matching funds; matching (in one of the bill's options) only for small donors who give no more than a specific amount, rather than the first dollars of all legal gifts; no spending ceiling; a cap on public funding per candidate; and a 50% small donor tax credit. The bill also includes an experimental voucher system.

Rebates and Tax Incentives: As the Sarbanes bill shows, giving direct support to a candidate is not the only way to offer incentives for campaign contributions. Rebates and tax incentives are meant to alter the behavior of candidates or other donor-mobilizers by supporting the donor rather than directly supporting the candidate. Six states currently offer rebates or tax incentives to donors.

Table 2. REBATES AND TAX INCENTIVES		
Jurisdiction	**Description**	**Year First Enacted**
Arkansas	$50 tax ***credit*** ($100 for joint returns) for contributions to candidates, political parties and PACs.	1996
Minnesota	$50 per year cash ***rebate*** (not through the tax system) for contributions to candidates who agree to spending limits and/or to political parties. In existence since 1992, the program was suspended in 2009 and reinstated in 2013.	1992
Montana	$100 per year itemized tax ***deduction*** ($200 for joint returns) for contributions to candidates or parties. To use this or any other itemized deduction, a filer has to have a sufficient amount in all itemized deductions combined.	1979
Ohio	$50 tax ***credit*** ($100 for joint filers) for contributions to candidates.	1995
Oregon	$50 tax ***credit*** ($100 for joint returns) for contributions to candidates, parties, or PACs. The credit may not exceed the tax liability of the taxpayer. It may not be claimed by individuals with more than $100,000 in adjusted gross income ($200,000 for joint returns).	1969
Virginia	Income tax ***credit*** equal to 50% of the amount contributed to a local or state candidate. Maximum credit $25 ($50 for joint returns).	2000

These programs have had varying levels of success. Over the years, Oregon's and Minnesota's systems have had the highest rates of participation by donors and taxpayers. Oregon allows donors to claim a credit for contributing to a political action committee as well as to a candidate or party. The provision is controversial to those who see it as offering tax subsidies to interest groups that are already active politically; it is supported by those who see the groups as fostering political capital. Either way, the program shows the potential importance of mobilizers in the process. Minnesota also relies on donor-mobilizers, but in that state's programs the mobilizers are the political parties and candidates who have chosen to abide by spending limits. (Contributions to candidates are eligible for a refund only if the candidates agree to the spending limits in the state partial grant program.) Minnesota's use of an immediate rebate, rather than a tax deduction or credit, works as an incentive for donors who cannot afford (or do not want) to wait six months for a tax refund. By contrast, Montana offers donors a deduction only available to filers whose itemized deductions exceed the standard deduction. As a result, it is used disproportionally by donors with well above average incomes. To reduce the problem of disproportionately favoring the wealthy, Oregon in 2014 added a provision that allowed its credit to be used by only donors with incomes below $100,000. As a group, therefore, the six states with rebates or tax incentives show the importance of program design and implementation to a program's success.

Nine states currently have incentive programs for political parties.

Political party incentives: Finally, seven states (IA, KY, MN, NC, OH, RI, UT) permit taxpayers to use a check-off to earmark $1 to $5 of their taxes to a political party. Two other states (AL, NM) let taxpayers make voluntary contributions through their tax returns to the political parties. Minnesota's is used by about 6% of the filers, generating about $3 million for the political parties, The other programs do not generate enough money to make it a substantial source of the parties' funds. In addition to these earmarked payments, four of the six states with political contribution refunds or tax incentives allow donors to receive them for contributions to parties (AR, MN, MT, OR). None of the current systems provide matching funds for contributions to political parties, but a 2015 Brennan Center report has made a good case for doing so (Vandewalker and Weiner 2015).

CANDIDATE PARTICIPATION, THE SINE QUA NON

We turn now from a description of programs to a review of their goals and what we know about their successes and weaknesses. One goal needs to be considered before others – and it is not the one that many activists consider foremost when they introduce new proposals. Public financing systems constitutionally must be voluntary. Legislatures may not force candidates into them or set up conditions that have the effect of forcing them in. But unless enough candidates volunteer to participate, the systems cannot accomplish anything else. We have already stated that serious candidates are not choosing to participate in many of the older systems. The following table shows the percentage of legislative candidates who have opted for public financing in some of the more successful programs.

Table 3. CANDIDATE PARTICIPATION IN SELECTED PUBLIC FINANCING PROGRAMS, 2000-2014

	ME		AZ		CT	MN	NYC		LA	
	Prim	Genl	Prim	Genl	Genl	(all races*)	Prim	Genl**	Prim	Runoff
2000	32%	33%	24%	26%		83%				
2001							93%	71%		
2002	52%	62%	50%	49%		71%				
2003									81%	100%
2004	72%	79%	55%	52%		84%				
2005							87%	74%	72%	100%
2006	74%	81%	56%	53%		82%				
2007									55%	
2008	74%	82%	59%	64%	73%	83%				
2009							93%	68%	68%	100%
2010	67%	77%	45%	50%	70%	76%				
2011									76%	100%
2012	60%	63%	36%	35%	67%	76%				
2013							94%	79%	84%	100%
2014	44%	50%	31%	27%	85%	Not yet available				

Table 3 shows that the two largest urban matching fund programs have had strong rates of participation throughout the time period. So has Minnesota's hybrid system, although it has experienced a slight drop. The Clean Elections states had high rates of participation, but recent elections have been more of a challenge for them. Arizona's participation rates began falling in 2010, when the Supreme Court forced the trigger's suspension during the *Arizona Free Enterprise* case. Maine's decline started in 2012, after the Court's final decision. Interestingly, Connecticut's rate dropped slightly in the election after the decision but then reached its highest level historically in 2014. It is worth noting that Connecticut's grants are already much higher than Arizona's or Maine's. Maine's 2015 initiative adopted in 2015 will provide supplemental grants to all participating candidates who raise additional qualifying contributions. One explicit purpose is to reverse the state's declining rate of participation.

There can also be a partisan side to participation. Table 4 shows the rates for general election candidates, by party. It excludes the two cities. Los Angeles' elections are officially nonpartisan. Most of New York's city council districts are heavily Democratic, with no viable Republican candidate in the general election.

Table 4. PARTICIPATION RATES, GENERAL ELECTION, BY PARTY								
	ME		AZ		CT		MN	
	Dem	Rep	Dem	Rep	Dem	Rep	DFL	Rep
2000	44%	23%	46%	9%			96%	86%
2002	71%	55%	63%	34%			84%	82%
2004	86%	71%	66%	50%			90%	86%
2006	93%	73%	73%	43%			91%	89%
2008	92%	72%	82%	52%	83%	76%	76%	91%
2010	88%	73%	68%	40%	85%	68%	85%	76%
2012	83%	46%	51%	24%	78%	64%	79%	75%
2014	74%	26%	43%	14%	90%	77%	Not yet available	
NOTE: Legislative races only, except MN								

The decline in Maine and Arizona has been much stronger among Republicans than Democrats. In Connecticut and Minnesota, participation remains strong for both parties' candidates. This is important because any system in a partisan setting will need bipartisan support to adapt to changing conditions.

GOALS AND PERFORMANCE

Public incentive programs in the past have been put forward as if they would cure many ills. In the next portion of this paper, we consider what is known about the connection between programs and goals. We shall begin by describing the state of existing research. Where the research is conflicting or not done, the author will express an opinion (clearly labelled) about what is plausible in light of past research. These sections will also speculate about the likely impact of some elements of new proposals about which research quite obviously does not yet exist.

The goals to be discussed will be ones concerning elections, citizen participation, and the various connections between representatives and those whom they represent. Under the elections rubric, we consider the pool of candidates who choose to run, the characteristics of election campaigns, and competition. With respect to citizens: we consider the number, diversity and representative characteristics of donors, looking not only at demographic representation but also at political representation, including polarization. We also ask whether fostering small donor participation helps foster citizen participation in other forms. With respect to the relationship between representatives and constituents, we will open a discussion about how legislators spend their time, to whom do legislators give access, and what policy decisions do they make. This is a very difficult set of issues to research. The final ones, about policy, are particularly daunting. Before we turn to these goals, however, we address two baseline questions. In the first we consider whether public financing programs can be used to reduce the amount of money in politics. The second is whether it is plausible to think they can make enough of a financial difference to candidates to be worth the effort.

TWO BASELINE ISSUES

CAN CITIZEN FUNDING GET BIG MONEY OUT OF POLITICS?

It is not remotely plausible to "get big money out" of politics, but it is feasible to reduce the influence.

Before examining the goals that might be served by public incentives, we should clear away some rhetorical underbrush. It used to be said – perhaps more in editorials and floor speeches than among serious analysts – that the purpose of citizen funding was to get big money out of politics. This position saw public funds primarily as a lever to persuade candidates to adopt spending limits. In this view the main benefit was not about getting public money *into* the system, but getting private money *out* and using the public funds to substitute for the private. The problem with this goal is that the most any citizen funding program could do constitutionally after *Buckley v. Valeo* (1976) was to limit a *candidate's* spending in return for the candidate's voluntary acceptance of public funds. It could not restrict spending by others. This tradeoff may have reduced spending when almost all of the spending was done by the candidates. But that did not last. After the U.S. Supreme Court in 1996 upheld the right of political parties to make unlimited independent expenditures, the parties spent more privately-raised money to support their publicly funded presidential candidates than the candidates spent on their own.[1] Then there were the non-party organizations. The General Accounting Office's 2003 report on Maine and Arizona said that independent spending was increasing in these Clean Elections states (GAO 2003). In 2010, *Citizens United* opened the purse strings for unlimited contributions to non-party independent spending organizations. It is no longer even remotely plausible to think that any public financing program under current constitutional law will literally "get big money out" of politics.[2] However, it might be possible to *reduce the influence* or importance of major donors and independent spenders even if the big money stays in – mostly by using incentives to increase the options available to candidates. We turn to that subject next.

CAN CITIZEN FUNDING SHIFT HOW CANDIDATES RAISE THEIR MONEY

There is no reason to think a new system can produce other benefits unless it can make a significant difference in a candidate's funding sources while also promising the candidate enough money to attract voluntary participation. To illustrate how this might work, we have developed a simple matching fund model based on the actual contributions made to candidates in New York State's gubernatorial and legislative candidates in 2014. The charts are not meant to claim that this simple model would produce stronger results than alternative campaign finance incentive programs. They are meant only to show that even a simple model, using realistic assumptions, would produce enough change to have a major impact on political financing in many states. Figure 1 shows the actual

[1] Colorado Republican Federal Campaign Committee v. FEC. 518 U.S. 604 (1996). Until 2002, the parties relied mostly on soft money expenditures. After the Bipartisan Campaign Reform Act of 2002 (McCain-Feingold), they relied on hard-money fueled independent expenditures.

[2] Some have argued that the best way to deal with this would be to amend the Constitution or change the Supreme Court. This is not the place to debate a constitutional amendment; the only concern here is about the empirical possibility of eliminating big money from politics. Some would argue that an amendment would be likely to reduce the role of big money. Others say they expect this would be unlikely, even with an amendment, given the problem of defining a boundary line between election and issue speech.

funding sources for candidates in 2014. Figure 2 introduces a four-for-one public funding match for each donor's first $250 in contributions to a candidate, allocating matching funds to the donors who generate them. It assumes no other changes in law and also assumes the exact same donors would give the same amounts under the new system as they did under the *status quo*. The third chart makes the same assumption about existing donors but also assumes the program has an incentive effect on the candidates, with the result that the candidates find enough small donors to bring the state's small donor participation rate up to the national average, or about 1.6% of the adult population. We are not predicting this would happen easily, but it is fully plausible. By definition, half of the states are above the median. As a comparison, New York City's matching program has brought the city's donor pool up to 1.75% of the city's adult population (Malbin, Brusoe and Glavin, 2012). In the calculations, it is assumed that the new donors would each give $50.

FIGURES 1-3: POTENTIAL IMPACT OF PUBLIC MATCHING FUNDS: NEW YORK AS AN EXAMPLE

BASED ON THE ACTUAL DONORS TO LEGISLATIVE AND GUBERNATORIAL CANDIDATES, 2014

Bars for individuals are based on each donor's *aggregated* contributions to a candidate

Figure 1. Sources of Candidates' Funds from the Following Donors -- Actual

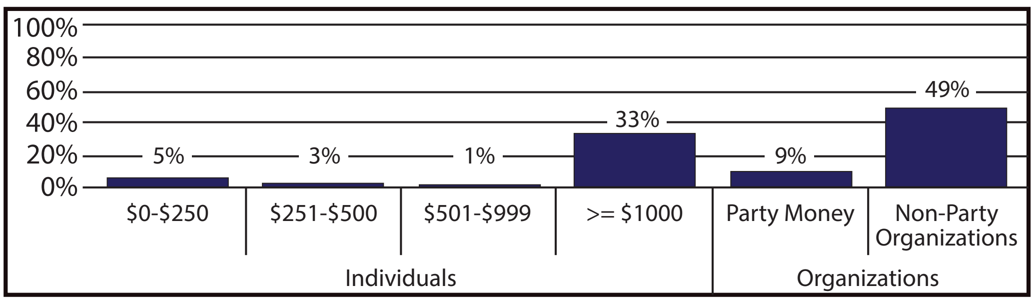


Figure 2. What If … 4:1 Match for First $250. Same Donors. No other changes.

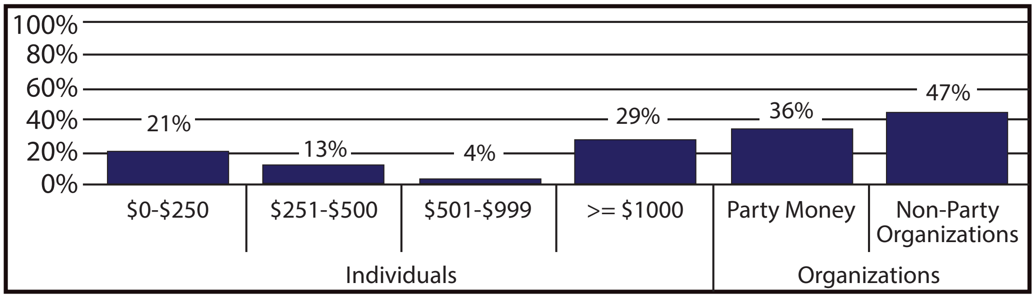
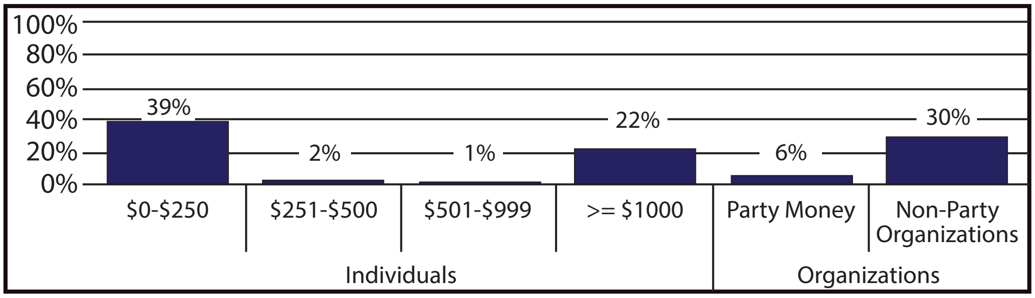


Figure 3.What If … 4:1 Match for First $250, Same % Adults Give as Median State (1.6%). New donors give $50. No other changes.



SOURCE: Campaign Finance Institute analysis of National Institute on Money in State Politics data.

Given these assumptions, Figure 3 indicates that a matching fund system with more donor engagement would produce a result in which small donors (and the matching funds they generate) were the most important source of candidates' financing. They would not be as high as New York City's small-donor level of well above 60%, but the change would be significant. We emphasize that this would occur without any new restrictions or contribution limits. Individuals who give large contributions would continue to give within current limits, as would non-party organizations. If one were to reduce the outsized role of limited liability companies in New York, or introduce a lower contribution limit for participating candidates, the result would shift more. Nor would New York be unique. Almost all states would be likely to show a similar result. Florida's legislative candidates received 7% of their money from small donors; with four-to-one matching and new $50 donors the figure would jump to 53%. New Mexico would increase from 12% to 52%, Ohio from 8% to 43% and Hawaii from 20% to 64%. In each case, small donors plus the matching funds they generate would be the most important collective sources of the candidates' money.

We need not dwell here on *how* the candidates might bring more new donors into the system. All we need to have established at this point is that the results are fully plausible and sufficiently significant to make a noticeable financial difference. Having determined this, we are now prepared to ask whether matching funds and other forms of citizen funding systems do in fact achieve their intended goals. The format of the next section of this paper will be similar to that of a collection of frequently asked questions (FAQs). The major topics to be covered will be grouped under these headings: Elections and Candidates, Donors and Citizens, Governing and Policy. Equivalent bar charts showing the status quo and the potential effects of matching funds for each of the states may be found on the Campaign Finance Institute's website.*

*http://www.CFInst.org/state/CitizenPolicyTool.aspx.

EFFECTS ON ELECTIONS: COMPETITION, CANDIDATE EMERGENCE, CAMPAIGN CONDUCT

DOES CITIZEN FUNDING MAKE ELECTIONS MORE COMPETITIVE?

This question needs to be broken into parts. More details will follow, but the general scholarly consensus is as follows:

(a) Public financing results in more races being contested than would otherwise be the case. Fewer incumbents win reelection without having some form of opposition.
(b) Public financing has allowed some underdog candidates to make serious races against heavily favored opponents.
(c) Within the category of competitive races, it is difficult to argue that candidates who received public financing have had better or worse results than privately financed ones.
(d) One reason it has always been difficult to measure the specific effect of money on results, once a race is competitive, is that it is difficult to disentangle the effects of money on producing a strong election campaign versus the reciprocal effect of candidate quality on raising money.
(e) Finally, all of the existing academic literature on the effect of money on results is based on models that compare one candidate's money to the opponent's money. Those models have all become outmoded. To do similar testing today would require one to consider all of the money spent on each side of the race, including party money and independent spending. But we cannot simply add all of the money together because most spending by candidates is more efficient than outside spending. However, there is no readily available formula to tell us how much to discount outside spending. Even if there were such a formula for a specific situation, the discount would have to vary by the type of spending, timing and location. (On the final two points, see Milyo 2013; Fortier and Malbin 2013.)

WHAT DOES THE RESEARCH SAY ABOUT COMPETITION IN STATE ELECTIONS?

There has been much less research about competition in state than federal elections. Since the first published work by Gary Jacobson, a leading scholar of congressional elections, it is generally accepted that the first "x" amount of money is more important to the challenger's campaign than a similar amount raised by an incumbent (Jacobson 1978 and 1980). This is because the incumbent begins most races with a huge advantage in name recognition and favorability. As the two candidates continue raising equal amounts, the challenger will become better known and better able to raise doubts in the voters' minds about the incumbent. Eventually the race will be fully competitive and equal amounts of new money will show a diminishing rate of return – although marginal spending could still make the difference between winning and losing. More money in a race – and especially more money for a challenger – is normally associated, therefore, with more competition.

It would be a mistake to conclude from this, however, that more money is *causing* more competition. It is clear that if all candidates were to receive an initial cash infusion, more candidates would be able to get their campaigns started. But beyond the initial startup, the variables become intertwined and mutually reinforcing. (Political scientists refer to this as endogeneity.) Quality candidates – ones with political experience, engaging personalities, and strong stories to tell – are more likely to have the skills to make a campaign more competitive. They also will be better able to make a more persuasive pitch to potential donors. This connects the money-competition relationship to the quality of the candidate, making all of the relationships intertwined rather than one-directional. In addition, quality candidates are less likely to give up a promising political career to run a losing campaign in a district that is secure for the opposition party, or to enter a primary against a strong, well-liked incumbent. Candidates with the proven ability to raise money are likely to be looking for a competitive situation before jumping in. (For a further explanation of this point see Milyo 2013.)

The logic so far would apply whether the sources of a candidate's fund were public or private. If we assume the same logic applies to state legislative elections, it would follow that giving an equal amount to all candidates in a state election will be more important to less well known candidates and that the first dollars will be the most important. The first dollars should help more candidates to make an initial pitch; beyond that point the money will become less determinative for competition.

The empirical research so far supports these expectations. Because testing the effects on competition requires a large sample of races, most of the published research so far has been on the full public funding states of Arizona, Maine and Connecticut. Competition is considered along three dimensions, with not all appearing in all studies: (1) whether two or more candidates run in an election, (2) the winner's margin of victory and (3) the percentage of incumbents defeated.

The General Accounting Office (GAO) found in 2003 that the number of contested primary elections (with two or more candidates running) increased after the introduction of public financing in Arizona, but not in Maine. It found little consistent effect on margins of victory and no effect on incumbent reelection rates (GAO 2003). In 2010 the GAO (renamed the Government Accountability Office) repeated the study and found no difference in the number of contested races or percentage of incumbents defeated. It did find a significant decrease in margins of victory but said that it was reluctant to conclude much about the direct effect of public financing because of a lack of data to let it control for candidates' quality or popularity (GAO 2010). In contrast with the GAO's 2010 finding and consistent with the GAO in 2003, the New York City Campaign Finance Board associated the presence of public financing with the fact that three-quarters of the City Council races in 2013 had contested primaries (NYCCFB 2014).

Kenneth R. Mayer's 2013 review of the scholarly literature on the effects of full public funding in all three Clean Elections states is consistent with what we have learned from congressional studies and from the GAO reports. Mayer wrote:

> The results show that clean elections laws in particular have increased some measures of competitiveness in state legislative elections, primarily by reducing the number of uncontested seats and slightly reducing the incumbency advantage (Mayer, Werner, and Williams 2004; Malhotra 2008; Werner and Mayer 2012). There is little evidence that contested elections are more competitive or that incumbent reelection rates have declined. (Mayer 2013).

Primo, Milyo and Groseclose (2006) reached similar conclusions with respect to gubernatorial elections across a wider variety of public financing programs, as did Jeffrey Krause (2011) for New York City.

From the research so far, therefore, we expect public financing to help more people get started, or (as in in the presidential case) to help get over an early hurdle. Beyond that point, however, we do not expect to see much of an effect on margins of victory or incumbent defeats. The supporters of public financing could point to this as a success. For one thing, as one study notes, "There is no merit in the argument that public funding programs amount to an incumbent protection act" (Mayer, Werner and Williams 2006). More races are contested but the presence of public money neither decreases nor increases the other measures of competition. Having established no harm together with more contestation, the advocates should be willing to let the case for public financing rest on its other expected effects. At the same time, they can reassure incumbents that it does not measurably increase the odds of an incumbent's defeat.

DOES CITIZEN FUNDING ATTRACT A MORE DIVERSE POOL OF CANDIDATES?

Public financing is often put forward on the grounds that it will attract a more diverse pool of candidates into the political arena. Since state legislatures in the United State typically have a higher proportion of white, male, upper income members than the general population, this would be an important effect if it could be substantiated. Advocates say that the evidence is strong. For example, the Center for Governmental Studies in 2003 stated that "public financing increased the number and diversity of candidates for public office." As one piece of evidence, it cited a near-tripling of the number of Native American and Latino candidates running for office in 2000 in Arizona (CGS 2003: 8-9). Similarly, Common Cause rejected a 2010 GAO finding of no clear evidence with the following:

> Clean Elections has put more, and more diverse, candidates on the ballot…. Data from Arizona, Maine and Connecticut … suggest a positive impact on the number of women and minority candidates, and participation rates have been high among those demographic groups. Diversity among candidates, especially ethnic minorities, has more than doubled in Arizona, while in Maine the number of women candidates and legislators has increased by 18%. The number of women elected to Arizona offices covered by public financing jumped from 25 in 2002 to 34 in 2006, and the number of racial minority candidates running for Arizona offices covered by public financing went from 13 in 2000 to 37 in 2006 (Common Cause 2010).

There is no peer reviewed research to substantiate or refute the advocates' claims. The one unpublished paper to date is limited to Connecticut (La Raja 2009). The author's conclusions are skeptical; the methodology is sophisticated but the results less than definitive. The paper's abstract presents the findings as follows:

> Using new data from a survey of community leaders in three states, it [the paper] examines factors that influence the decision to run for state representative, looking especially at whether the availability of public funds induces strategic candidates to enter a race. The findings indicate that public subsidies are likely to encourage ambitious and quality candidates, but not necessarily those who are most likely to win. Moreover, public subsidies may encourage those who face high "psychic" costs of soliciting campaign contributions, but not necessarily those who have difficulty raising money. There is no evidence that public subsidies will boost candidacies from those in under-represented groups such as women, minorities and low income individuals (La Raja 2009).

The paper's findings leave us unwilling to accept the advocates' claims without further evidence. However, the paper's methodology leaves us equally unwilling to accept the opposite. The paper used an approach that has become accepted in political science research about candidate emergence. Since the researcher is trying to learn about the decision to run for office, it is vital not to limit the analysis to candidates who have already decided to run. One must also survey potential candidates who might have thought about running and decided not to do so. The project on congressional candidate emergence pioneering this method identified concerns about raising money as one of the important deterrents to running (Maisel and Stone 1997; Maisel, Stone and Maestas 2001). The issue being addressed here is whether the need to raise money disproportionally deters female, minority and low-income candidates. The paper says not, but it turns out that 85% of the respondents to the paper's survey had held some other public or elected office. As a result, it is difficult to see the results as telling us much about potential candidates from other walks of life. We already know that public money results in more candidates appearing on the ballot and fewer uncontested races. It is reasonable to hypothesize that public funding might draw in some not-yet-political figures holding positions of leadership and trust in the local community. There is anecdotal evidence to support the claim, but the research does not yet settle the issue.

DOES CITIZEN FUNDING AFFECT HOW CAMPAIGNS ARE CONDUCTED?

As with the previous question about candidate emergence, the expectation lying behind the question is reasonable. We expect that candidates who receive full public financing will spend more time interacting with constituents and less time out of the district raising money. This time the one serious academic study of the subject seems to support the claim instead of undermining it. However, as was the case with candidate emergence, getting under the study's hood leaves us with too many doubts to accept the conclusion. Michael G. Miller's *Subsidizing Democracy* (2014) is a thoughtful analysis of Clean Elections programs. We return to the author's innovative work on voter participation later. One of the book's chapters reviews a survey in which Miller asked legislative candidates to keep a log of how they spent their time during the first week of October. The survey went to publicly and privately funded candidates in three states with full public funding (AZ, ME, CT), three with partial public financing (WI, MN, HI), and twelve with only private financing (AK, CO, DE, IA, MI, MO, MT, NM, OH, RI, VT, WV). Because the response rates were too low to analyze the data for each state separately, Miller then pooled his results into the three categories just described.

After pooling the states, Miller found that candidates who accepted full public funding spent no time raising money and more time making direct contact with voters than other candidates. The finding that compared candidates with and without public financing in the same state was unsurprising but potentially important. Miller also found the candidates in full public funding states to have the advantage over ones with no public funding, as well as over states with partial funding. More importantly for future policy, he found almost no difference between states with partial public funding and no public funding.

But when you disaggregate the pooled states, the picture does not look the same. Among the Clean Elections states, candidates in Arizona spent less time on field activities than ones in Maine or Connecticut. That is not a problem by itself. But all three of the states with partial funding – Wisconsin, Minnesota and Hawaii – also had candidates spending more, not less, time on direct voter contact than in Arizona. Even more surprisingly, candidates in six of the nine states with no public money (AK, DE, MO, MT, NM, RI, VT) spent more time on direct voter contact than *publicly* funded candidates in Arizona. Only three privately funded states came in lower. In addition, publicly funded candidates in Maine had the most voter contact time but traditionally funded candidates in Maine were second. Something more must be going on than the difference between full public funding, partial, and traditional. The variation among states is too wide for the explanation to suffice.*

These details are worthwhile because this is not just a technical issue. It has important policy implications. One must think seriously about what is driving those differences to know the real impact of public financing. It seems likely the impact will vary with local conditions. Also, some of the partial public financing systems do not quite fit the survey's time log distinctions. New York City's matching fund system and Minnesota's rebates are designed to give candidates incentives to *combine* their fundraising and voter contact into the same meeting. Anecdotally, combining the efforts seems to

**This publication has been corrected from the originally distributed version, which contained a mistaken sentence regarding the book's regression analysis.*

work for legislative offices in modest-sized districts. For future program design, it would be important to know whether the same dynamic works for all offices or in different constituencies. The differences among the states' programs turn out to be more nuanced than the big labels suggest. This will become crucial when policy makers get to the point at which they are making choices about program design.

HOW DOES CITIZEN FUNDING RELATE TO INDEPENDENT SPENDING?

This is really a two-part question. Does public financing *stimulate* independent spending? The answer to this one is no. Spending limits may be associated with independent spending in *competitive* races, but the competition is what stimulates the spending. In fact, contribution limits combined with competition will also stimulate independent spending with or without public financing. In state elections the major independent spenders so far have been national party-related organizations, such as the Republican and Democratic Governors Associations. In states with no party contribution limits, they sometimes contribute to the state party committees which in turn engage in independent spending. In states with limits on contributions to the parties, the RGA and DGA spend independently or in coalitions, with their independent spending running parallel to the parties. This happens whether or not the state provides any public financing for candidates (Hamm, *et al*. 2014).

The states are not yet experiencing single-candidate Super-PACs. Our research has shown that in congressional elections, these single-candidate entities so far have been dominated by incumbents. (Boatright, Malbin, and Glavin 2015). There is a strong argument in favor of strengthening the rules governing single candidate PACs in any context, but the arguments are particularly powerful when a candidate joins a voluntary public finance system. It would be hard to explain using public money as an incentive to raise money from small donors if the candidates simultaneously were encouraging political allies to raise unlimited contributions through a Super-PAC.

The second part of the independent spending question is whether or how a candidate can cope. We noted earlier that no public funding system can accomplish its goals unless enough candidates come into the system voluntarily. Candidates will come in only if they feel comfortable with the answer to this question about independent spending. Independent spending will happen, whether or not there is public financing. The question is whether the candidate is better off with the public funds. And since taking the funds under most of the current proposals involves lower contribution limits, the question is really about the balance between how much money the candidate gets from the public funds versus how much he or she loses with the contribution limit. It is not that difficult to structure the balance in such a way that almost all candidates will be better off financially taking the public funds. But that may not convince a candidate that he or she can respond to last-minute expenditures from outside sources. The contribution limits would have to allow for repeat contributions when they are needed during a campaign's closing weeks, and the candidates would need to believe that the grassroots volunteer and donor networks generated with small donor incentives would help them be well positioned to respond with a locally-based campaign against outside money. Another possibility might be to loosen the restraints on parties' support for their candidates in races with independent expenditures.

EFFECTS ON DONORS AND CITIZENS: REPRESENTATION, POLARIZATION, PARTICIPATION

We turn now from candidates and campaigning to citizens. One theory behind citizen funding is that changing the incentives will bring more (and more diverse) small donors into the system. If the numbers are large enough, they will make up a financial constituency that will at least help counterbalance those who give more. Of course, small donors may not financially outweigh the mega-donors who underwrite independent expenditures in highly visible, competitive races. The theory, however, is that the independent expenditures will occur in competitive races with or without public financing, and that stimulating candidates to build up small donor financing capacity can provide the basis for local networks of volunteers that will in turn give the candidate a powerful force to bring to bear against outside expenditures. For the theory to work, however, the process involves several steps. We address each of these, as well as additional benefits claimed for small donor fundraising.

DO MATCHING FUNDS INCREASE THE NUMBER OF PEOPLE WHO CONTRIBUTE?

There are very few jurisdictions with operating programs designed specifically to increase the number and importance of small donors. The best established such program is New York City's. The current author was a co-author of the only peer reviewed study to date of that system's effect on donor participation (Malbin, Brusoe and Glavin 2012). It established that the system was responsible for increasing both the number and proportional importance of small donors. Table 5 shows that the number of people who contributed to City Council candidates more than doubled across all individual donor categories in 2001, the first election with multiple matching and term limits. Because of multiple matching, candidates had a strong incentive to mobilize the small donors whose proportional importance (including allocated matching funds) leaped to 68% of the candidates' total receipts. Interestingly, the later shift from a 4:1 to a 6:1 matching ratio had little additional impact.

New York City's system increases the number and proportional role of small donors.

Table 5. EFFECT OF MULTIPLE MATCHING ON IMPORTANCE OF SMALL DONORS

NEW YORK CITY COUNCIL ELECTIONS OF 1997, 2001, 2009

	Individuals Whose Contributions Aggregated to …			Organizations	
	$1-$250	$251-$999	$1,000 or more	Non-party	Party
1997 City Council					
Final election with 1:1 match for first $1,000					
# of donor-candidate pairs	23,999	1,855	615		
% of candidates' money from these donors, including allocated matching funds	39%	18%	16%	25%	2%
2001 City Council					
First election with 4:1 match for first $250; term limits					
# of donor-candidate pairs	58,478	4,354	1,375		
% of candidates' money from these donors, including allocated matching funds	68%	16%	10%	2%	4%
2009 City Council					
First election with 6:1 match for first $175					
# of donor-candidate pairs	47,719	3,509	1,798		
% of candidates' money from these donors, including allocated matching funds	64%	13%	16%	6%	0%
SOURCE: Malbin, Brusoe and Glavin 2012, p.8					

An important new piece of research offers a strong basis for rejecting one common explanation for the increase in small donor participation, while heightening the odds for another. Donald P. Green and his colleagues conducted randomized field experiments during New York City's 2013 elections, to test the effects of nonpartisan messages about the city's six-to-one matching funds (Green, *et al*. 2015). They discovered that informing respondents the city would match their contributions did *not* increase their giving to a statistically significant extent. (The comparison group was given otherwise identical information but not told about the matching funds.) It is commonly suggested that matching funds work because voters are reacting directly to knowing their money is worth more. This experiment throws cold water on that idea.

Of course, what is missing from the experiment is the candidate. The non-partisan messages spoke about the importance of giving, but missing was the emotional appeal. That may be as far as a non-partisan, academic research enterprise can go, but one should be aware of what this is missing. Candidates do not simply speak about the multiplier effect of matching funds. The candidate couples this with a passionate appeal to donors about why matching is important *in this case*. Since we know the number of givers has gone up, this experimental finding makes it likely that the program is working indirectly, through the candidate-mobilizer. By multiplying the contribution's value, the matching program gives the candidate a stronger motive to devote the time and money needed to find these new donors. We shall see in the discussion of tax credits that the same point applies there: where the law encourages parties or PACs to be small donor-mobilizers, they have used the incentive effectively to produce results.

WHAT IS THE RECORD OF TAX CREDITS AND REFUNDS?

As noted in Table 3 at the beginning of this report, six states offer modest tax credits, tax deductions, or other refunds for political contributions. Arkansas, Oregon and Ohio offered a credit for the full value of a contribution up to $50 per person. Virginia offers half of a contribution's value, with a maximum credit of $25. Montana offers a $100 deduction against income rather than a credit. The sixth state, Minnesota, provides for a refund outside the tax system of up to $50 per donor. Because it uses a refund rather than a tax credit, funds get back to donors more quickly in Minnesota than other jurisdictions. The federal government also offered tax incentives for political contributions from 1972 through 1986.

Because $50 refunds or credits allow small donors to give what amounts to a "free" contribution, it was thought the provisions would stimulate more small donors to give. The research shows mixed results. The most complete descriptive account is David Rosenberg's published in 2002. According to Rosenberg, an average of 4.9% of tax filers claimed the federal tax credit in the years from 1980-1986. In the states, CFI's review of the most recent tax year available that was also an election year shows that the credit or deduction was used by about 6.7% of filers in Oregon, where contributions to PACs may result in a credit. It was also used by 2.2% of the filers in Montana, 1.2% in Ohio, 0.8% in Arkansas and 0.1% in Virginia. In Minnesota, 2.3% of the state's adults received a political contribution refund in 2008 (the most recent election year available because the program was suspended in 2010 and 2012). Only in Minnesota did Rosenberg's before-and-after figures suggest that the program resulted in an increase in contributions by small donors (Rosenberg, 2002). Ramsden and Donnay's single-state study of the Minnesota supported of the same conclusion (2001).

Ramsden and Donnay also wrote about the importance of citizens' knowledge and the importance of candidates and parties as the conveyers of that knowledge. As an example, CFI studied Ohio, which at the time of the study could almost be seen as a case study in how not to administer a successful program. At the time we were writing, taxpayers in Ohio were eligible to claim the credit only if they used the long version of the income tax form and only 0.5% did so. But the people most likely to be influenced by the credit's existence were low-income taxpayers for whom $50 might be more meaningful and who typically file the short form for their income taxes. In addition, the state had done almost no public education about the credit, thereby limiting knowledge of it to those who might read the instruction manual for tax filers. That left the entire public education job up to the candidates, parties, and tax accountants. But with the potential market limited to long-form users, the candidates found it more profitable to spend their time raising larger contributions. The result has been consistently low usage. In light of this record, Boatright, Green and Malbin (2006) conducted an experiment to see whether use of a political tax credit would increase if citizens were simply informed of it with a nonpartisan series of messages. The experiment showed that residents in the randomly chosen treatment locations were in fact more likely to use the credit. The results were statistically significant, but not strongly so.

These states remind us of the importance of rules and implementation practices. If the goal is to stimulate small donors of average incomes, then forms need to be geared toward those filers. In Montana, where the deduction is available only to those who do not use the standard deduction, 50% of the deductions in 2010 were used by the top 20% of the income distribution. If the goal is to reach lower on the economic ladder, then Minnesota's immediate refund program is more promising than a delayed tax refund. And if the goal is not to use the tax code to reward upper income donors who already give, then an income cap like the new one in Oregon seems an essential part of the mix. Finally, the research so far is pointing to the potential participant's lack of knowledge as a key issue, while the record in Minnesota and Oregon tell us that the candidate or organization slated to receive the money is the messenger most likely to produce meaningful results.

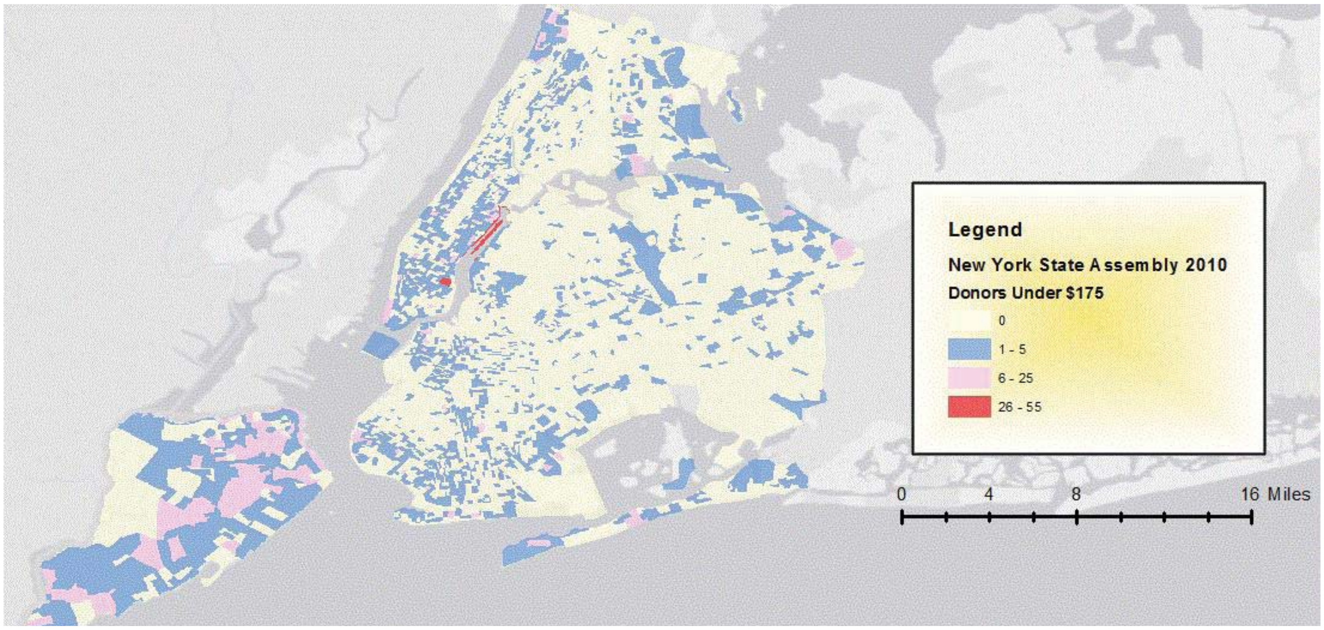
DO MATCHING FUNDS AFFECT THE INCOME, RACIAL OR ETHNIC MIX OF THE DONOR POPULATION?

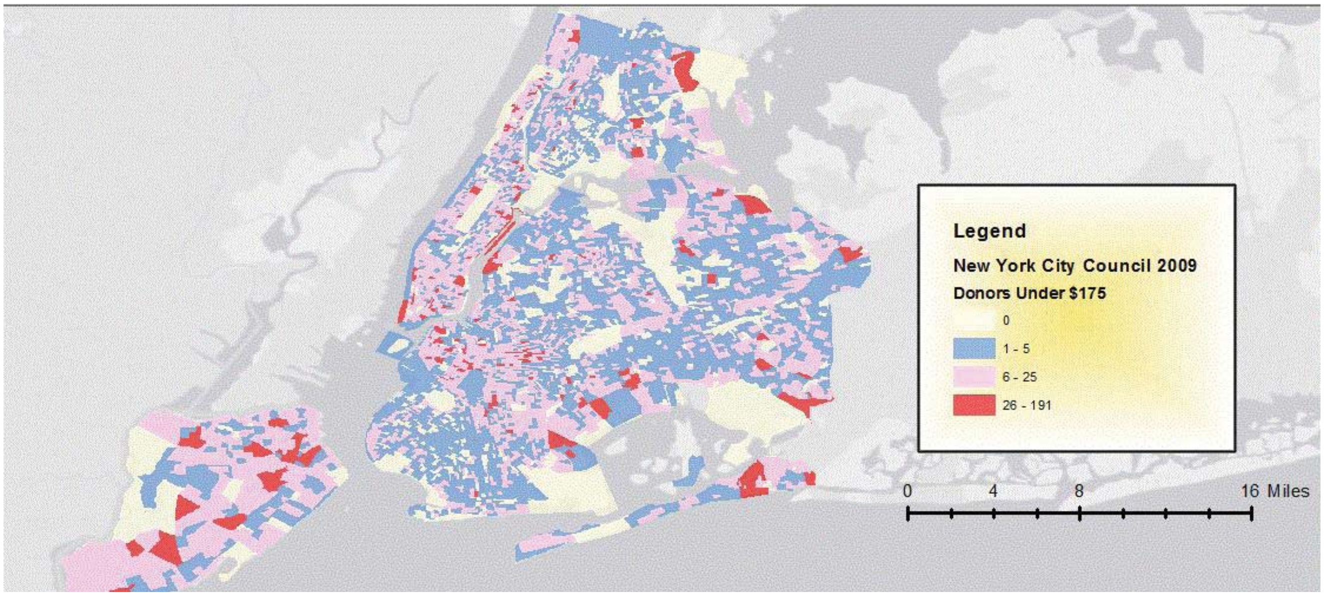
The difference was stark. There was much more small-donor participation in minority and low income neighborhoods.

As with the earlier question about matching funds, the only good evidence so far is from New York City. We have already established that the city's program is associated with a significant increase in the number of small donors. It is not possible to know demographic or income information about the donors individually, but it is possible to know something about the neighborhoods in which they reside. The Campaign Finance Institute used census block group data for this analysis. According to the Bureau of the Census, a census block group will typically contain between 600 and 3,000 residents with an optimal size of 1,500. This is about the equivalent of one city block in a densely populated city with apartment houses. In the municipal elections of 2009, donors who gave \$1-\$250 lived in 89% of the city's census block groups, while donors who gave \$251-\$999 lived in 29% and ones who gave \$1,000 or more lived in only 14%. Another way of putting this is that almost everyone in the city lived near a small donor; most people did not live near a large donor. Not surprisingly, the small donors lived in neighborhoods where the average income, poverty level, racial composition and education were the same as the as the whole city's, while those who gave \$1,000 or more came from wealthier and less racially diverse neighborhoods (Malbin, Brusoe and Glavin 2012, p.13).

For the next step in the analysis CFI partnered with the Brennan Center to compare the donors who gave to candidates running for the City Council in 2009 with donors to the 2010 candidates from New York City for the New York State Assembly (Genn *et al*. 2012). We compared the two because the candidates' constituencies were roughly the same size and the candidates spent roughly the same amount to get elected. The potential donor pools available to the two sets of candidates were identical. The major difference was that candidates for the City Council had their contributions matched (6:1 for the first \$175); there was no matching fund program for the Assembly. The two sets of \$1,000 donors came from more or less the same neighborhoods. But the presence or absence of matching funds produced remarkably different patterns in the \$1-\$175 range. Figure 2 shows the Census Block Groups for small donors to candidates for the State Assembly (top) and City Council (bottom). Census block groups in pink housed more than five donors, ones in red housed more than 25. The difference is stark.

FIGURE 4. DONORS WHO GAVE $1-175 TO CANDIDATES FOR THE NEW YORK STATE ASSEMBLY (2010) AND CITY COUNCIL (2009) BY CENSUS BLOCK GROUP.





To bring home the point more clearly, the report took a more fine-grained look at three neighborhoods with high minority populations: the largely African-American Bedford-Stuyvesant in Brooklyn, Chinatown in lower Manhattan and the largely Hispanic neighborhoods of Northeast Manhattan and South Bronx. Bedford-Stuyvesant appears in Figure 5 below, but the results were similar for all three neighborhoods. Once again, the Assembly is shown on top; the City Council is on the bottom.

FIGURE 5. DONORS FROM BEDFORD-STUYVESANT WHO GAVE $1-$175 TO CANDIDATES FOR THE NEW YORK STATE ASSEMBLY (2010) AND CITY COUNCIL (2009).

The maps speak for themselves. To quote from the report's executive summary:

> *Twenty-four times* [as many] small donors from the poor and predominately black Bedford-Stuyvesant neighborhood and the surrounding communities gave money to candidates for the City Council than for the State Assembly. For Chinatown the advantage was *23 to 1*. In the heavily Latino neighborhoods of Eastern Manhattan and South Bronx, it was *12 to 1*. The data support the claim that small donor matching funds help bring participants into the political process who traditionally are less likely to be active. (Genn et al. 2012, p. 4)

DO SMALL DONORS MAKE THE SYSTEM MORE MORE POLARIZED?

There is a significant body of work claiming that the issue priorities of the donors who currently dominate campaign funding do not match the issue priorities of most voters (Bartels 2008; Gilens 2012; Page, Bartels, and Seawright 2013). That does not automatically mean, however, that bringing more small donors into the system, no matter how done, will make the system representative. The major negative comment one hears about small donor matching systems is that they could potentially make an already polarized political process even more polarized. However, these claims are based on extrapolations that do not transfer directly.

One scholarly paper on the polarization side of the debate is a recent unpublished manuscript by Andrew B. Hall. Hall finds that candidates who rely on funding from access-oriented interest groups tend to be less ideological than ones who rely on contributions from individuals. Since Clean Elections states give access-oriented groups no chance to contribute to participating candidates, he sees the absence of access-oriented funding as explaining why office holders have become more extreme (Hall 2014). On the other side is a recently published journal article by Seth Masket and Michael G. Miller about Arizona and Maine (Masket and Miller 2014). Unlike Hall, Masket and Miller consider the roll call voting records within each state, comparing legislators who came into office with full public finding to those who came in with traditional funding. In Arizona, the authors found Democrats who took public funding to be more extreme than those who took private funds, but they found the opposite to be true for Republicans. For Maine, there was practically no difference. The authors conclude, "In no case do they [the data] demonstrate either a substantively large or statistically significant relationship between entering the legislature with public funding and ideological extremism" (p.11).

With respect to candidates, the evidence for extremism often relies on the fact that the top few recipients of small contributions in recent elections to the U.S. House of Representatives were incumbents who had been on the ideological edges of their parties and had been frequent guests on cable TV (Bonica 2011). But there is a major problem with stopping at the top few. The next dozen in the rank order tended either to be top party leaders or candidates who were in competitive races touted by national bundling organizations. Indeed, the top twenty-five incumbents in the small-donor ranking were split in half between those who were above and below their respective parties' median ideological scores in their roll call voting (Malbin 2013). Again, the evidence did not support extremism. Finally, a series of CFI surveys in state elections in 2006 showed that small donors fell between large donors and the general public in their issue positions, with the large donors being *more* extreme (Joe et al. 2008).

The evidence is weak for calling small donors polarizing.

It is of course possible to imagine a small donor matching fund system that would favor candidates whose positions tended toward the extreme. It is worth noting, for example, that the candidates in the above state surveys were mostly raising their small contributions through face to face meetings or telephone calls, not through national, Internet-based intermediaries. In general, issue activists are more liberal or conservative than access-seeking donors. Many supporters of public financing would consider it good if the influence of access seekers were to go down. But to the extent that the supposed extremism of individual donors is an issue, supporters might be well advised to devise matching systems that favor local fundraising over national networks of issue activists.

DOES CITIZEN FUNDING ENHANCE VOLUNTEERING, VOTING, OR OTHER FORMS OF PARTICIPATION?

It is important not to limit our thinking about small donors strictly to the role of their money. Twenty years ago, Rosenstone's and Hansen's classic study of participation noted that even though many fewer contribute money than vote, even fewer contribute their time by volunteering (Rosenstone and Hansen, 1993, 42). But consider how differently donors and volunteers are recruited today. For donors who give large amounts, giving continues to take place within social networks as it did twenty years ago. But the context of small donor giving has changed markedly. Twenty years ago, a typical small donor to a national campaign was responding to direct mail in an isolated setting. Today, the newer methods for recruiting small donors often begin within peer-to-peer networks. Modern communications also enables a different kind of communication between candidates and their supporters.[1] In a recent conversation with the author, one person responsible for President Obama's online fundraising said that the main purpose for seeking small initial contributions was to get the donor's contact information and then go back for repeat contributions and volunteering. Survey research makes it clear that giving a small contribution and volunteering are strongly associated with each other. Anecdotally, there is good reason to believe that a small contribution can be a gateway toward activism for many donors. However, there is not yet any published research to let us sort out the extent to which contributing small amounts leads to activism, or vice-versa. However, it does seem clear that direct campaign communications can stimulate both.

It is important not to think only about money. Giving and volunteering are closely associated.

It is often asked whether public financing stimulates voter turnout. Michael G. Miller's book about Clean Elections states used an interesting method to examine this point. Miller noted that races below the top of the ticket typically experience some drop in participation. By focusing on what he called the "roll-off" in voting, Miller was able to control for district-specific characteristics that often influence voting. He found that in races with at least one publicly funded candidate there was less of a roll-off in state legislative elections than in districts with only privately funded candidates (Miller 2014). Political scientists assume that roll-off normally occurs when the voter has no knowledge of the candidates or basis for evaluating them. It is reasonable to assume, therefore, that the finding means that in races with a publicly funded candidate, the candidate had enough of a financial floor under the campaign to give the voters a basis for reaching a decision.

[1] The preceding sentences first appeared in Malbin, 2013.

EFFECTS ON GOVERNING AND POLICY

Some of the largest claims about the potential effects of citizen funding are about the government process or the content of policy. The claims are plausible and they often have good stories or anecdotes behind them. (For examples, see Lessig 2011:41-88.) But the research nevertheless is more complicated.

In the early years of post-Watergate campaign finance legislation, scholars had a field day comparing PAC contributions with roll call votes, even though most scholars understood how tough it was to untangle the causal threads. (Were the donors supporting their past allies or were the donors buying support?) These 1970s studies came up with conflicting results. Generally, non-ideological and less visible issues seemed to show more of an effect, but the effects were neither large nor consistent. It is also important to note that the research was being done at a time when roll call voting meant something different that it does now that party voting is the norm. About 70% of the roll call votes in Congress in 2013 pitted a majority of one party against a majority of the other. This compares to a low of 27% and a high of 48% during the 1970's (Mann, Ornstein, and Malbin 2014). With party explaining so much of what is happening on roll calls today, there is little left over for contributions to explain once party and district are held constant.

This does not prove contributions to be irrelevant. It just means that the roll call is not the right place to look. For example, Richard Hall's and Frank Wayman's classic study showed a relationship between contributions and the amount of time a member chose to spend working in subcommittee on a specific bill (Hall and Wayman 1990). A recent randomized field experiment found members of Congress granting greater access to contributors (Kalla and Broockman 2014) although this study has been subject to interesting critiques (Victor 2014). The bottom line, however, is that the nexus for influence is likely to be subtle. As political scientist Lynda Powell has written:

> Roll call studies ignore much more likely pathways for the influence of contributions on legislation. A minor provision or even the wording of a single sentence in a bill may be of critical importance to a contributor. The Abramoff scandal in Congress focused attention on earmarks, but members have many other opportunities to structure the details of legislation to favor donors. Much of this activity occurs in committees and subcommittees when bills are written and revised. Equally important, looking at roll calls completely ignores the opportunities legislators have to block bills from coming to a vote in the first place (Powell 2013: 342; see also Powell 2012).

A roll call vote is not the right place to look for policy impact.

As difficult as it is to be precise about the relationship between contributions and policy, it is even more difficult to connect the presence of public funding sources to changes in policy. Kenneth Mayer summarized the scholarship on this point with these words:

> The literature on policy change and diffusion shows that most significant changes involve a complex amalgam of factors: policy streams, issue entrepreneurs, diffusion, interest groups and lobbying, mobilization, public opinion, path dependency, institutional capacity, bureaucratic politics. Campaign contributions may play a role in this process, but are likely (at most) only one piece of a much more complicated puzzle (Mayer 2013:377, internal citation omitted).

SUMMARY, WITH A CONCLUDING THOUGHT ABOUT PURPOSES AND POLICY CHOICES

Incentive programs don't accomplish all that is claimed. But what they accomplish can be quite significant – as long as one is modest about goals and careful about the design.

Table 6 (below) summarizes the conclusions in this paper so far. It is striking how many answers to our questions depend upon program details. This is not the place to examine the potential effects of detailed policy choices – such as threshold levels for qualifying, residency requirements or bundling rules. It is also not the place for general comparisons of one model (or one set of modifications) to others. These issues can be deferred for now. Decisions will vary by location or context. They also will vary with the weight one puts on the different goals a program is meant to accomplish. There will be no single "right answer" for all locations or offices, but it will be easier to find a comfortable answer that can be sustained if one is explicit about trade-offs.

Without going into them, however, it is clear that paying attention to the details will be crucial for policy makers to minimize unwanted consequences. General labels or concepts do not determine how policies will affect candidates or citizens in the real world. And no matter how well designed a law might be for the moment, it will never be enough to settle the details once and then walk away. Politicians will adapt; technologies will change. Maintaining broad support will be needed if the next policies are not to become as obsolete as those of the 1970s.

With all of these caveats, some major conclusions emerge from what we know now. Incentive programs do not accomplish everything their supporters have enthusiastically claimed for them. But what they accomplish can be quite significant, as long as one is modest about goals and careful about the design. We know that more races are contested, voters pay more attention to races lower down on the ballot, small donors can become much more important, and candidates can be given incentives to bring more diverse donors into the system. We have plausible reason to believe – but not yet the scholarship to demonstrate – that a more diverse collection of candidates can be persuaded to run, their behavior can change, campaign volunteering and citizen engagement can increase, and agendas ultimately may feel the effects. None of these outcomes can be assured. That will depend on design details as well as on circumstances. But the big conclusions are these: Today's incentives produce today's politics. Changing the incentives could change tomorrow's.

Table 6. PUBLIC INCENTIVES' EFFECTS

SUMMARY OF FINDINGS, BY TYPE OF SYSTEM (SELECTED SYSTEMS)

	Small Donor Matching Such as NYC, LA	**Full Public Financing Such as AZ, CT, ME**	**Tax Credits, Refunds** AK, MT, MN, OR, OH, VA	**Voucher**
Campaigns / Elections				
More Races Contested?	Yes	Yes		
Closer margins?	Most council candidates participate, therefore no "control" to allow testing. In the mayoral races heavily self-funded by Bloomberg, the publicly funded opponent was competitive.	No		
More incumbents defeated?	No	No		
More diverse candidates?	More minority elected officials. Attributable partly to citizen funding? Plausible, not proven. Qualifying threshold will affect.	Plausible, not proven. Qualifying threshold will affect.		
More time spent voter contact?	Plausible, not proven. More likely if residency requirement for some donors. NYC's matching funds are designed to give incentives to combine fundraising with voter contact.	Not proven. Mixed results in different states – ME has high voter contact for publicly and privately funded; AZ has very low.	Plausible, not proven. MN's rebates designed to give incentives to *combine* fundraising and voter contact.	
Candidate participation	High. Will depend on amount of funds	Dropped in AZ, ME. Stayed high in CT (more $)		
Stimulate IEs?	No. IE's are stimulated by limits + competition	No. IE's are stimulated by limits + competition		
Prevent candidates from defending against IEs?	Candidates need enough funding for a robust campaign.	Need enough for a robust campaign (CT).		
Donors, Citizens, Participation				
More small donors? Greater % of money?	Yes	No, although qualifying requirements can stimulate small donor contact.	Sometimes. Depends on implementation – voter education, ease of refund/credit	Plausible. Likely but not tested
Campaign volunteering?	Association shown. Some causation plausible, needs research.		Association shown. Some causation plausible, needs research.	
Effect on sustained citizen engagement?	Plausible; no research	Plausible; no research	Plausible; no research	Plausible; no research
More voter turnout?	No research	Yes, Less "roll-off" for lower races	No research	
Donors more diverse?	Yes. NYC study shows dramatic impact, from all parts of city.			
Lead to more polarization?	No evidence of this. Will likely vary with bundling, residency rules.	Scholars disagree.		
Policy Effects				
	Unclear.	Unclear.	Unclear.	Unclear.

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ABOUT THE AUTHOR

Michael J. Malbin, co-founder and Executive Director of the Campaign Finance Institute (CFI), is also a Professor of Political Science at the University at Albany, State University of New York. One of the country's leading scholars in this field, he has been writing extensively about money in politics for more than three decades, with emphases in recent years on the role of small donors, political parties, independent spending, and comparative state-federal research. His co-authored books include *The Day after Reform: Sobering Campaign Finance Lessons from the American States* (1998); *Life after Reform: When the Bipartisan Campaign Reform Act Meets Politics* (2003); *The Election after Reform* (2006) and *Vital Statistics on Congress* (revised 2014). Recent articles and reports (sole-authored or co-authored) include *Reform in an Age of Networked Campaigns (2010); Small Donors, Big Democracy: New York City's Matching Funds as a Model for the Nation and States* (2012); *Donor Diversity through Public Matching Funds* (2012); *An Agenda for Future Research on Money in Politics in the United States* (2013); *Small Donors: Incentives, Economies of Scale, and Effects* (2013); and *Independent Spending in State Elections: Vertically Networked Political Parties Were the Real Story* (2014). Before SUNY and CFI, he had been (in chronological order) a reporter for National Journal, a resident fellow at the American Enterprise Institute and held positions in the House of Representatives and Defense Department. Concurrent with SUNY, he has been a member of the National Humanities Council, a visiting professor at Yale University and a guest scholar at The Brookings Institution.

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202.969.8890 @CFInst_org www.CFInst.org

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1775 Eye St., NW, Suite 1150
Washington, DC 20005

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