

Reform in an Age of Networked Campaigns

How to foster citizen participation
through small donors and volunteers

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Executive summary

The political world has been arguing about campaign finance policy for decades. A once rich conversation has become a stale two-sided battleground. One side sees contribution or spending limits as essential to restraining corruption, the appearance of corruption, or the “undue influence” of wealthy donors. The other resists any such limits in the name of free speech.

The time has come to leap over this gulf and, as much as possible, move the disputes from the courts. Preventing corruption *and* protecting free speech should *each* be among the key goals of any policy regime, but they should not be the only objectives. This report seeks to change the ongoing conversation. Put simply, instead of focusing on attempts to further restrict the wealthy few, it seeks to focus on activating the many.

This is not a brief for deregulation. The members of this working group support limits on contributions to candidates and political parties. But we also recognize the limits of limits. More importantly, we believe that some of the key objectives can be pursued more effectively by expanding the playing field.

Interactive communications technology potentially can transform the political calculus. But technology alone cannot do the trick. Sound governmental policies will be essential: first, to protect the conditions under which a politically beneficial technology may flourish and, second, to encourage more candidates—particularly those below the top of the national ticket—to reach out to small donors and volunteers.

We focus on participation for two reasons. First, if enough people come into the system at the low end there may be less reason to worry about the top. Second, heightened participation would be healthy for its own sake. A more engaged citizenry would mean a greater share of the public following political events and participating in public life. And the evidence seems to suggest that giving and doing are reciprocal activities: volunteering stimulates giving, while giving small amounts seems to heighten non-financial forms of participation by people who feel more invested in the process.

For these reasons, we aim to promote equality and civic engagement by enlarging the participatory pie instead of shrinking it. The Supreme Court has ruled out pursuing equality or civic engagement by constraining speech. But the Court has never ruled out pursuing these goals through policies that do not constrain speech.

This report will show how to further these ends. The first half surveys current conditions; the second contains detailed recommendations for moving forward.

The report begins with new opportunities. The digital revolution is altering the calculus of participation by reducing the costs of both individual and collective action. Millions of Americans went online in 2008 to access campaign materials, comment on news reports, watch campaign videos and share information. The many can now communicate with the many without the intervention of elite or centralized organizations. This capacity has made new forms of political organizations easier to create, while permitting the traditional organizations—candidates and parties—to achieve unprecedented scales of citizen participation. No example better illustrates this potential than the Obama campaign of 2008, which is discussed at length in the full report.

What should be done?

Yet, despite the successes of 2008, the authors of this report remain skeptical that technology's best promises will be self-fulfilling. For one thing, the communications environment of 2008 was in some ways a lucky accident. The conditions underlying this accident are bound to change along with communications platforms. The continuation and dispersion of the Internet's promise therefore will require governmental monitoring and support. The report's main recommendations accordingly begin with ones focused on [using regulation to foster open access to communications, to lower the information costs of participation, and to improve transparency.](#)

But we also remain skeptical that the “small-donor revolution” will be replicated down the ticket without support. Our skepticism is fueled by the results of new Campaign Finance Institute analyses of state and federal campaign finance records. Tables in the full report show that the typical congressional or state candidate is still being bankrolled by thousand-dollar donors and interest groups, with only a trickle coming in from those who give small amounts.

To counter this, we recommend government incentives to engage and expand the role of small donors. Specifically, we recommend [partial public financing](#) for elections at all levels, in primaries as well as general elections.

- We favor systems in which public money goes to participating candidates in the form of [multiple matching funds, but only for small contributions.](#)
- [Lower contribution limits should replace spending limits](#) as a condition of eligibility for the receipt of public funds. There should also be a maximum ceiling on the amount of public money a candidate may receive.
- As a supplement, we also support [tax credits or rebates targeted at lower-income donors.](#)

Finally, to improve accountability and enhance the role of political parties in competitive elections, we support [unlimited coordinated party spending](#), but the spending must be paid [out of funds raised from small donors.](#)

Recommendations

The following is a complete list of the report's recommendations, together with a page number for the full report's discussion of each.

Ensuring open and accessible communications and information

- **Affordable broadband:** The promise of greater participation through digital communications will not be fulfilled unless everyone has access to affordable broadband. The FCC and Congress should redouble their efforts to expand broadband capacity and access throughout the nation. As under current law, civic engagement and participation should remain key considerations. The goal should be universal free or low-cost broadband access. (See page 30.)
- **Carriers must provide access for political speech:** Government activities and regulations should ensure that all carriers and service providers offer full access, without discrimination based on content, to political and issue speech and solicitations. This access should be available on the same basis and rates as the provider offers to its most favored commercial customers. (See page 30.)
- **Make it easier for citizens to access all election-related public information:** The federal government should establish and maintain a website for citizens that would serve as a centralized location for election-related information. (See page 31.)

Improving transparency

- **Real-time and downloadable electronic disclosure:** All mandatory disclosure reports required under federal or state law should be filed and reported electronically to the relevant disclosure agency and made available in real-time to the public, in readily accessible, manipulable, downloadable data files as well as through user-friendly web-based formats. Electronic filing requirements should apply to all federal and state candidates, party committees or PACs with more than *de minimus* financial transactions, as well as any other committees or entities required to file disclosure reports at the federal or state level. (See page 32.)
- **FCC advertising logs through the Internet:** Any radio or television station that broadcasts political advertisements should be required to file its advertising logs electronically with the FCC. This information should be available on a real-time basis through a database maintained by the FCC and posted on the Internet. (See page 33.)
- **Single disclosure website:** All electorally relevant material about political spending that is required to be disclosed under current law to the FEC, FCC, Department of Labor or Internal Revenue Service should be drawn together on a single website in a format easily accessible to all citizens. (See page 33.)

- **Free software:** States and the federal government should provide free filing software. (See page 33.)

Refining contribution limits

- **Limits on contributions to candidates:** The current federal limit for individual contributions to candidates seems appropriate, as does the national median for states. States without limits should establish them, and those with ceilings above the median should adjust their limits downward. (See page 34.)
- **Limits on contributions to political parties:** States should place (and the federal government should maintain) limits on all contributions to political parties, PACs and legislative campaign committees, including all soft money accounts. (See page 36.)

Redefining public funding

- **Multiple matching funds for small contributions:** Public financing should be provided to candidates in the form of multiple-dollar matching funds for small contributions from individual donors. This matching funds approach should be used in both primary and general elections. (See page 40.)
- **Lower contribution limits should replace spending limits:** Lower contribution limits should replace spending limits as a condition of eligibility for the receipt of public funds. (See page 41.)
- **Early money:** Public money should be available to candidates as soon as they qualify. (See page 43.)
- **Qualifying threshold:** Candidates should be required to meet a reasonable qualifying threshold in order to be eligible to receive public funds. (See page 44.)
- **Funding maximums:** Candidates participating in a public funding program should be subject to a maximum ceiling on the total amount of public money that they may receive. (See page 45.)
- **Tax credits or rebates:** Tax credits or rebates (with income caps) should also be used to enhance participation by small donors. But this option should not be a substitute for a matching funds program. Where multiple matching funds are available, individuals should be eligible for a 50 percent rebate on small contributions. Where multiple matching funds are not available, a 100 percent rebate should be provided. (See page 46.)

Enhancing party-candidate relations and electoral accountability

- **Unlimited coordinated expenditures for political parties from small-donor contributions:** National party committees should be allowed to make unlimited coordinated expenditures in support of candidates from funds raised from small donors who give an aggregate of \$200 or less. (See page 48.)

PART I:

New communications, new agenda?



Introduction

The political world has been arguing about campaign finance policy for decades. Unfortunately, what was once a rich conversation has devolved into a two-sided battleground, with the debate’s underlying structure looking much as it did in the 1970s. One side argues that restraining the role of money through contribution or spending limits is essential to restraining corruption, or the appearance of corruption, or the “undue influence” of wealthy donors. The other side resists any such limits in the name of free speech. Despite dramatic changes in the political world, and despite some court cases that have been coming down on the speech side of these debates, the arguments on each side remain largely unchanged.¹

The time has come to leap over this gulf and, as much as possible, move the dispute from the courts. Each of the old perspectives contains insights, but each is also partial. Preventing corruption and protecting free speech should each be among the key goals of any policy regime, but they should not be the only objectives. This report seeks to change the ongoing conversation. Put simply, instead of focusing on attempts to further restrict the wealthy few, it seeks to focus on activating the many.

The report is not a brief for deregulation. Its co-authors support limits on contributions to candidates and political parties. But we also recognize the limits of limits. Contributions may be limited, but even before the most recent court cases were decided, it was clear that the Constitution protected independent spending by wealthy individuals, parties, and political committees.

As a result, restraint-based approaches do not substantially reduce participation by the determined wealthy, nor do they have a major effect on the competitiveness of election campaigns. Thus, even though we consider some limits important, they cannot resolve the key questions about equality, participation and competition—no matter where the Courts may draw the precise constitutional lines.

This report, therefore, seeks to redirect the public’s attention toward expanding the playing field. It argues that the role of interactive communications technology points toward a level of engagement that potentially can transform the political calculus. But the report also argues that technology alone cannot do the trick. Sound governmental policies are essential to protecting the conditions under which a politically beneficial technology may continue to flourish. And government policies can and should help foster incentives to encourage more candidates—particularly those below the top of the national ticket—to reach out to small donors and volunteers.

**The time has come to leap
over the “undue influence”
vs. “free speech” gulf.
Instead of focusing on
attempts to further restrict
the wealthy few, we focus
on activating the many.**

We focus on participation for two reasons. First, if enough people come into the system at the low end, there may be less reason to worry about the top. Much of the current policy debate, and of political reality, has until recently been built on a universe in which a relatively small handful of donors supply most of the money. A significant increase in small donors therefore could shift these assumptions.

Second, we consider heightened participation to be healthy for its own sake. A more engaged citizenry means a greater share of the public following political events, participating in public life, and expressing their views to others—including to those who represent them in government. And the evidence seems to suggest that giving and doing are reciprocal activities: volunteering stimulates giving, but giving a small amount once also seems to heighten nonfinancial forms of participation by people who feel more invested in the process.

The best promises of new technology will not be self-fulfilling. Government regulations and incentives must continue to play a role for the democratic potential of the Internet to be fulfilled.

For these reasons, we aim to promote equality and civic engagement by enlarging the participatory pie instead of shrinking it. The Supreme Court has ruled out pursuing equality or civic engagement by constraining speech. But the Court has never ruled out pursuing those goals through policies that do not constrain speech.

This report will show how to further these ends. The first half surveys current conditions. It begins with a discussion of the opportunities created by new campaign technologies, as illustrated by President Obama's campaign and others. The report then explains why, despite these opportunities, the best promises of the new technology will not be self-fulfilling. This section draws upon the data from congressional campaigns, state elections, and most of the presidential candidates other than

Obama. We argue that government regulations and incentives must continue to play a future role for the democratic potential of the Internet to be fulfilled.

New communications

Campaigns are about communications—candidates, parties and others, including outside groups, communicating with voters. A campaign's financial needs, and campaign finance rules, are inevitably driven by the nature of communications tools and the costs of communicating. Thus, it is appropriate and necessary for us to focus first on the dramatic changes in telecommunications technology that have already transformed the political world.

In only twelve years, the Internet has moved from the periphery to the center of communications. The digital revolution and the rise of Web 2.0—the collective term used

to capture the wide range of online activities and applications that provide network-enabled interactive services—have dramatically altered the means by which individuals receive and use political information. Broadcast media remain the major means of communication in electoral campaigns, but traditional media outlets are losing their audiences and their authoritative role as they are being replaced or supplemented by the more decentralized, collaborative, and participatory information sharing facilitated by online communications and networked services such as blogs, social networking sites, wikis, and real time messaging.

Technological advances are creating a world in which communications are more personal, more mobile, and more global. Surveys conducted by the Pew Internet & American Life Project estimate that 75 percent of adults and 90 percent of teenagers were online by the beginning of 2008, and at least 80 percent of all adults had cell phones.² By March of 2008, 62 percent of all Americans had some experience with mobile access to digital data or services. More than half of those with a computer, cell phone, or personal digital assistant or PDA (who together amounted to 41 percent of all Americans) had used a wireless connection at least once to go online when they were away from home or work.³ For many of these users, Internet access is now a multiplatform affair, moving beyond desktop or laptop computers to a variety of devices that offer online access.

The expansion of broadband availability has also spurred the use of interactive services and web-accessible information. Broadband is penetrating the populace more quickly than either the computer or cell phone, its nearest kin.⁴ In fact, the 2008 election was the first election in which more than half of all Americans had broadband access at home.⁵ Broadband has acted as a “force multiplier” in the creation of a more distributed computing environment. This environment should continue to expand significantly as broadband’s reach increases, and as smart phones and cloud computing applications (in which everything is done online) gain wider use.

While technology increases access, it does not change the *logic* of political participation. Potential donors still have to perceive the benefits of participating, and the perceived costs of participating must not outweigh benefits. Political campaigns and organizations still have to identify and reach out to individuals, persuade and mobilize supporters, create a sense of community among their followers, generate visibility, and find ways to connect with those who are less involved, the “inadvertent audience” that is not specifically seeking political information.

Traditionally, the high costs of participation, combined with the resource needs of campaigns, have favored citizens with time and/or money. Political communication and mobilization have depended upon such expensive or labor-intensive techniques as broadcast advertising, direct mail, and telephone or door-to-door canvassing. Raising

money has also been costly and time-consuming. Generally, the process favored those who had fundraising experience, well-established contacts, relationships with key fundraisers, an ability to solicit donations from those willing to give large sums, or the time needed to build a broad base of support. While some insurgent or lesser-known candidates lacking these capacities have succeeded, as have some who self-financed their campaigns, these contenders have been the exceptions.

The digital revolution is altering the calculus of participation by lowering the barriers to entry into the political process. Web-enabled communications have reduced the costs of both individual and collective action. Citizens can access information and become involved in a campaign or political organization more easily than ever

before, while candidates and political groups have access to more cost-efficient methods for outreach and mobilization. In addition, interactive communications can enhance the benefits of participation by facilitating a sense of community and a stronger connection between individuals and candidates or groups. For example, according to one 2008 survey, 28 percent of Internet users reported that they felt more personally connected to the candidate or campaign of their choice as a result of their online activities, while 22 percent felt that they would not have been involved without the Internet.⁶ Thus, the new communications environment facilitates greater participation by both reducing the perceived costs of participating and enhancing the prospective benefits.

The digital revolution's importance in enhancing civic participation was evident in 2008. Millions of Americans went online to access campaign materials, comment on news reports, watch videos, share information with friends, and respond to surveys. Individuals also posted their own views or videos on blogs, YouTube, Facebook, MySpace and other websites; organized or joined independent online political groups or affinity groups associated with a candidate; communicated with campaigns through email and text messaging; received volunteer tasks and reported their status online; and initiated or coordinated user-generated activities in support of the candidate of their choice.

These individual actions highlighted the beginning of an age of electronic interaction in American politics. While grassroots organizing has always been an important part of electoral politics and group politicking, the means and techniques now available for accomplishing this end are qualitatively different. The ready availability of user-generated content and interactive information sharing is empowering individuals, allowing them to move beyond sound bites, campaign ads and traditional information gatekeepers. They can now make their own information choices and produce information

Traditionally, the high costs of participation have favored those with fundraising experience or well established contacts. The communications revolution is changing the calculus.

and action from the ground up, not simply receive them from the top down. Individuals or groups can share their views with a mass audience, which is a capacity once limited to broadcast media. They need no longer depend upon the command-and-control methods used by candidates and political parties. Now the many can communicate with the many without the intervention of elites or centralized organizations.

This capacity has enabled innovative forms of collective action. In the past, grassroots mobilization efforts or broad-based outreach programs typically were conducted by well-established organizations with the significant resources needed to finance such initiatives. These organizations, including parties, interest groups, trade associations, and unions, were also responsible for much of the money used to finance electioneering activities. But digital communications have made possible the formation of new types of political organizations or networked communities. These group entities can form quickly, mobilizing online around a particular candidate, issue, or common view. They can take any of a variety of legal forms, ranging from an online affinity group or political organization to an offline PAC or nonprofit advocacy corporation. In some instances they may emerge in response to timely issues or events, as in the case of VoteVets.org, a pro-military organization founded by veterans of the wars in Iraq and Afghanistan. Such groups may prove to be limited to the duration of their purpose, as in the case of Swift Boat Veterans and POWs for Truth in the 2004 election, or evolve into more permanent entities, as in the case of MoveOn.org or the independent progressive fundraising site, Act Blue.

Finally, candidate campaigns can achieve scales of engaged participation—whether measured in terms of the number of individuals in direct contact, the number of volunteers assisting, or the number of donors contributing—that were not feasible a short time ago. Digital communications make it easier to identify and incorporate supporters. This is partly because it is much easier now for individuals to take the first step, initiating contact. Once there has been some form of initial contact, it is also much easier now for candidates to keep the lines open, by tracking visitors to their websites and using email and other forms of inexpensive communications outreach to keep them engaged, rather than having to rely solely on expensive direct mail and telephone prospecting.

Moreover, once supporters are recruited, it is easier to personalize future communications. In essence, candidate campaigns increasingly will be able to communicate and establish a relationship with potential supporters and then to involve them in campaign activities if they are willing to volunteer.

Digital communications have made possible the formation of new types of political organizations or networked communities. These can form quickly, mobilizing online around a particular candidate, issue, or common view.

The Obama campaign: A new model?

No example to date better illustrates this potential than Barack Obama's 2008 presidential campaign. From the outset, Obama recognized the value of online communications and social networking tools, making them cores of his outreach and mobilization efforts. The campaign built a state-of-the-art website that featured a social networking hub, My.BarackObama.com, which became known as MyBO. This hub was used to build an "online relationship" with individual supporters and encourage them to share information and ideas, contribute to the campaign, undertake volunteer activities, and vote.

MyBO was established not as an afterthought, unconnected to the campaign's core, but as the center of all campaign-related Internet activity. The campaign sought out potential supporters where they were already online by linking to an array of social networking sites, including Facebook, MySpace, AsianAve, MiGente, BlackPlan, and Twitter.⁷ These platforms helped the campaign drive supporters to the official website, where they could build individual supporter profiles and generate grassroots, bottom-up activity among networked groups of supporters. By Election Day, more than 2 million MyBO profiles had been created and Obama had 3.4 million Facebook supporters. The campaign also had an email list of 13 million, one million text message subscribers, and the most popular Twitter account, with more than 123,000 followers.⁸

From a campaign finance perspective, MyBO set a new standard for using the Internet to recruit and engage a vast network of financial supporters. In all, Obama, who decided to forgo public funds in both the primary and general election, raised a total of \$746 million during the 2008 election cycle, a record sum that far surpassed the amount received by any other presidential contender. Obama raised more than twice the amount taken in by his general election opponent, Republican John McCain, who refused public funds during the primaries but accepted the general election public funding grant. McCain raised a total of \$350 million, including \$84 million of public funds. During the primary campaign alone, Obama raised \$409 million, which was more than the rest of the Democratic field combined, and \$215 million more than his principal rival, Hillary Clinton. Even more notable, a significant share of Obama's total—\$500 million according to one estimate—was raised through donations made online.⁹

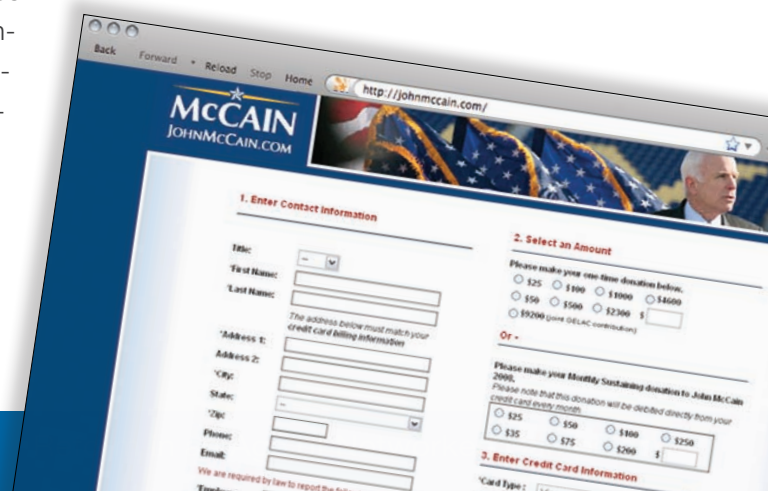
MyBO offered individuals ways to participate in campaign fundraising that went beyond such standard online tools as a "donate" button for credit card contributions. Individuals who made a contribution were regularly solicited by email and often were asked



to make an additional contribution that would be matched by another donor. Contributors could sign up for a “recurring gift” program that allowed them to make donations of as little as \$25 on regular basis by charging the amount to a credit card. Supporters could also establish their own fundraising pages or affinity groups to solicit their friends or contacts to contribute, and then watch their personal webpage “fundraising thermometer” climb as those individuals gave in response to their requests. To promote such volunteer efforts, the campaign established a grassroots fundraising committee that helped train supporters online in how to collect donations from friends, relatives, or coworkers. This tactic was so successful that by the end of the general election, the Obama campaign had created a corps of 70,000 individuals who were willing to solicit their own networks for campaign dollars.¹⁰

In these ways, the Obama campaign personalized its fundraising appeals and emphasized the importance of small contributions. Empowering those who were willing to give small amounts led to an outpouring of small donations. These small donations were essential to Obama’s financial success. According to an analysis of primary campaign funds conducted by the nonpartisan Campaign Finance Institute, Obama amassed \$217 million from small contributions of \$200 or less by the end of August of 2008, which was more than any previous presidential candidate and a sum that exceeded the small contribution receipts of all other candidates in both parties combined.¹¹ Small contributions of \$200 or less constituted 50 percent of the total funds that Obama raised from individuals through August 31, compared to 36 percent (\$64 million) of the total for Clinton and 31 percent (\$62 million) for McCain. The one other candidate with noteworthy small contribution receipts was conservative Republican Ron Paul, who relied almost exclusively on online contributions from his coterie of supporters to raise almost \$22 million from small gifts, which represented 64 percent of his money from individual contributions.

In addition to the sheer amount of money raised from small contributions, what distinguished Obama’s campaign was the scope of citizen participation it was able to achieve. Obama’s online strategy allowed him to benefit from the scalability offered by the Internet to recruit an unprecedented number of donors. By February of 2008, one million individuals had given money to his campaign, a mark that then-President George Bush, running unopposed for renomination in 2004, did not reach until May of that year.¹² As Obama continued to maintain his lead throughout the hard-fought nomination campaign against Clinton, his financial base continued to expand. By the end of the election, hundreds of thousands more had joined these ranks, bringing his total number of donors during the pre-nomination phase of the campaign to about 3 million.¹³ No prior presidential candidate had ever mobilized such a broad base of donors.



Obama's emphasis on small contributions thus provided him with a large pool of individuals who could give repeated contributions without approaching the maximum contribution limit of \$2,300. And thousands did give repeatedly. This ability to solicit multiple contributions was one of the major strategic advantages of his approach.

An analysis by the Campaign Finance Institute of the 405,000 individuals who donated at least an aggregate of \$200 or more by August 31 (and thus had their names disclosed in filings with the Federal Election Commission) revealed that at least 212,000 were repeat donors who began by making an undisclosed small contribution of less than \$200. About 93,000 of these repeat donors gave a total of \$400 or less; 106,000 gave more than \$400 but less than \$1,000; and 13,000 gave \$1,000 or more. These repeat donors ended up giving about \$100 million to the campaign.

Obama amassed more from small donors by the end of August than any previous presidential campaign, and nearly as much as all other 2008 candidates in both parties combined.

Thus, another way of assessing Obama's fundraising is on the basis of the *aggregate* amount given by individual *donors* instead of on the basis of the separate *donations* made by individuals. Such an analysis provides a clearer depiction of the role of small *donors*, defined here as those who gave no more than \$200 in aggregate during the course of the campaign. This information is provided in Table 1 ([see page 16](#)).

When the multiple contributions from the same donors are aggregated, the differences between Obama and other candidates are narrower, although the importance of small donors to his campaign is still evident. Obama received 30 percent of his money during the primaries from donors who gave a total of \$200 or less. This percentage was greater than Clinton's 22 percent and McCain's 21 percent as well as Bush's 26 percent or Kerry's 20 percent in 2004. Obama also depended less on contributors of \$1,000 or more than Clinton or McCain, receiving 43 percent of his primary funds from such donors, as compared to 56 percent for Clinton and 60 percent for McCain.

So Obama successfully raised funds from all parts of the contributor spectrum, showing particular strength among donors of both smaller and larger sums. His share from those who gave an aggregate of \$1,000 or more, however, was smaller than that of any other major contender in recent elections. In the general election, Obama's percentage from small donors was even higher: he raised \$114.1 million, or 34 percent of his general election total, from donors whose general election contributions aggregated to \$200 or less. At the same time, his percentage from donors who aggregated to \$1,000 or more dropped slightly to 42 percent of his general election total (including funds raised for his campaign through joint fundraising committees), while contributions of those in the \$201-\$999 midrange was 23 percent.

Small donors' small role: The need for broader participation, even after Obama



The Obama campaign points to a model of campaign finance that offers the prospect of reducing the relative influence of large donors by expanding the role of small donors. But whether Obama presents a model that most other candidates can implement successfully is an open question. Will technological and behavioral trends alone eventually resolve some

of the major concerns that are commonly associated with campaign funding? Or will fundamental changes in campaign finance require more than simply the structural capabilities offered by digital technology?

Although Obama enjoyed remarkable success in generating small contributions, he benefited from factors other than technological change that will be hard to replicate. He was an inspiring and charismatic candidate, who emerged as a major contender relatively early in the race, and was seeking to make history as the first African American nominee of a major party. He was running as a candidate promising change, in an election defined by an electorate anxious for change. And he received substantial support from a new generation of online activists and young voters who fervently participated in his campaign.

That the Obama candidacy was in some ways unique is evident from the broader financial patterns in 2008. Most of the major contenders for the presidential nominations, except for Obama, raised a majority of their campaign funds from large contributions of \$1,000 or more, even before aggregating. Among Democrats, Clinton, Edwards, Richardson, Dodd and Biden each raised more than half of their campaign money from large contributions of \$1,000 or more. Among the Republicans, McCain raised 54 percent of his funds in contributions of \$1,000 or more, Romney 74 percent, and Giuliani 82 percent. Even Mike Huckabee and Fred Thompson, who raised less than \$25 million each, took in at least 40 percent from donations of \$1,000 or more. Ron Paul was the only Republican to raise a substantial amount of money (\$34 million) without relying heavily \$1,000 donors. Paul received 18 percent in large contributions and 33 percent from donors who aggregated to \$1,000 or more (see [Table 1, next page](#)).

These overall figures, however, do not tell the whole story. The importance of large contributions as a source of campaign funding becomes clearer when campaign fundraising is considered over time during the campaign season. Presidential candidates file reports with the Federal Election Commission on a quarterly basis during

TABLE 1: Sources of funds for presidential candidates

Pre-nomination: 2007-2008

Candidate	Individual contributions Total net \$ million	From donors aggregating in the primaries to ...					
		\$200 or less		\$201– \$999		\$1000 or more	
		\$ million	%	\$ million	%	\$ million	%
DEM							
Obama	409.2	121.2	30%	113.1	28%	174.4	43%
Clinton	194.0	42.5	22%	43.8	23%	107.7	56%
Edwards	38.6	11.8	31%	8.5	22%	18.3	47%
Richardson	21.8	3.5	16%	4.0	18%	14.3	65%
Dodd	11.8	1.0	9%	0.9	8%	9.8	83%
Biden	9.6	1.6	17%	1.3	13%	6.7	70%
Kucinich	4.4	2.5	56%	1.1	26%	0.8	19%
Gravel	0.5	0.3	52%	0.1	24%	0.1	24%
Dem subtotal	735.5	184.4	25%	178.1	24%	373.0	51%
REP							
McCain	203.5	42.2	21%	40.2	20%	121.2	60%
Romney	59.8	4.7	8%	7.9	13%	47.1	79%
Giuliani	55.0	3.5	6%	5.6	10%	45.9	83%
Paul	34.3	13.4	39%	9.6	28%	11.3	33%
Thompson, F.	23.2	8.9	39%	4.2	18%	10.1	43%
Huckabee	16.0	4.6	29%	3.7	23%	7.7	48%
Tancredo	4.0	2.2	55%	1.1	28%	0.7	18%
Brownback	3.5	1.2	34%	0.8	22%	1.5	43%
Hunter	2.3	1.1	45%	0.4	19%	0.8	36%
Thompson, T.	1.0	0.1	8%	0.1	15%	0.7	77%
Gilmore	0.3	0.0	9%	0.0	9%	0.3	83%
Rep subtotal	403.1	81.9	20%	73.7	18%	247.4	61%
Pre-nomination total, 2008	1,138.5	266.3	23%	251.8	22%	620.3	54%
Major party nominees of 2004							
Kerry	215.9	43.6	20%	51.1	24%	121.3	56%
Bush	256.1	66.4	26%	37.7	15%	153.3	60%

General election, 2008

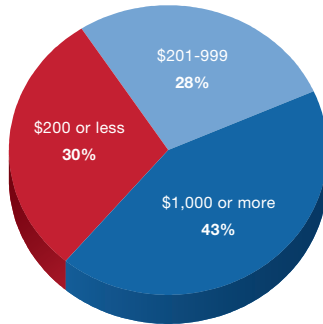
Candidate	Individual contributions Total net \$ million	From donors aggregating in the general election to ...					
		200 or less		201– 999		1000 or more	
		\$ million	%	\$ million	%	\$ million	%
Obama	336.9	114.1	34%	79.2	23%	143.1	42%

Note: Because Obama is the only candidate who raised and spent private funds money for his general election campaign committee, these tables present his aggregate contributions per donor separately for the primaries and general election. This permits a direct comparison of Obama's primary fundraising to those of other candidates and Obama's general election

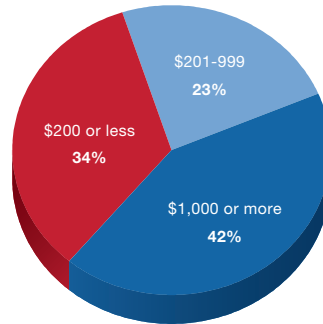
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Percentage of individual dollars from donors who aggregated to

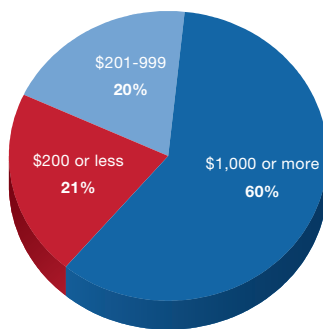
Obama (primary)



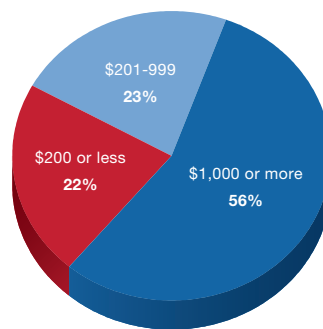
Obama (general)



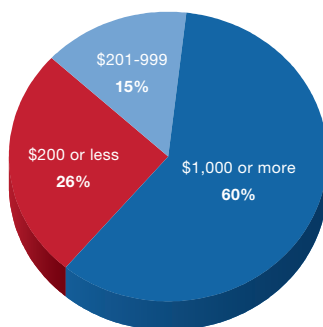
McCain



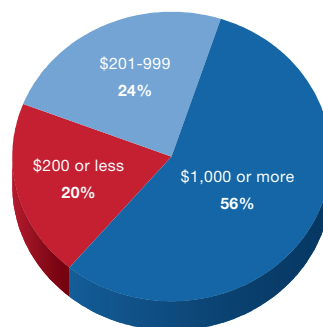
Clinton



Bush 2004



Kerry 2004



(continued)

to his own primary fundraising. Under this procedure, a donor who gave \$150 in the primaries and \$150 in the general election would be characterized as being in the separate "200-and-under" aggregates for the primary and general election. Recalculations based on combining the primary and general election figures into running two-year aggregates are available separately from The Campaign Finance Institute.

**Most of the major
contenders for the presidential
nominations in 2008,
except for Obama, raised a
majority of their campaign
funds in contributions of
\$1,000 or more.**

the off year and monthly during the election year. An examination of the fundraising that took place during the beginning phase of the presidential contest reveals that all of the candidates—even Obama—started by relying heavily on large donors. In the first nine months of 2007, Obama raised 60 percent of his money in amounts of \$1,000 or more. Even Ron Paul, who received half of his money during the first nine months of 2007 from small contributions, started during the first quarter by getting more than half of his funding from those who gave contributions of \$1,000 or more. In every instance, the candidates who were able to mount viable campaigns started by emphasizing large contributions.

In general, candidates who eventually received substantial numbers of small contributions did not do so until they had gained name recognition and emerged as likely contenders for the nomination. For example, through the first three quarters of 2007, Obama received only 28 percent of his money from contributions of \$200 or less. In the third quarter alone, he received only 24 percent of his funds from small contributions. But by the fourth quarter, he had emerged as a principal challenger, along with Edwards, to presumed frontrunner Hillary Clinton, and experienced a surge in small-donor giving, garnering 46 percent of his fourth-quarter funds from contributions of \$200 or less. Thereafter, following his victory in Iowa and emergence as the leading candidate for the nomination, small contributions to his campaign grew dramatically, accounting for half of the money he brought in during the election year up to the time of the national convention. Similarly, Democratic challenger John Edwards and Republican Mike Huckabee did not begin to raise substantial sums from small contributions until the fourth quarter of 2007, while Hillary Clinton, who raised 69 percent of her money in the fourth quarter from large contributions, did not experience a jump in small donations until the first two months of the election year.

This reliance on large contributions during the early phase of the presidential contest is not surprising. It follows the practice of most candidates in recent elections, regardless of the office being sought. Given the financial demands of modern campaigns, candidates—whether seeking the presidency, a congressional seat or state-wide office—face great pressure to raise as much money as possible as quickly as possible.

This strategic imperative is a result of both the anticipated costs of a campaign and the widely held perception of fundraising strength as an indicator of a candidate's viability, especially during the early phase of a contest. In other words, the best way for a candidate to generate visibility and be viewed as a major contender is to rank among the top fundraisers. This is especially true in a presidential race, but also applies to

congressional and state contests. The most efficient way to accomplish this objective is to focus on large contributions. Candidates therefore have a strong incentive to focus on large donors.

The rising tide of online activity may alter this pattern in future elections. With new means available for generating visibility and communicating with the public, candidates may find it possible to launch a campaign without having to raise large amounts from a relatively small group of donors. The Internet makes it easier for candidates to disseminate information broadly, which may serve to engage voter interest and thereby produce more small contributions early in an election cycle.

But the lessons to date indicate that broad-based small-donor fundraising, in most cases, is only likely to occur after a candidate attains a certain level of public visibility and credibility. While a lesser-known or underdog candidate may not have to gain as much recognition as past candidates to engage in mass fundraising, public support still has to reach some kind of critical mass before small-donor fundraising is likely to produce substantial amounts of money. An underdog candidate for president would either have to develop a following within a viable niche, as Howard Dean did as the antiwar candidate in 2004 or as Ron Paul did as the libertarian Republican in 2008, or he or she would have to be seen as a credible alternative to a frontrunner, as Obama did in 2008. And the higher the amount garnered by the leading fundraisers, the more money it will take to be perceived as a credible challenger.

But even if citizen participation in presidential campaigns does improve and candidates are able to increase their reliance on small donors, such an outcome is unlikely in less visible elections. Currently, small donors play a relatively insignificant role in most federal and state legislative races. As a general rule, movement down the ticket is accompanied by a decline in the level of citizen participation in campaign funding. The lower the level of the race, the lower the level of small-donor participation. Consequently, the role of small donors is much smaller in U.S. Senate and House races than in the presidential. In many state gubernatorial and legislative contests, small donors are also responsible for only a tiny portion of campaign funding.

Candidates for the U.S. Senate and House have not experienced the growth in small contributions that has been seen in some presidential campaigns. Congressional candidates do not receive as much media coverage or public attention as presidential aspirants. They also operate within much smaller constituencies. They therefore tend to rely on relatively small numbers of large donors to finance

The importance of large contributions becomes even more clear when campaign fundraising is considered over time. Broad-based small-donor fundraising, in most cases, only occurs after a candidate attains public visibility and credibility.

Even if small-donor participation does improve in presidential campaigns generally, such an outcome is unlikely in less visible elections. Currently, small donors play a relatively insignificant role in most federal and state legislative races.

their campaigns. This is especially true for established incumbents who have proven donor bases and access to PAC money and well-heeled donors.

The lower level of small-donor funding in congressional campaigns is evident from the financial patterns of the 2008 general election candidates. Senate candidates received 14 percent of their funding from individual donors who gave an aggregate of \$200 or less. For incumbents, the percentage was only 9 percent. In contrast, 40 percent of the funds raised by Senate candidates came from those who gave an aggregate of \$1,000 or more, with another 20 percent coming from PACs and 17 percent from all other sources, including self-financing. (See [Table 2, facing page.](#))

In House general election contests, which typically feature candidates who are less well known and given less media coverage than Senate contenders, only 8 percent of the funding came from small donors who gave an aggregate of \$200 or less (see [Table 3, page 22](#)). Among incumbents, the percentage was only 6 percent, which meant that, on average, incumbents received less than \$85,000 from small donors out of \$1.4 million raised. Instead, House candidates emphasized large donations and PAC money, receiving more than a third (35 percent) of their funding from donors who gave an aggregate of \$1,000, more than another third (36 percent) from PACs, and 10 percent from other sources, including self-financing. (For incumbents, individuals who gave \$1,000 or more were responsible for 34 percent and PACs another 45 percent.) In short, large donors and PACs were more than eight times as important as small donors for all House candidates, and twelve times as important for incumbents.

Determining the scope of small-donor participation at the state level is more complicated than at the federal level, due to variations in campaign finance policies, disclosure requirements, and political environments. But an analysis of contributions in all states with gubernatorial and legislative elections in 2006, which was conducted by the Campaign Finance Institute based on data available from the National Institute of Money in State Politics, provides insight into the role of small donors at the state level, as well as the rules that may influence small-donor giving.

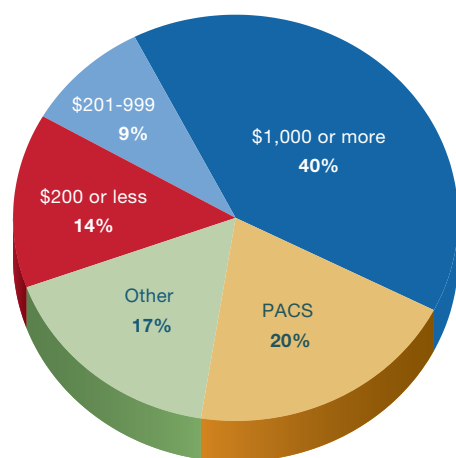
Small donors are not a significant source of funding in most elections found further down the ticket. In state gubernatorial or legislative elections in some of the largest states, small-donor participation falls below the levels in congressional contests. In 13 of the 36 states with gubernatorial and state legislative elections in 2006, small donors were responsible for less than 10 percent of the monies received by candidates from contributors, even when donors of up to \$250 are included (as opposed to the \$200

TABLE 2: Sources of funds for U.S. Senate candidates, 1999-2008

	Total receipts \$ million	From individual donors aggregating to ...						PACs		Other	
		\$200 or less		\$201– \$999		\$1000 or more		\$ million	%	inc. self-finance \$ million	%
		\$ million	%	\$ million	%	\$ million	%				
All candidates											
2007-2008	391.7	56.6	14%	33.4	9%	157.9	40%	77.6	20%	66.1	17%
2005-2006	517.0	84.9	16%	46.5	9%	218.3	42%	69.9	14%	97.5	19%
2003-2004	371.2	62.9	17%	39.4	11%	163.5	44%	64.5	17%	40.9	11%
2001-2002	288.3	49.1	17%	34.2	12%	102.3	35%	57.1	20%	45.6	16%
1999-2000	367.7	64.0	17%	36.1	10%	102.5	28%	50.7	14%	114.3	31%
Incumbents											
2007-2008	233.8	20.8	9%	17.8	8%	94.3	40%	59.4	25%	41.4	18%
2005-2006	278.0	43.2	16%	25.1	9%	133.4	48%	50.6	18%	25.7	9%
2003-2004	171.1	29.0	17%	17.2	10%	75.6	44%	38.9	23%	10.4	6%
2001-2002	122.5	20.9	17%	15.5	13%	43.1	35%	33.3	27%	9.8	8%
1999-2000	128.8	24.7	19%	15.0	12%	40.0	31%	32.6	25%	16.5	13%

Source: Campaign Finance Institute analysis of FEC records.

Senate 2008: All candidates



Senate 2008: Incumbents

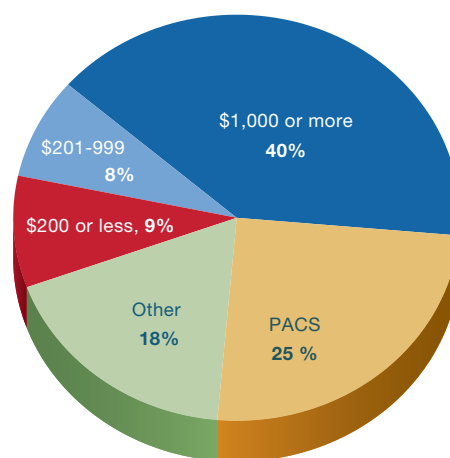
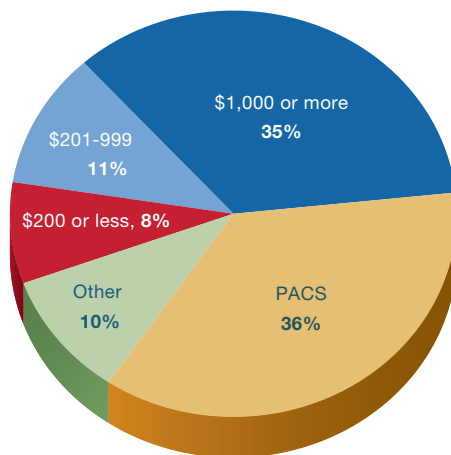


TABLE 3: Sources of funds for U.S. House candidates, 1999-2008

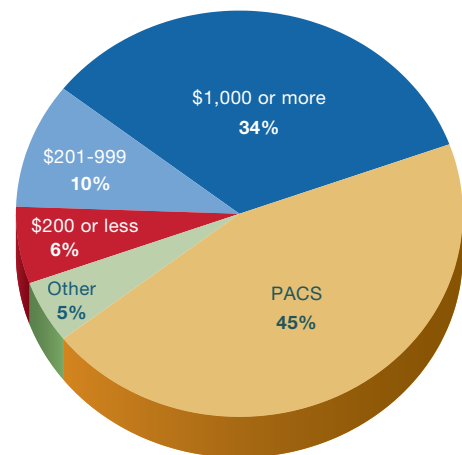
	Total receipts \$ million	From individual donors aggregating to ...						PACs		Other	
		\$200 or less		\$201– \$999		\$1000 or more		\$ million	%	inc. self-finance \$ million	%
		\$ million	%	\$ million	%	\$ million	%				
All candidates											
2007-2008	853.6	72.1	8%	94.6	11%	295.5	35%	307.7	36%	83.7	10%
2005-2006	779.5	71.0	9%	89.2	11%	265.3	34%	287.8	37%	66.3	9%
2003-2004	626.3	62.7	10%	80.8	13%	207.0	33%	229.4	37%	46.4	7%
2001-2002	555.3	66.5	12%	63.0	11%	142.1	26%	207.1	37%	76.6	14%
1999-2000	538.4	82.1	15%	66.3	12%	131.7	24%	193.2	36%	65.1	12%
Incumbents											
2007-2008	575.3	36.6	6%	57.2	10%	194.8	34%	257.3	45%	29.4	5%
2005-2006	527.2	33.2	6%	53.5	10%	176.2	33%	237.1	45%	27.1	5%
2003-2004	454.0	39.1	9%	56.8	13%	149.9	33%	191.7	42%	16.5	4%
2001-2002	367.4	42.3	12%	42.4	12%	96.3	26%	164.3	45%	22.1	6%
1999-2000	357.6	53.3	15%	42.4	12%	86.4	24%	150.3	42%	25.1	7%

Source: Campaign Finance Institute analysis of FEC records.

House 2008: All candidates



House 2008: Incumbents



cutoff that is used in federal elections).^{*} In another 15 states, donors who gave aggregates of \$250 or less accounted for 10 to 18 percent of funds (see [Table 4, next page](#)).

In eight states, however, the proportional role of small donors was well above the levels for U.S. House and Senate races, as well for most presidential campaigns. Minnesota led the way with the highest levels of participation, with donors of \$250 or less accounting for 51 percent of the candidates' money. The likely explanation for Minnesota's uniqueness lies in its campaign finance laws. The state had low contribution limits, offered donors a state rebate of up to \$50 for contributions, and offered partial public funding to candidates.^{**} About 5 percent of Minnesotans contributed to candidates under this set of policies. Similarly, other states with high levels of small-donor participation—Maine, Arizona, Rhode Island, and Vermont—had some variant of public funding or rules that promoted small donations.

This examination of campaign funding beyond the presidential race suggests that most candidates are not likely to be able to rely on small donor participation to launch a bid for office. In most instances, acquiring the initial funding to get a campaign off the ground will continue to depend on persuading a relatively small group of supporters to give larger amounts. Only then will a candidate be in a position to successfully expand his or her fundraising downward and outward.

Might this change as citizens come to make greater use of the technologies now available? With the remarkable pace of change in communications now underway, this is a possibility that should not be dismissed. But it would also be imprudent to count on it. While some congressional candidates and others have raised substantial amounts from small donors, these challengers have been involved in high-visibility races that were essentially “nationalized” because they represented targeted seats that were being contested in the context of a battle for majority control of the legislature. These candidates thus became a focus of well-viewed weblogs like Daily Kos or Red State, or of third-party fundraising efforts conducted by organizations like Act Blue. In this manner, the candidates gained the visibility they needed to raise large numbers of small donations successfully. But such a path is likely to be open for only a few dozen

U.S. House incumbents
received only 6 percent of
their funds from donors
who gave \$200 or less.
They received more than
12 times this amount
from donors who
gave \$1,000 or more
and PACs.

^{*} There is no uniform standard for determining what constitutes a small contribution or small donor. Under the provisions of federal law, contributions of less than \$200 are known as “unitemized contributions,” since they are considered small enough that they do not have to be itemized on disclosure reports. Donor information is disclosed when an individual's aggregate contributions to a candidate or political committee reach the \$200 threshold. Unitemized contributions or donations of less than \$200 thus can be used as a practical standard for identifying small contributions for the purposes of analysis. No such uniform standard for reporting donations or defining what constitutes an unitemized contribution exists in state law; instead, disclosure requirements vary depending of the provisions of state law. Thus, for the purposes of examining state contributions, differentiation of contributions up to \$100 and contributions from \$101 to \$250 are used.

^{**} In 2009, the Governor eliminated funding for contribution rebates in the state budget. This action is currently being challenged.

TABLE 4: Sources of funds for candidates in state elections in 2006

(All candidates for statewide and legislative office in states with gubernatorial and legislative elections)

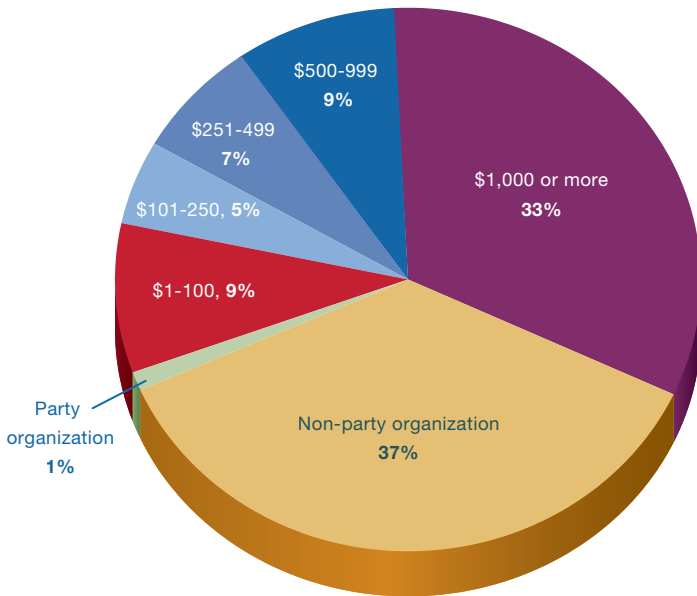
State	% of funds from individuals whose aggregate contributions per candidate were ...					% from organizations		Totals	
	\$1– \$100	\$101– \$250	\$251– \$499	\$500– \$999	\$1000+	Non-party	Party	%	\$ million
AL	2%	1%	2%	3%	21%	68%	2%	100%	69.6
NV	2%	0%	1%	1%	14%	71%	11%	100%	27.2
CA	2%	1%	2%	2%	43%	40%	10%	100%	302.3
WY	3%	2%	6%	8%	52%	22%	8%	100%	8.8
NY	3%	2%	3%	4%	42%	35%	12%	100%	114.4
TX	3%	2%	3%	6%	65%	18%	2%	100%	259.2
FL	4%	2%	5%	27%	6%	35%	21%	100%	90.1
NM	5%	2%	3%	5%	36%	39%	9%	100%	24.8
PA	5%	2%	3%	5%	42%	24%	18%	100%	106.4
OR	6%	1%	1%	2%	22%	47%	21%	100%	38.4
SC	6%	2%	5%	9%	38%	37%	4%	100%	23.4
GA	6%	2%	5%	7%	42%	34%	4%	100%	72.2
IL	7%	1%	2%	3%	28%	48%	12%	100%	112.0
MI	7%	4%	5%	7%	46%	22%	10%	100%	58.5
IA	7%	3%	4%	5%	43%	25%	14%	100%	36.7
OK	7%	4%	7%	10%	49%	19%	4%	100%	31.4
TN	8%	3%	6%	9%	36%	29%	10%	100%	19.5
MD	9%	5%	7%	9%	33%	37%	1%	100%	48.7
AR	9%	4%	6%	9%	36%	31%	5%	100%	19.5
KS	9%	4%	6%	9%	31%	40%	1%	100%	15.8
CT	10%	5%	11%	11%	45%	10%	8%	100%	21.9
OH	10%	2%	3%	3%	14%	55%	13%	100%	99.4
SD	10%	5%	8%	6%	45%	12%	14%	100%	9.1
ID	11%	4%	5%	7%	30%	38%	6%	100%	8.3
AK	11%	6%	10%	18%	33%	13%	8%	100%	9.4
NH	13%	5%	8%	10%	36%	24%	5%	100%	5.2
MA	13%	3%	4%	8%	59%	4%	10%	100%	73.8
HI	14%	3%	4%	5%	38%	31%	3%	100%	10.5
CO	15%	10%	15%	11%	25%	19%	6%	100%	17.8
WI	17%	9%	12%	14%	38%	8%	3%	100%	27.5
ME	19%	5%	12%	28%	17%	16%	2%	100%	2.1
AZ	19%	28%	34%	4%	0%	14%	1%	100%	2.7
RI	20%	5%	8%	12%	41%	11%	2%	100%	9.5
VT	26%	8%	11%	11%	20%	13%	11%	100%	3.6
NE	36%	0%	2%	6%	27%	26%	2%	100%	10.1
MN	45%	6%	11%	10%	16%	6%	6%	100%	18.9

Note 1: This table only includes states with gubernatorial and legislative elections in 2006.

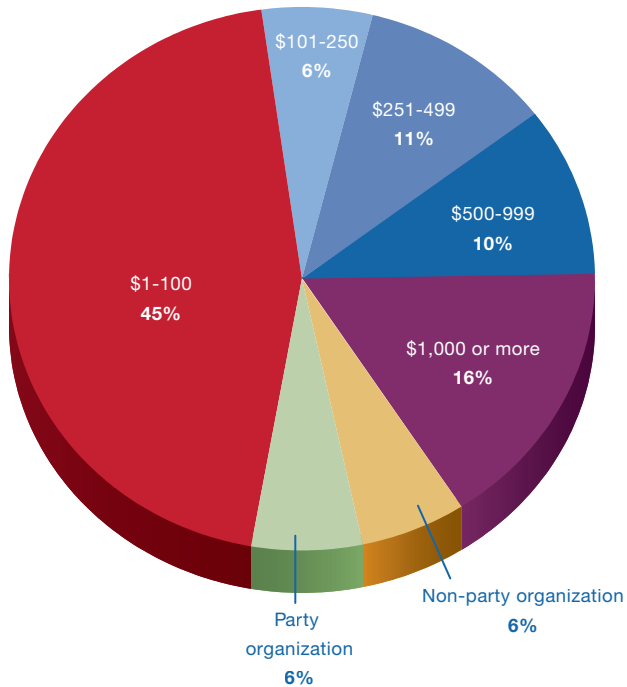
Note 2: Table only includes contributions to candidates, not self-financing or public funds.

Source: The Campaign Finance Institute, derived from data supplied by the National Institute on Money in State Politics.

Median state (MD)



Small donor state (MN)



In 13 of the 36 states with gubernatorial and state legislative elections in 2006, small donors (\$250 or less) were responsible for less than 10 percent of the money from contributors. In another 25 states, small donors accounted for 10 to 18 percent. But in eight states, the role of small donors was well above the proportion for U.S. House or Senate campaigns, as well as for most presidential campaigns.

Minnesota led the way. The likely explanation lies in that state's campaign finance laws. Most of the states with high levels of small donor participation had some form of public financing or rules that otherwise promote and stimulate small contributions.

races—at best—in each election cycle. Until and unless a substantial change occurs in the system, the emergence of viable candidates in all other instances will depend on an established constituency, support from those who can give a lot, or the ability to finance a campaign out of one’s own pocket.

We conclude from these data that public policy can play a beneficial role in offering an alternative to the current system. Instead of focusing on further restraints, the law should offer incentives to encourage citizen participation by small donors.

But we also conclude from these data that public policy can play a beneficial role in offering an alternative to the current system by modifying incentive structures. At present, candidates have little incentive to seek out larger numbers of small donors because the process favors concentrations of wealth. It is more efficient for most candidates—especially incumbents or well-known contenders with established bases of donor support—to amass funds by emphasizing donations at the upper end of the range established by contribution limits. There is also a strong incentive to seek out the support of large, well-funded PACs, or of other organizations that can encourage their members to make contributions or can spend significant sums directly to assist a candidate’s electoral chances. In these ways candidates and groups can concentrate their efforts on a smaller universe of donors and raise significant amounts of money quickly.

If broader civic participation in campaign funding is to be achieved, candidates and political groups must expand their outreach to citizens of average means. They must reach out to small contributors and emphasize their importance. The donors, in their turn, must perceive the benefits of participating and believe that their contributions, no matter how small, can make a difference.

Instead of focusing on further restraints, the law should offer incentives—either through public subsidies or other means—to encourage citizen participation by small donors. As the experience in the states demonstrates, policies that promote small-donor giving or enhance the value of small contributions can increase the benefits of small-donor fundraising for candidates. This opens an alternative means for potentially strong candidates to launch an effective campaign. This would improve candidate competition and voter choice, while strengthening civic participation in the electoral process.

PART II:

**Recommendations
for reform**



Recommendations for reform

Ensuring open and accessible communications and information

Affordable broadband

Carriers must provide access for political speech

Make it easier for citizens to access all election-related public information

Improving transparency

Real-time and downloadable electronic disclosure

FCC advertising logs through the Internet

Single disclosure website

Free software

Refining contribution limits

Limits on contributions to candidates

Limits on contributions to political parties

Redefining public funding

Multiple matching funds for small contributions

Lower contribution limits instead of spending limits

Early money

Qualifying threshold

Funding maximums

Tax credits or rebates

Enhancing party-candidate relations and electoral accountability

Unlimited coordinated expenditures for political parties from small-donor contributions

Introduction

An increase in civic participation sufficient for beneficial systemic effects is unlikely without policy reform. Stronger structural and behavioral incentives are needed to get more people to give and to persuade more candidates to pursue inclusive approaches. The rules should be revised to empower small donors and to encourage politicians to embrace strategic approaches that build from the bottom up. In this way, reform can reduce the influence of wealth without encountering the constitutional infirmities that accompany efforts to restrict the participation of the few.

To achieve these ends, reform must encompass more than the policies that have traditionally been associated with campaign funding. With more political activity moving online, reform must also include communications policy and information policy to ensure that the structures conducive to civic participation are strengthened. The recommendations set forth below highlight the types of policies needed to bring out about fundamental changes in political behavior.

Ensuring open and accessible communications and information

- **Affordable broadband:** The promise of greater civic engagement inherent in digital communications will not be fulfilled unless everyone has access to affordable broadband. The Federal Communications Commission (FCC) and Congress should redouble their efforts to expand broadband capacity and access throughout the nation. As under current law, civic engagement and participation should be a key consideration in any future broadband policies. The goal should be universal free or low cost broadband access.
- **Carriers must provide access for political speech:** Government activities and regulations should ensure that all carriers and service providers offer full access, without discrimination based on content, to all political and issue speech and solicitations. This access should be available on the same basis and at the same rates as the carrier or provider offers access to its most favored commercial customers.
- **Make it easier for citizens to access all election-related public information:** The federal government should establish and maintain a website for citizens that would serve as a centralized location for election-related information.

Communications infrastructure: In order to change citizen behavior, a communications structure conducive to political participation is essential. The digital revolution will continue to expand the possibilities of civic communication. This is likely to lead rapidly to a shift away from a dependence on desktop and laptop computers to the wide scale use of mobile devices as the principal means of connectivity. As this change takes place, individuals increasingly will rely on proprietary devices or services (such as the iPhone or Blackberry) to access online information and applications. Concerns about privacy and the need for security against viral attacks or unauthorized access to information stored online may contribute to leading individual preferences in this direction. This could potentially result in a segmentation of access and services, with certain services and applications, and even Internet access more generally, available only to those who are willing to pay the fees imposed by service providers for specific services or applications. Alternatively, some information and software might be made available only to those who subscribe to a particular service or own a particular device.¹⁴

Ensuring open and affordable access for all citizens is a necessary, though not sufficient, condition for citizen participation.

Public policy should also ensure that all carriers and service providers offer full access to political and issue speech.

Greater use of proprietary devices carries the risk of a loss of “generativity,” which has been a defining characteristic of the Internet’s current architecture. Generativity refers to the system’s “capacity to produce unanticipated change through unfiltered contributions from broad and varied audiences.”¹⁵ User-generated information and applications have played an essential role in connecting individuals and facilitating interaction. But, to the extent that online access moves to proprietary instruments, this feature may be restricted. Vendors could conceivably exercise control over content and refuse access to code to individuals seeking to adapt their ideas to their software or applications. While such a “closing up” of the current system is not inevitable, it is possible and some vendors’ actions in the past have given cause for concern.

Ensuring open and affordable access for all citizens is a necessary, though not sufficient, condition for citizen participation. Given the force multiplier effect of broadband, including its role in facilitating user access to video and other forms of online communication, it is essential that access continues to be expanded so all citizens may take advantage of its opportunities. Efforts underway by both Congress and the FCC to extend this capacity should be redoubled toward the end of making [universal broadband access](#) available for free or at low cost.

Public policy should also ensure that all carriers and service providers offer [full access to political and issue speech](#), without discrimination based on viewpoints, to promote the flow and availability of political information. This access should be provided to

political candidates, parties and organizations on the same basis and at the same rates as those offered by a carrier to its most favored commercial customers.

Reducing the information costs for participation: For citizens to reap the full social value of digital technology, public policy should provide for something more than an open highway. Citizens should also have easy access to the information essential to civic involvement. One drawback of the digital revolution is that it has led individuals away from media outlets that might resemble the public square and stand as common sources of information. Instead, the variety of options offered in the new environment has enticed individuals to move to the specific sites or areas that they prefer, often “cocooning” there and thus failing to expose themselves to political information of any sort, let alone a diversity of viewpoints.¹⁶ Or they are exposed to a cacophony of voices, with no well-established, centralized location available where they might find information needed to participate in the process.

More than ever before, there is a need for a public square or public information service that can provide citizens with the information or tools needed to become active, engaged voters. To address this need, the federal government should establish and maintain a website that would serve as the primary location for election-related information. At a minimum, this site would include the following:

- **Voter information.** The site should be designed so that an individual may enter an address and receive the appropriate voter registration and voting information for that address, including information about any forms needed to request methods of voting other than by appearing in person on Election Day. In addition, given the increase in the number of individuals submitting a ballot by mail and the level of concern among voters as to whether a ballot was counted, this site should also enable voters, to whatever degree it is technically feasible, to determine in a timely fashion whether a submitted ballot has been accepted or rejected by the relevant administrative agent or authority.
- **Candidate information.** When an individual enters an address, the site should provide the user with a list of the federal and nonfederal candidates running for office in the jurisdiction or electoral districts that correspond to the address, as well as links to candidate websites.
- **Disclosure information.** In addition to linking to candidates’ websites, a link to a each candidate’s campaign finance report, stored on the website of the relevant federal or state disclosure agency, should be included.





Improving transparency

- **Real-time and downloadable electronic disclosure:** All mandatory disclosure reports required under federal or state law should be filed and reported electronically to the relevant disclosure agency and made available in real time to the public, in readily accessible, manipulable, downloadable data files as well as through user-friendly web-based formats. Electronic filing requirements should apply to all federal and state candidates, party committees or PACs with more than *de minimus* financial transactions, as well as to any other committees or entities required to file disclosure reports at the federal or state level.
- **FCC advertising logs through the Internet:** Any radio or television station that broadcasts political advertisements should be required to file its advertising logs electronically with the FCC. This information should be made available on a real time basis through a database maintained by the FCC and posted on the Internet.
- **Single disclosure website:** All electorally relevant material about political spending that is required to be disclosed under current law to the Federal Election Commission (FEC), FCC, Department of Labor or Internal Revenue Service (IRS) should be drawn together on a single website in a format easily accessible to all citizens.
- **Free software:** States and the federal government should provide software free to candidates, political committees, and any other political filers to meet the requirements of the filing requirements.

Improved transparency will help citizens become more informed about candidates and the activity that takes place in election campaigns. It will also strengthen enforcement of the law by making it easier to track the contributions and expenditures made in election contests. Technology makes effective disclosure simpler, due to the dramatic progress that has been made in the capacity of websites to manage large amounts of data in a way that is accessible and usable by average citizens. Any reform of the system should capitalize on this benefit of technology to enhance the transparency of the financial transactions that take place in the political process.

The first step is to require full electronic reporting. All mandatory disclosure reports required under federal or state law should be filed electronically with the relevant disclosure agency. This requirement should apply to all candidates, party committees, PACs, or political committees with more than *de minimus* financial activity as defined

in federal or state statutes. This will allow any citizen easy access to disclosed information. To facilitate public use, the information contained in these filings should be maintained in databases that would include a unique identifier for each filer. These databases should also be downloadable with functions that allow them to be searched and sorted under any field (e.g., name, address, zip code, amount of contribution or expenditure, purpose of expenditure, etc.).

This electronic reporting requirement should include the broadcast advertising logs maintained by broadcast stations in accordance with federal law. At present, radio and television stations are required to keep advertising logs that include any political broadcast advertisements aired. These logs are retained at the stations and often are not reported on a timely basis or are available for public inspection only by visiting each station in person. Stations should be required to maintain and file their logs electronically with the FCC, and the information made available on a real time basis through a database maintained by the FCC and posted on the Internet.

In addition, all electorally relevant material about political spending that must be disclosed by law to the FEC, FCC, Internal Revenue Service and Department of Labor should be drawn together on a single website in a format easily accessible to all citizens. The simplest way to implement this recommendation would be to incorporate links to this information on the central voter website suggested in our earlier recommendation. At present, different political entities report different types of information to a variety of federal agencies. For example, candidates, parties, and PACs report their financial activity in federal elections to the FEC; political committees known as 527 organizations (for the section of the tax code under which they are organized) report their finances to the IRS, but their expenditures that qualify as federal election activity, particularly their “electioneering communications” are disclosed to the FEC; labor unions report to the Department of Labor, but also disclose some of the monies spent communicating with members in federal elections to the FEC. Rather than forcing citizens to use different sites and piecemeal approaches, one hub should be maintained from which these various disclosures can be accessed.

To help candidates and others meet the requisites of electronic filing, states and the federal government should provide software free to candidates and any other political filers. The filing system contained in this software should allow for additional standard filing formats to offer filers some level of flexibility. However, to ensure the security and integrity of the program being used, states and the federal government should require the use of standard verification procedures. The software should also incorporate features to enhance compliance with the law. For electronic contributions, for example, the software should require donors to fill in any required information before a transaction may be completed. It should also include procedures to verify that a donor meets the legal requirements for contributing under the relevant federal or state law before processing a contribution.

Refining contribution limits

- **Limits on contributions to candidates:** Campaign finance laws should establish reasonable contribution limits. With respect to individual contributions to candidates, the current federal limit seems appropriate, as does the national median for states. States without contribution limits should establish them and those with ceilings above the national median should adjust their limits downward.
- **Limits on contributions to political parties:** In addition to restrictions on contributions to candidates, states should place (and the federal government should maintain) limits on all contributions to political parties, PACs and legislative campaign committees, including office accounts and all other soft-money accounts.

A contribution is a distinct form of transaction because the officeholders or candidates and their agents ask directly for help when soliciting money for their campaigns. It is this relationship—this context of asking for help directly—that creates the opportunity for a politician to put pressure on a targeted donor and thereby creates the potential for a shakedown. When officeholders or their agents ask for contributions for party committees or other organizations with which they are affiliated, this constitutes the functional equivalent of asking for a campaign contribution, and thus raises the same issues.

Although the debate over contribution limits is often focused on the donors and the effects that contributions may have on the behavior of elected officials, the potential for rent-extracting actions on the part of elected officials and political leaders is of equal concern. Placing a limit on the amount a donor may give does not solve all the problems of influence in government, but it does deal directly and effectively with these concerns. Given the potential for abuse in the underlying behavior, it is an issue important enough to warrant a prophylactic remedy.

Due to constitutional considerations, contribution limits are often linked solely to corruption. But contribution limits are also relevant to concerns about political participation. In this regard, they have a major influence on the incentive structures that affect participation, especially with respect to the participation of small donors.



Contribution limits encourage candidates and other political actors to expand their bases of financial support, since they cannot rely on a small number of donors—or even just a few—for the bulk of the funding they need. Depending on the particular restrictions and the amount of money that needs to be raised, limits can encourage significant increases in the breadth of participation.

For example, prior to the adoption of the Bipartisan Campaign Reform Act (BCRA) in 2002, national party committees could accept unlimited soft-money contributions, which were the source of about half of the national committee’s funding (\$496 million) in the 2002 election cycle. In response to BCRA’s ban on soft-money contributions, the parties had to focus on limited hard money contributions and especially emphasized the solicitation of small contributions as a means of replacing the sums formerly received in soft-money sources. As a result, the parties added hundreds of thousands of new small donors to their rolls, and raised as much money through limited contributions in 2004 and 2006, as they had raised in hard and soft money combined in 2000 and 2002.¹⁷ (See tables 5 and 6, pages 50-51.)

Contribution limits also influence participation to the extent that they shape donor attitudes. The decision to contribute may be linked to an individual’s sense of political efficacy—the belief that a contribution would be meaningful or valuable to a candidate or cause; the sense that a donation might make a difference. Limits can give citizens of average means a greater sense of political efficacy because their gifts are not going to be overwhelmed by a few sizable gifts from wealthy donors. Furthermore, limits encourage candidates to seek out smaller amounts and greater numbers of donors. Because candidates need to persuade small donors that their support can help make a difference, their behavior in soliciting contributions can engender a sense of political efficacy among prospective donors.

Federal campaign finance law and most state statutes place limits on contributions to candidates. Since 2003, federal law has permitted individuals to give \$2,000 per election to a candidate or \$4,000 in a standard election cycle (primary and general election), adjusted for inflation. For 2009-10, the adjusted limit is \$2,400 per election, or \$4,800 per election cycle. At the state level, contribution limits vary widely. Montana, for example, places an unusually low cap of \$130 on individual contributions to legislative candidates, while Virginia places no limit on the amount that may be given to a statewide candidate. The median limits for individual contributions at the state level are \$4,000 per election cycle to a candidate for statewide office and \$2,000 per candidate for state legislature.

Although the debate over limits is often focused on the corrupting effects contributions may have on public officials, the potential for rent-extracting shakedowns on the part of elected and party officials is of equal concern.

With respect to contributions to party committees, federal law prohibits contributions from labor union or corporate treasuries, but allows limited donations from individuals and PACs. Since 2003, an individual may give up to \$25,000 per year to a national party committee, adjusted for inflation and subject to an aggregate biennial limit of \$57,500 for all donations to party committees and PACs. In 2009-10, an individual may give \$30,400 per year to a national party committee, subject to an aggregate biennial ceiling of \$69,900, including any contributions made to PACs, which can receive up to \$5,000 per year from an individual under federal law.

State laws are less restrictive when it comes to party funding. Thirteen states place no limits on contributions to political parties. Fourteen other states limit corporate and labor contributions to parties, but place no limits on contributions from individuals or PACs to parties. The remaining 23 states limit the size of contributions to parties, as well as the sources of such contributions.

This brief review suggests that contribution limits could be strengthened significantly in most states. Those states that do not restrict contributions to candidates or contributions to political parties, PACs or legislative campaign committees should establish limits. This should include limits on donations to office accounts or any other soft-money accounts that elected officials or party organizations are allowed to maintain or control under state law. The amounts that would be permitted constitute the key policy question that lawmakers must confront, and the sums may vary depending on the state. In general, the limits should not be set so high that they have little effect in restricting all but the largest donors. Nor should they be set so low as to make it difficult or unduly burdensome for candidates to raise the sums needed to mount viable campaigns. With respect to individual contributions to candidates, the current federal limit seems appropriate, as does the national median for states. States with contribution limits that exceed this median should adjust their limits downward.

Redefining public funding

- **Multiple matching funds for small contributions:** Public financing should be provided to candidates in the form of multiple-dollar matching funds for small contributions from individual donors. This matching funds approach should be used in both primary and general elections.
- **Lower contribution limits should replace spending limits:** Lower contribution limits should replace spending limits as a condition of eligibility for the receipt of public funds.



- **Qualifying threshold:** Candidates should be required to meet a qualifying threshold in order to be eligible to receive public funds.
- **Ceiling on public funds:** Candidates participating in a public funding program should be subject to a maximum ceiling on the total amount of public money that they may receive.
- **Tax credits or rebates:** Tax credits or rebates (with income caps) should also be used to enhance participation by small donors. But this option should not be a substitute for a matching funds program. Where multiple matching funds are available, individuals should be eligible for a 50 percent rebate on small contributions. Where multiple matching funds are not available, a 100 percent rebate should be provided.

Public funding became a major component of federal campaign finance law in 1974, when Congress established a voluntary presidential public funding system as part of the Federal Election Campaign Act (FECA) amendments adopted that year. Under the terms of this program, presidential primary candidates can qualify for public matching funds, which provide public funds on a dollar-for-dollar basis on the first \$250 contributed by an individual donor. General election candidates are eligible for a flat grant set at \$20 million in 1974 and thereafter adjusted for inflation, with major party candidates qualified for the whole amount and others eligible for a proportionate share based on criteria established in the law. In exchange for these benefits, participating candidates are subject to limits on the amount they may spend in the primary and general election campaigns.

Since the adoption of the presidential program, a number of states have established voluntary public funding programs of their own. The provisions of these state systems vary, but they typically require participating candidates to accept restrictions on campaign spending as a condition of receiving public money.

The specific approaches adopted range from New York City's multiple-dollar matching system in which qualified candidates can receive \$6 for each of the first \$175 a candidate raises from each donor, to full public funding programs like those in Maine and Arizona, which provide qualified candidates with basic grants equal to all of the money they are allowed to spend in a primary and general election. (These amounts may be reduced if the candidate is unopposed and increased if the participating candidate faces a nonparticipant who spends significantly more than the participant's basic limit. A few states have also used public resources to offer tax credits or rebates to those who make small donations to candidates.

A public funding program can foster any number of policy objectives, depending upon its specific provisions. Since *Buckley*, public funding has usually been invoked as a vehicle for reducing the influence of wealthy donors and leveraging restrictions on campaign spending, since the Court ruled that expenditure ceilings are constitutionally acceptable as a condition attendant to the receipt of a public subsidy. But these are not the only purposes that public funding can serve. Public financing can also facilitate the goals of civic participation and electoral competition. Public funds can be used to provide incentives to donors to participate, to offer candidates the opportunity to muster the resources needed to mount viable campaigns, and to reduce the time that candidates have to spend personally soliciting funds from major donors.

The presidential system was based in large part on the participatory goals associated with public funding. When Congress initially established this program, it was not conceived as a means of leveraging spending limits. The authors of the 1974 FECA imposed spending limits on individual spenders and congressional candidates without public funding, based on the assumption that the legislature had the authority to establish mandatory spending limits as well as contribution limits to reduce the role of money in elections. The purpose of adding public money was to enable candidates to gain access to funds and compete.

Public funding also sought to reduce the relative influence of large donors by encouraging candidates to reach out and broaden their bases of financial support by emphasizing small contributions. This was the principal idea behind the matching funds program established for presidential nomination campaigns. The law sought to leverage the value of small donations as a means of giving candidates an incentive to solicit large numbers of small donors and thus expand citizen participation in the financing of campaigns.

The value of public money as a means of advancing participation and candidate emergence can be discerned from the experience under the presidential system. Over the course of the program's first two decades, public matching funds provided significant funding to candidates and gave a meaningful boost to underdog candidates—whether Republican or Democrat, conservative, liberal or moderate. Matching funds typically made up one-quarter to one-third of the money raised by participating candidates, with those who emphasized small contributions reaching even higher percentages. These funds also had a strong impact on competition. A notable number of contenders—including eventual presidents Jimmy Carter, Ronald Reagan, and George H. W. Bush—were running out of money and facing well funded opponents, when an infusion of public funds made it possible for them to remain viable.¹⁸

Over time, the failure of Congress to revise public funding in light of radically changed circumstances led to declining participation in the program. By 2008, the system had

collapsed because it no longer served most candidates' needs. The spending limits accompanying the public subsidy, which had not been adjusted except for inflation since they were established more than 30 years ago, were no longer considered adequate for the financial demands of the modern nominating process. Most candidates regarded the ceilings as a punitive restraint that placed anyone campaigning under them at a major strategic disadvantage.

In addition, the relative value of matching funds declined as a result of the 2002 increase in the individual contribution limit, with the \$250 match now representing a minor share of a maximum \$2,300 contribution, as opposed to a quarter of the previous \$1,000 limit. Consequently, presidential aspirants, especially those hoping to be major contenders for the nomination, now find the costs of accepting public funding to be too high and the benefits too low. This had led many of the candidates in 2008 to decide that it is more advantageous not to participate.

Public funding can be an important means of changing the incentives to persuade more small donors to participate. But the benefits the program offers to candidates must be generous enough to ensure that the candidates are willing to participate and seek out the small contributions. Programs that do not offer meaningful levels of funding, or impose restrictions the candidates consider too costly, will fail to achieve their goals.

A public financing system should be designed to achieve more than one principal purpose. Specifically, public financing should: (1) foster citizen participation; (2) provide opportunities for non-incumbent candidates who are neither wealthy themselves nor beholden to wealthy supporters; and (3) allow candidates to spend less of their time personally asking for money from large donors.

Fostering these goals does not depend on policies that place further restrictions on donors or those who spend money independently (assuming that contribution limits similar to those in federal elections or states with comparable limits are in place, as noted above). However, it does depend on the specific provisions of a public financing program. The way in which a public funding program is designed and implemented is the critical element that determines whether it will have its intended effects. Some policy options are more conducive to participation, while some are more effective at providing candidates with the funds they need. A public financing program therefore will need to include several different features if it is to be effective in fulfilling all of the purposes that we have identified.

Public funding can be important for changing incentives. But programs that do not offer meaningful levels of funding or that impose restrictions the candidates consider too costly, will fail to achieve their goals.



Multiple matching funds for small donors: Public financing should be provided to participating candidates in the form of multiple-dollar matching funds for small contributions from individual donors. While the flat-grant systems used in some states and in previous presidential general elections have merits, generous matching funds give candidates a greater incentive to engage the participation of small donors. Matching funds should be used in

both primary and general election campaigns to ensure candidate outreach and individual engagement throughout the election cycle. This approach should be applied to all federal and state candidates, including gubernatorial and state legislative candidates, with the exception of judicial candidates in states where members of the judiciary are elected by popular vote. Because a successful use of matching funds relies upon active solicitation on the part of the candidates, flat grants are better suited to judicial races than matching funds.

The exact matching formula to be used will vary for different offices and jurisdictions, but in all instances a public funding program should offer matching funds on more than a dollar-for-dollar basis. A multiple match creates greater incentives for participation than a simple dollar-for-dollar benefit, since it enhances the value of a small donation and offers candidates an opportunity to raise substantial sums from small contributors. For example, the New York City public funding program offers candidates in city elections a six-to-one match on the first \$175 received from an individual donor. A donation of \$175 provides a candidate with \$1,225, including the public match. Or, to further illustrate, a match of three- or four-to-one on a contribution of \$100 or \$200 would significantly increase the cash value of these small sums, which might enhance an individual's sense of the efficacy of such gifts and thus his or her likelihood of giving. It would also give candidates a greater incentive to involve small donors in their campaigns.

An important policy consideration in any matching program is the means by which the match is applied. One approach is to match the first dollars received from a donor up to the qualified amount, even if a contribution exceeds the amount that may be matched. This is the approach employed in the current presidential system, where the first \$250 of an individual's donation is matched. So, for example, a candidate receives \$250 in match on any contribution of \$250 or more.

A drawback to this approach is that it does not offer the strongest possible incentive to seek out small donations, since candidates can continue to solicit larger donations and still receive the matching benefit. Thus, in the presidential system, candidates participating in public funding have increasingly relied on the maximum permissible contribution of \$1,000 (prior to 2004) or an adjusted \$2,000 (since 2004), rather than smaller

donations. To give but one example, Al Gore and Bill Bradley, the leading contenders for the Democratic Party's presidential nomination in 2000, both accepted matching funds, but each focused on \$1,000 donors and raised more than 60 percent of their funds from this source.¹⁹

An alternative approach is to limit match eligibility to contributions that do not exceed the matching threshold in aggregate. In this case, public funds would only be received for contributions of up to the amount eligible for matching. So, for example, if matching funds were applied to contributions only from donors whose contribution to a candidate aggregate to \$200 or less, an individual contribution of \$250 or the contributions made by an individual that aggregated to more than \$200 would not be eligible. This method would give candidates a stronger incentive to emphasize and seek out small donations, since only small donations would qualify for matching.

A drawback to this approach is that it may impose notable administrative burdens on candidates, since they would have to monitor contributions diligently to ensure compliance with the law. In particular, the match on contributions from repeat donors who eventually exceed the qualified threshold amount would have to be managed or refunded. Candidates might discourage additional donations from engaged and enthusiastic supporters in order to comply with the rules and be able to retain the public funds obtained from a donor's initial qualified contribution. However, if public funding does serve to engage large numbers of small donors in the process, it will be difficult—if not impossible—for candidates to control the behavior of supporters, especially those who are motivated to give without receiving a specific solicitation from a candidate. Consequently, candidates may need to be making contribution refunds or public funding repayments during the course of a campaign.

Lower contribution limits instead of imposing spending limits: One way to minimize the problems associated with the implementation of a matching benefit is to employ a third option: make the first dollars contributed by an individual eligible for matching but require publicly funded candidates to adhere to a contribution limit that is lower than the nonparticipant's contribution limit, but higher than the maximum matching amount. This approach would generate stronger incentives for small-donor participation without the complicated administrative procedures that might be required by a system that only matches aggregate amounts that fall within the eligible contribution threshold.

Public financing should take the form of multiple-dollar matching funds for small contributions. Matching funds should be used in both primary and general election campaigns to ensure outreach and engagement throughout the election cycle.

The core problem with expenditure limits is that their efficacy depends upon knowing what constitutes a “reasonable” level of spending. Instead of a spending limit, participating candidates should be required to adhere to a lower contribution limit.

Current public financing systems require candidates who accept public funds to agree to expenditure limits as a condition of eligibility. But, as recent history has demonstrated, the amounts allowed by spending limits have often proven to be inadequate, especially in competitive contests. Moreover, the ceilings are often circumvented. The core problem with expenditure limits is that their efficacy depends on knowing what constitutes a “realistic” level of spending for a specific electoral context. If a limit is set too high, it may not constrain behavior and thus serve little purpose. If a limit is set too low, it may drive candidates—especially those who face non-participating opponents—away from the public funding option. The level at which a ceiling might have an effect and modify behavior, yet not undermine the benefits of public funding, is difficult to discern.

Furthermore, no matter how well designed, a spending limit only applies to the activities of candidates who accept public funding. Non-participating candidates can spend unlimited amounts, even when facing publicly funded opponents. Some public funding programs attempt to address this problem by allowing a publicly funded candidate to spend more when facing a high-spending, privately funded opponent. This approach, which has become a matter of constitutional debate in light of a recent Supreme Court decision, does not resolve the problem of spending limits.²⁰ All other actors involved in an election, including parties, PACs, political groups, and individuals can spend unlimited amounts independent of a candidate. This

highlights the limited effect any spending limit might have on the amounts spent in a given race. Accordingly, candidates who accept public funds should be allowed to raise and spend unlimited amounts of money, just as any candidate who does not accept public funds may do.

Instead of a spending cap, candidates who participate in public financing should be required to adhere to a lower contribution limit in exchange for the public benefit. This lower limit would become effective once a candidate formally qualifies for public funds. A lower contribution limit will strengthen the incentive to recruit small donors, since it will reduce the disparity between a maximum permissible donation and a small donation, especially in a multiple match system. Enhancing the relative value of small donations through matching funds, while also reducing the maximum amount an individual may give, will also provide prospective small donors with a stronger incentive to participate. And, by matching the first dollars contributed by a donor, the system would avoid the administrative issues that arise in a system that bases matching funds on a donor’s aggregate giving.

The precise amount of the contribution limit applicable to publicly funded candidates is less important than the principle. The limit should be significantly lower than the amount that may be accepted by a candidate who does not accept public funds, but it should not be so low that the level and administrative burden gives candidates a reason to opt out. One possibility would be to allow publicly funded candidates to accept an individual contribution equal to half of the maximum amount that may be given to a candidate who is not receiving public funds.

What is most important, in our view, is that a public funding program focus the attention of candidates on small donors, and allow candidates to raise enough money to compete against non-participating candidates. The program should also be simple enough to be understood by potential donors and be administered by candidates who may have little experience with campaign finance regulations. These objectives are better served by linking public financing to a change in the contribution limit than by linking it to a spending limit.

Early money: Any public funding program will need to provide candidates with time to decide whether to participate. While some candidates may decide on the public option before entering a race and be able to meet the eligibility requirements quickly, many are likely to launch a candidacy and then decide based on their early fundraising efforts. First-time or lesser-known challengers without a proven group of donors may also need time to meet the qualifying criteria. Accordingly, an early fundraising period or financial threshold should be established to provide time for candidate decision-making.

A qualifying period should be restricted so that candidates do not diminish the potential benefits of public funding or avoid lower contribution limits by delaying a decision to participate or qualify for funding. The best method would be to establish a ceiling on the amount that a candidate may raise and still be eligible for public funding. An “early fundraising” total would be preferable to a specific time period, since individuals may decide to initiate a candidacy at different times and some candidates may take much longer to qualify public funds than others. A cap on the amount of early money a candidate may raise would function in a less arbitrary manner than a pre-determined early fundraising time period.

Because early money is important, especially for non-incumbents who face greater challenges in establishing their visibility and building a campaign organization, public funds should be readily available to candidates. Candidates should be able to receive public funds as soon as they meet the qualifying threshold and these monies should be distributed on a timely basis.

Because early money is important, especially for non-incumbents, candidates should be able to receive public funds as soon as they qualify.

Qualifying threshold: Candidates should be required to meet a qualifying threshold in order to be eligible to receive public funds. This threshold should be high enough to protect the public purse from having to support all manner of applicants, particularly frivolous candidates. But it should not be set so high that it constitutes a barrier to potentially serious candidates or places an unconstitutional burden on minority parties by, for example, creating constitutionally unequal conditions for minor parties that are not needed to achieve a constitutionally permissible purpose. Because there is no precise way to determine an “exactly right” threshold, the level should err on the side of inclusion rather than exclusion.

In a matching fund system,
the risk of setting
the qualifying threshold
too low is not so serious.

One advantage offered by a matching funds approach is that it reduces the possibility of substantial amounts of public money being disbursed to a truly frivolous candidate. In a public funding system based on flat grants, candidates are awarded a set amount of money once they qualify. The qualifying threshold is thus the primary means of protecting the public purse.

To safeguard against the allocation of funds to candidates who lack public support, at least two flat-grant systems (the general election grant for the presidency and the recently enacted full public funding system in Connecticut) established different eligibility criteria for major party and non-major party candidates. In Connecticut, this resulted in a U.S. district court holding (currently being appealed) that the requirements imposed an unconstitutional, discriminatory burden on minor party candidates.²¹

It should be noted that the qualifying thresholds in Arizona and Maine do not discriminate on the basis of major or minor party status. However, any such program awards full public funding on an all-or-nothing basis to qualified candidates. Since the goal is to provide candidates in all districts with enough money to run a competitive race—even a challenger running against a well-known incumbent—that means reaching the threshold could trigger significant amounts of money flowing. Hence the concern about the levels of public expenditure: If the levels are too low, “too many” candidates will qualify and the public expense will be high. If the thresholds are too high, too many otherwise worthy candidates will be kept out of the race.

A matching fund system is more forgiving. In a matching funds system, all candidates are subject to the same eligibility requirements, but the risk of setting the limit “too low” is not so serious. For example, in the current presidential system for the primaries, any candidate who meets the qualifying threshold and accepts the terms of the program may receive public funds, regardless of whether the candidate is running as a major party contender, minor party contender, or independent. But even if a candidate with

little public support qualifies, it is unlikely that he or she would raise enough money to accrue a substantial amount of public funding.

A qualifying threshold should be reviewed periodically to ensure that it is appropriate for its purpose. For example, the threshold used in the presidential program, which requires that a candidate raise at least \$5,000 in contributions of \$250 or less in at least twenty states, has not been changed since it was established in 1974. In our view, this threshold is too low given the changes that have taken place in the political system. It should be revisited and raised to ensure that candidates demonstrate a meaningful level of support before receiving public funds.

In addition to a qualifying threshold, public funding programs should include provisions to guard against the misuse of public funds. At a minimum, any statute establishing a public funding program should clearly define permissible expenditures. It should also include rapid, mandatory electronic disclosure, mandatory audits, and effective enforcement procedures.

Funding maximums: Any public matching fund system should specify the maximum amount of public money that one candidate may receive. The level should provide enough public money to give an underdog candidate a reasonable foundation for competing against a frontrunner, but should not make the race less competitive by giving a frontrunner a publicly funded financial advantage over the rest of the field. Public funding should be designed to enhance competition by helping candidates gain the wherewithal to get started. It need not be a continuing source of money for candidates who are already well financed, and it certainly should not be used to widen the gap inordinately between frontrunners and the rest of the field.

As with qualifying thresholds, there is no precise way to establish a standard for the maximum level of public money. The maximum amount will vary with the office and jurisdiction or district involved. For illustrative purposes, \$100 million might be a reasonable maximum for a presidential primary or general election candidate. If a four-to-one match were to be used, a candidate who raised \$25 million in small contributions would receive the maximum match of \$100 million. With this amount of money, and with a small-donor base established under the incentive provided by multiple matching funds, the candidate should be able to build upon this fundraising base to continue without further subsidy, even in a race without lower contribution ceilings and no spending limit.

Any public matching fund system should provide enough public money to give an underdog a reasonable foundation, but should not make the race less competitive by giving a frontrunner a publicly funded financial advantage.

Whatever the maximum in public funds may be, it should be indexed for inflation. As a general principle, the amount established for the primary and general election should be the same for chief executive offices. In congressional or state legislative races, however, it may be appropriate to set different levels for the primary and general elections.

Tax credits or rebates: Public funding is not the only way to employ public resources to leverage small contributions. An alternative or synergistic method is to provide a tax credit or rebate for contributions to candidates. This policy may not be as consequential as a multiple matching plan, but it can be a valuable means of encouraging small donations. A matching system gives *candidates* a strong reason to seek small donors. A credit or rebate gives the individual *donor* a stronger incentive to give. The basic assumption behind a tax credit or rebate is that individuals are more likely to contribute if the personal cost of doing so is lowered.

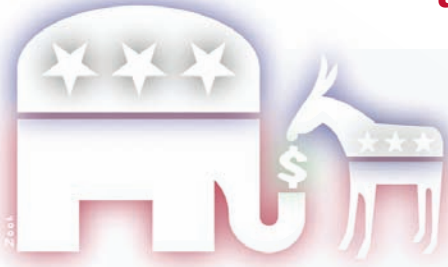
Current federal law does not provide a tax credit or tax deduction for political contributions. The federal government did have a program until 1986, when it was eliminated as part of a tax simplification package. At that time, the credit provided a 50 percent tax credit on contributions of up to \$50 for individuals and \$100 for joint returns for federal, state or local campaigns. About 5 percent of taxpayers filed for the credit in the final years in which it was an option.

A few states offer some form of tax incentive to donors. Minnesota's program, which offers an immediate rebate to individuals who make small contributions to candidates, has been the most effective. Unfortunately this program was recently suspended as part of a budget balancing action in the state.

A tax incentive would offer an additional stimulus for small-donor participation and would likely compound the beneficial effects of a multiple match system. The best approach would be to offer a tax rebate on individual donations of small amounts. A rebate is to be preferred over a tax credit since it is more inclusive approach that encompasses those who are not tax filers. Where a multiple matching fund program exists, a rebate of 50 percent should be available on small donations. Where multiple matching is not available, a 100 percent rebate should be offered on donations by small givers.

To be effective, a tax incentive must stimulate contributions from those who do not traditionally give. Otherwise, the policy simply serves to provide a tax benefit to those who are already planning to give and thus would have little effect in broadening participation or altering the financial activity in political campaigns. Accordingly, a tax credit or rebate should be targeted to those in lower income ranges, since these individuals are less likely to be participating now.

Enhancing party-candidate relations and electoral accountability



- **Unlimited coordinated expenditures for political parties from small-donor contributions:** National party committees should be allowed to make unlimited coordinated expenditures in support of candidates from funds raised from small donors who give an aggregate of \$200 or less.

Political parties are unique institutions in American politics. Party organizations are the most important collective agencies in our political system, performing functions that aggregate diverse interests in ways that are designed to appeal to a broad range of voters. Parties have a major stake in election outcomes and play a valuable role in recruiting and supporting candidates, as well as persuading and mobilizing voters. They offer meaningful voting cues to the electorate and their relationship with candidates helps to ensure electoral accountability in governance.

Parties are an important source of financial support for candidates, especially non-incumbents, since the parties' primary goal is to help their candidates win, and particularly in contests where the parties believe their intervention can make a difference. Accordingly, the rules that govern the political process should promote linkages between parties and candidates, and parties and voters. Strong party organizations are a key to a healthy democratic political system and essential to accountability in the political process.

National party committees offer direct support to candidates primarily by spending money on their behalf.* They may do so either by coordinating their efforts with a candidate or by spending money independently without consulting with the candidate or campaign staff. In most campaign finance statutes, money spent in coordination with a candidate is considered to be comparable to a contribution and therefore subject to contribution limits, since the candidate can control how the money is spent. Under federal law, however, party committees have been allowed since 1974 to spend additional money in coordination with a candidate subject to a limit based on statutory spending formulas. The coordinated spending limits vary based on the office being sought—President, U.S. Senate or House.

In 1996 the Supreme Court opened a new path for party spending when it affirmed the right of party organizations to make unlimited *independent* expenditures expressly advocating the election or defeat of a candidate.²² This independent expenditure

* The national party committees include the Republican and Democratic National Committees, National Republican Senatorial Committee, Democratic Senatorial Campaign Committee, National Republican Congressional Committee, and Democratic Congressional Campaign Committee.

option gives parties much greater freedom, since there is no ceiling on such spending. It is therefore not surprising that independent spending has become the primary form of party candidate assistance. For example, according to reports filed with the FEC, national and state or local parties spent a combined \$353 million on independent expenditures in federal races during the 2008 election cycle, or five times more than they spent on coordinated expenditures (\$70 million). In the 2006 midterm elections, they spent \$224 million on independent expenditures, or six times the \$35 million devoted to coordinated expenditures. To put these figures in different terms, the national party committees have been spending an amount equal to 20-25 percent of their total budgets on independent expenditures that expressly support or oppose specific federal candidates.

To spend the amounts they believe necessary to help elect their candidates, parties are required to adopt the position that they are distinct and independent of those who run under the parties' names on the ballot. In practice, this simply requires compliance with regulatory technicalities to ensure that an administrative unit within the party or party consultant operates as an independent and segregated entity. But the practice does not serve the best interests of either the parties or the voting public.

The notion that parties are independent of their candidates is contrary to the public's understanding how parties and candidates do or should relate to each other. It is also belied by current practice, since, in many instances, parties finance both coordinated and independent expenditures on behalf of a candidate. Independent spending can thus be a source of voter confusion. It also diminishes the voters' ability to hold candidates accountable for what is said and done in a campaign. A candidate can disavow responsibility for a controversial independent party advertisement, yet still benefit from it. Or, conversely, a candidate might be harmed when she or he can do little to stop a party message or action that is inconsistent with the candidate's message or that might be so controversial as to risk alienating supporters. In the latter situation, any indication that a candidate controls or influences the party's decisions may expose both the candidate and party to being charged with coordinating their activity and violating the law.

One way to address these problems and strengthen the relationships between parties and candidates would be to allow parties to make unlimited coordinated expenditures in support of candidates. But to do this without any strings would risk undermining the limits on contributions to candidates. Under the law, candidates are permitted to raise money for their parties and donors are allowed to make larger contributions to the party committees than to the candidates. The only thing that prevents this

We recommend allowing national party committees to make unlimited coordinated expenditures but to do so *only* from money the parties raise from small donors who give an aggregate amount of \$200 or less.

TABLE 5: Sources of funds for the national party committees, 1999-2008

	Individual contributions (by donors' aggregate contributions)												
	Total receipts	\$200 or less		\$201– \$999		\$1000– \$19,999		\$20,000 or more		Other (inc. PACs, loans, other)		Soft money	
	\$ million	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%
DNC													
2008	260.1	69.8	27%	23.9	9%	50.0	19%	85.9	33%	30.4	12%	NA	NA
2006	130.8	63.4	48%	23.9	18%	20.9	16%	9.8	8%	12.8	10%	NA	NA
2004	404.4	128.0	32%	56.3	14%	83.5	21%	66.7	16%	69.4	17%	NA	NA
2002	162.1	34.3	21%	10.2	6%	9.9	6%	1.2	1%	11.8	7%	94.6	58%
2000	260.6	41.3	16%	12.4	5%	43.0	17%	15.4	6%	11.8	5%	136.6	52%
RNC													
2008	427.6	116.8	27%	84.2	20%	114.9	27%	88.0	21%	23.6	6%	NA	NA
2006	243.0	98.7	41%	36.8	15%	37.8	16%	40.1	17%	29.4	12%	NA	NA
2004	392.4	129.2	33%	68.3	17%	77.5	20%	75.4	19%	41.9	11%	NA	NA
2002	284.0	85.7	30%	31.4	11%	31.3	11%	6.0	2%	12.3	4%	113.9	40%
2000	379.0	91.1	24%	34.0	9%	49.2	13%	19.0	5%	19.5	5%	166.2	44%

Source: Campaign Finance Institute analysis of FEC records.

Percentage of funds derived from contributions of \$200 or less:

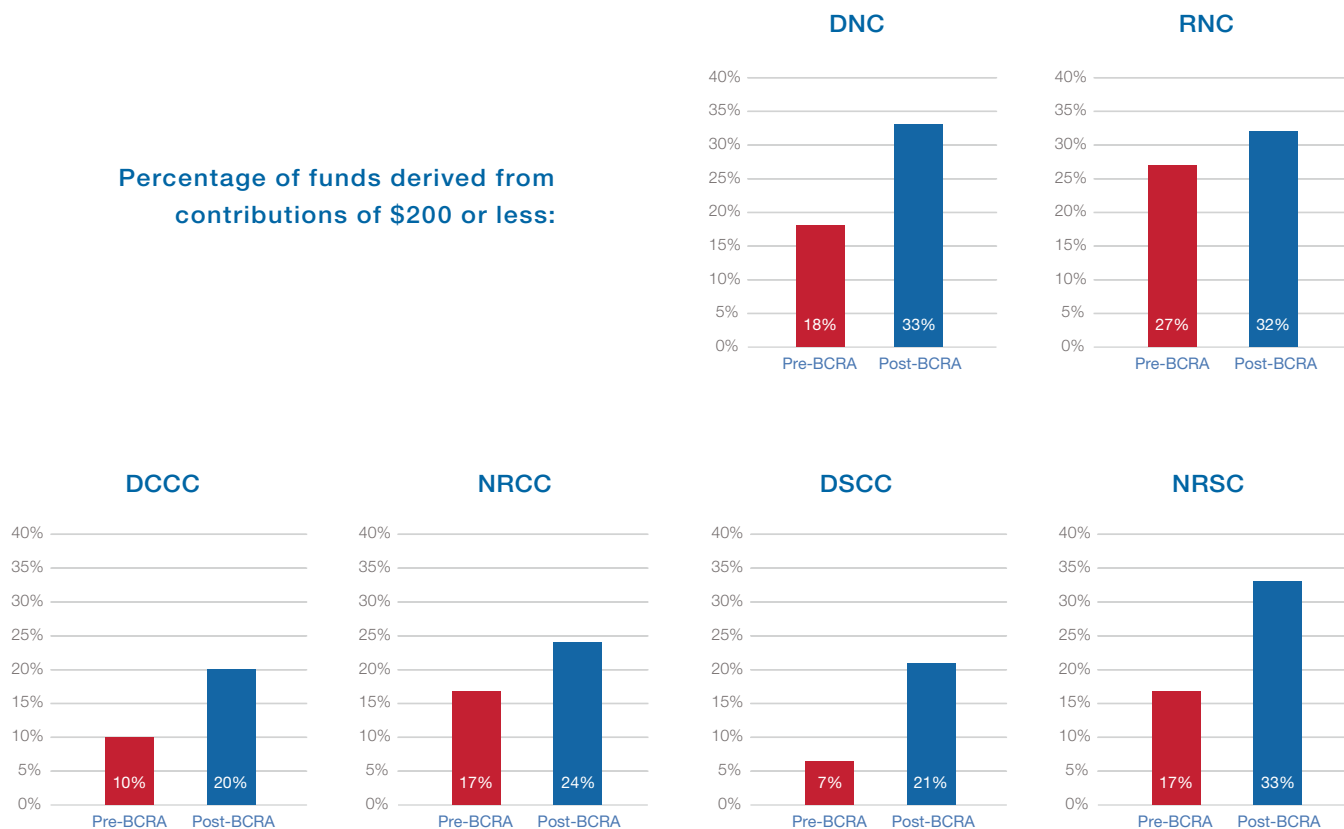


TABLE 6: Sources of funds for House and Senate party committees, 1999-2008

Individual contributions (by donors' aggregate contributions)															
Congressional campaign committees															
	Total receipts	\$200 or less		\$201– \$999		\$1000– \$19,999		\$20,000 or more		Members' campaign committee		Other (inc. PACs, loans, other)		Soft money	
	\$ million	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%
DCCC															
2008	176.2	27.8	16%	9.4	5%	22.8	13%	30.8	17%	48.0	27%	37.5	21%	NA	NA
2006	139.9	30.0	21%	8.7	6%	19.4	14%	25.2	18%	33.7	24%	23.1	16%	NA	NA
2004	93.2	22.9	25%	5.6	6%	16.6	14%	9.6	10%	18.7	20%	23.8	26%	NA	NA
2002	102.9	10.3	10%	2.0	2%	5.5	5%	1.5	1%	12.3	12%	14.8	14%	56.4	55%
2000	105.1	9.9	9%	2.4	2%	7.9	8%	1.6	2%	7.9	7%	18.7	18%	56.7	54%
NRCC															
2008	118.3	27.3	23%	16.1	14%	22.2	19%	9.2	8%	25.4	22%	18.0	15%	NA	NA
2006	179.5	36.6	20%	28.8	16%	35.8	20%	10.9	6%	31.6	18%	35.9	20%	NA	NA
2004	185.7	52.7	28%	39.0	21%	49.2	26%	5.0	3%	19.9	11%	19.9	11%	NA	NA
2002	193.3	23.9	12%	26.0	13%	27.8	14%	1.6	1%	14.3	7%	30.1	16%	69.7	36%
2000	144.6	34.7	24%	19.4	13%	12.0	8%	0.9	1%	14.7	10%	15.6	11%	47.3	33%
Senate campaign committees															
DSCC															
2008	162.8	27.6	17%	5.1	3%	27.5	17%	44.8	28%	21.8	13%	36.0	22%	NA	NA
2006	121.0	29.1	24%	5.2	4%	23.4	19%	29.6	24%	12.2	10%	21.6	18%	NA	NA
2004	88.8	21.8	25%	3.2	4%	15.6	18%	17.2	19%	8.6	10%	22.4	25%	NA	NA
2002	143.4	9.7	7%	1.3	1%	6.4	4%	2.8	2%	2.0	1%	26.3	18%	95.0	66%
2000	104.2	8.4	8%	0.8	1%	5.8	6%	2.4	2%	1.2	1%	21.8	21%	63.7	61%
NRSC															
2008	94.4	33.1	35%	3.1	3%	14.2	15%	20.6	22%	3.7	4%	19.6	21%	NA	NA
2006	88.8	28.4	32%	3.0	3%	16.3	18%	17.6	20%	5.8	6%	17.8	20%	NA	NA
2004	95.9	30.5	32%	3.0	3%	17.2	18%	10.2	11%	3.8	4%	31.2	33%	NA	NA
2002	125.6	19.4	15%	2.0	2%	17.4	14%	2.4	2%	2.3	2%	15.4	12%	66.4	53%
2000	96.1	19.3	20%	1.4	1%	12.1	13%	1.0	1%	2.7	3%	14.8	15%	44.7	47%

Source: Campaign Finance Institute analysis of FEC records.

from being a direct circumvention of the limit on contributions to candidates is that the candidate has no way to know how the party will spend the money. (This is especially true for a congressional campaign committee. It is arguably less so for the relationship between a national party committee and its presidential candidate.)

But if the parties were able to spend unlimited amounts in coordination with their candidates, nothing would prevent a candidate from asking for a contribution with the understanding that the funds would be used to help his or her own campaign.²³ The understanding would not even have to be explicit. In the past, party committees have informally earmarked contributions to help particular candidates and have formed joint fundraising committees with candidates that raised funds for both the party and candidate. With unlimited coordinated spending, therefore, we are likely to see an increase in candidate fundraising for the party in a manner that would in effect increase the amount individuals could give to support that same candidate directly. This would be the functional equivalent of a tenfold increase in the limit on contributions to candidates. Any proposal to permit unlimited coordinated expenditures therefore must address the contribution side of the equation if the efficacy of contribution limits is to be maintained.

We therefore recommend allowing parties to make unlimited coordinated expenditures, but to do so *only* from money the parties raise from small donors who give an aggregate amount of \$200 or less. This would improve accountability in the electoral process without diminishing the benefits of contribution limits.

Even with such a stricture, the proposal would markedly free up the parties' coordinated activity. When BCRA banned unlimited soft-money contributions to national party committees, the national parties responded by increasing their appeals for small donations. In the 2008 election cycle, the Democratic and Republican National Committees raised 27 percent of their total—a total of more than \$186 million—from small donors who gave an aggregate of \$200 or less (see [Table 5, page 50](#)). The four congressional campaign committees raised another \$115.8 million from donors who gave \$200 or less (see [Table 6, page 51](#)). The sum the party committees raised from small donors was more than four times the amount they put into coordinated expenditures. Basing coordinated spending on small-donor funding would thus offer parties a much greater capacity to coordinate with candidates without undermining contribution limits. It is not likely to increase the total amount of party spending, since the parties will continue to raise and spend as much as they can. Instead, the principal effect is likely to be a shift of funds away from independent spending toward coordinated activity. In this way, it will strengthen the linkage between candidates and parties, which in turn will increase the accountability of party electioneering.

**We believe that the parties
would rather work
with the candidates
than apart from them.**

We believe that parties would rather work with their candidates than apart from them. This proposal therefore should give parties an additional incentive to solicit more small donations, since the more money they receive from small gifts, the more they may spend in coordination with their candidates. By coordinating their activities and spending decisions, parties and candidates will be better able to work in concert and can better ensure that monies are being spent in ways that best advance a candidate's chances for victory. Coordination also means lower administrative costs, since parties will not have to establish separate independent spending operations or hire additional consultants to carry out independent advertising campaigns. Even if this change does not encourage greater emphasis on small contributions, the increase in coordination will have a salutary effect, benefitting both parties and candidates while at the same time improving the voters' ability to hold each accountable for their campaigns.

The framework in this report can improve U.S. election campaigns. It can expand the pool of attractive candidates for public office, enhance the role of rank-and-file voters, and transcend what has become a destructive dispute over how best to finance campaigns in America. There is room for differences over many of the specifics, but implementing these ideas would significantly enhance the quality of democracy in the United States.

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Endnotes

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