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FREE SPEECH

Taxpayer-Financed Campaigns: *A Costly and Failed Policy*



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Points in Summary

- Often euphemistically referred to as “clean elections” or public financing, taxpayer-financed campaign programs seek to replace private, voluntary contributions from citizens to their favored candidates with government grants of taxpayer dollars to candidates who meet certain requirements. Commonly promoted as a cure-all for improving government and reducing corruption, an evaluation of Arizona, Connecticut, and Maine’s statewide and New York City’s citywide taxpayer-financed campaign programs cast serious doubt on proponents’ claims.
- Contrary to advocates’ claims, in practice, taxpayer-funded campaign programs: (1) contain alarming amounts of corruption; (2) relatedly, fail to decrease the incidence of public corruption; (3) fail to change legislative voting patterns or reduce lobbyist influence; (4) fail to promote electoral competitiveness; (5) fail to increase either occupational diversity or female representation in legislatures; (6) fail to result in financial savings to taxpayers; and (7) fail to improve voter turnout or trust in government.
- Additionally, taxpayer-financed campaign programs are costly and have been shown to carry a continually increasing price tag over time.
- When the costs and the nature of these programs are explained, the public generally does not support the government giving tax dollars to politicians to pay for their campaigns.
- In Arizona’s case, many observers have noted that the state’s tax-financed campaign program has produced one of the most polarized state legislatures in the country, despite claims by advocates that replacing private contributions with taxpayer funds would reduce extremism.
- From inherent constitutional concerns to the potential to exacerbate existing corruption issues, state policymakers should not view tax-financed campaign proposals as a solution to perceived problems in government.

Introduction

Taxpayer-financed campaign programs seek to replace private, voluntary contributions from citizens to the candidates of their choice with government grants of taxpayer dollars to candidates who meet certain requirements. To qualify, candidates typically must raise a certain number of small donations or “seed money” and agree to strict limits on the size and source of the campaign contributions they receive. Some of these programs provide fixed grants to candidates, while others match small donations from citizens with tax dollars. For example, New York City’s tax-financing program provides \$6 in matching funds to candidates for every \$1 they raise (up to \$175) from donors.

Since the inception of tax-financing programs, most notably in Arizona, Connecticut, Maine, and New York City, much research has been devoted to assessing whether these schemes truly realize the many claims made by their proponents or result in better government. While advocates tout these programs as a panacea for fixing government – by reducing corruption, diminishing lobbyist and “special interest” influence, increasing electoral competitiveness, improving occupational diversity and female representation in legislatures, saving taxpayer dollars, reinvigorating participation in democracy, and cultivating confidence and trust in government – the experience of tax-financing programs in those three states and New York City strongly suggests otherwise.

This primer summarizes the lessons learned about taxpayer-financed campaign programs since their inception decades ago. Informed by both the Institute’s own research and numerous academic works, this primer outlines the failures of existing tax-financing programs to achieve their stated goals and places the cost and alleged support for these programs in context.



The Failures of Tax-Financed Campaigns

- I. **Existing taxpayer-financed campaign programs in Arizona, Maine, and New York City contain disturbing amounts of corruption.** An August 2013 report published by the Institute for Free Speech examined publicly available information on corruption in Arizona, Maine, and New York City's well-established taxpayer-financed campaign systems and found significant corruption issues in all three programs and New York City's in particular.¹

Our study found that these programs have provided significant amounts of taxpayer dollars to candidates who were later investigated for – and in many cases, convicted of – abuse, fraud, and other forms of public corruption. Between 2001 and 2012, Arizona granted **\$2,237,925** in tax-financed funds to participating candidates later investigated for campaign finance abuses.² Maine's program had the least significant waste and abuse, but it still granted **\$184,940** in tax-financed funds over the same time period to participating candidates later investigated for serious misuse of public funds.³ By far the most severe waste was found in New York City's program. New York City granted a staggering total of **\$19,232,067** to participating candidates later investigated for abuses of taxpayer dollars between 2001 and 2013.⁴

These abuses highlight the reality that tax-financing programs have failed to solve the age-old problem of corruption in government. Politicians running as so-called “clean” candidates have been guilty of the same corruption charges that have befallen elected officials in state and city government for time immemorial. Tax-financing participants have been just as guilty of tax evasion, accepting illegal gifts, failing to disclose contributions or expenditures, and colluding to steal public funds as their corrupt predecessors. However, in addition to failing to root out old forms of corruption, these programs have opened new avenues for abuses of taxpayer dollars. Participant politicians have been found guilty of funneling matching funds to firms controlled by their spouses, falsifying records to defraud the government of matching funds, misusing government funding for personal expenses, failing to return unused taxpayer dollars, and even staging a fake campaign to qualify for the program's lucrative grant money.⁵

As the experiences of Arizona, Maine, and New York City demonstrate, taxpayer-financed campaigns have not reduced corruption in the states and cities that have implemented them; they have only exacerbated the potential for corruption in government.

- II. **Consistent with these findings, an April 2013 academic study found that restrictive state-level campaign finance laws, including taxpayer-financed campaigns, failed to decrease the incidence of public corruption.** This research by IFS Academic Advisor and Professor of Economics at the University of Missouri, Jeff Milyo, and Adriana Cordis, Assistant Professor of Economics at the University of South Carolina Upstate, systematically

1 Matt Nese and Tom Swanson, “Issue Review: Clean Elections and Scandal: Case Studies from Maine, Arizona, and New York City,” Institute for Free Speech. Retrieved on July 16, 2014. Available at: http://www.ifs.org/wp-content/uploads/2013/08/2013-08-05_Issue-Review_Swanson_Clean-Elections-Scandal-Case-Studies-From-Maine-Arizona-And-New-York-City.pdf (August 2013).

2 *Ibid.*, p. 12-13.

3 *Ibid.*, p. 21-22.

4 *Ibid.*, p. 36-37.

5 *Ibid.* 1.

examined the effects of campaign finance laws on actual corruption rates in the states.⁶ In addition to other restrictive campaign finance laws, the paper assessed the effects of tax-financed campaign programs on both convictions and filings in cases of public corruption over the past 25 years. Ultimately, the authors found “no strong or convincing evidence that state campaign finance reforms reduce public corruption.”⁷

- III. **Taxpayer-financed campaign programs fail to meaningfully change legislative voting patterns and do not reduce lobbyist and “special interest” influence.** Advocates of tax-financed campaigns systems often claim that such programs will change legislative voting behavior by freeing legislators from the alleged impact of “special interests.” However, there is no evidence to support this claim. In October 2012, the Institute published an update to our March 2010 preliminary report that measured changes in the voting patterns of legislators who served in the Connecticut General Assembly during the 2007-2008 and 2009-2010 legislative sessions and accepted taxpayer dollars for their 2008 re-election campaigns through the state’s Citizens’ Election Program (CEP).⁸ The Institute compared the voting records of CEP participant legislators in the session before the state’s tax-financing program went into effect and in the session afterwards with the priority legislation of the top five interest groups in the state.

The report concluded that the CEP had not changed the frequency with which state legislators voted in favor of the positions of organized interest groups.⁹ In many cases, the number of times that legislators voted in favor of the interest groups’ studied actually rose after Connecticut’s Citizens’ Election Program went into effect.¹⁰ These findings were consistent with an earlier study of voting patterns of state legislators in Arizona the first year after that state offered taxpayer-financed political campaigns, which also found that Arizona’s program had no effect on the voting patterns of its participant legislators.¹¹

States with similar programs have continued to witness considerable interest group involvement in campaigns too, as these groups often organize to help candidates raise the required qualifying contributions necessary to receive public funding. This happened in Arizona and Maine as well as in New Jersey’s failed tax-financing pilot project. In Arizona’s statewide tax-financing program, this practice is so widespread that one news report noted that “...special interest groups routinely collect the necessary number of \$5 contributions to help candidates qualify for public funding.”¹²

6 Adriana Cordis and Jeff Milyo, “Working Paper No. 13-09: Do State Campaign Finance Reforms Reduce Public Corruption?” Mercatus Center at George Mason University. Retrieved on July 16, 2014. Available at: mercatus.org/sites/default/files/Milyo_CampaignFinanceReforms_v2.pdf (April 2013).

7 *Ibid.*, p. 2.

8 Jason Farrell, Sean Parnell & Brett Sullivan, “Issue Review: Meet the New Legislature, Same as the Old Legislature: A quantitative analysis of the Connecticut Citizens’ Election Program,” Institute for Free Speech. Retrieved on July 16, 2014. Available at: http://www.ifs.org/wp-content/uploads/2012/10/2012-10-01_Issue-Review_Farrell_CEP-Report-Update.pdf (October 2012).

9 *Ibid.*, p. 9.

10 *Ibid.*, p. 10.

11 Robert Franciosi, “Is Cleanliness Political Godliness?” The Goldwater Institute. Retrieved on July 16, 2014. Available at: <http://goldwaterinstitute.org/sites/default/files/Is%20Cleanliness%20Political%20Godliness--%20Arizona%27s%20Clean%20Elections%20Law%20After%20Its%20First%20Year.pdf> (November 2001), p. 4.

12 “Clean Elections Institute loses money stream, seeks donations,” *Arizona Capitol Times*. Retrieved on July 16, 2014. Available at: <http://azcapitoltimes.com/news/2009/01/02/clean-elections-institute-loses-money-stream-seeks-donations/> (January 2, 2009).



Similarly, in 2013, the Institute updated its study of lobbyist registrations in Arizona and Maine both before and after each state's tax-financing program went into effect.¹³ Our analysis found no relationship between the existence of "clean elections" programs and changes in the number of registered lobbyists, further demonstrating that taxpayer-financed campaigns do not reduce the influence of "special interests."¹⁴

- IV. Tax-financed campaigns have failed to promote electoral competitiveness.** While proponents of taxpayer-financed campaign programs have long argued that these programs create opportunities for new candidates to run for office, a 2010 federal government analysis of Arizona and Maine's tax-financing programs concluded that they had no effect on voter choice and "[t]here were no statistically significant differences observed for the other measures of electoral competition: contestedness (number of candidates per race) and incumbent reelection rates."¹⁵
- V. Tax-financed campaigns have failed to increase either occupational diversity or female representation in legislatures.** Supporters argue that tax-financing will lead to more diverse legislatures with "non-traditional candidates," commonly characterized as those candidates lacking occupational backgrounds in either law or business. The Institute assessed this claim by surveying the occupations of legislators in both Arizona and Maine, both before and after each state's taxpayer-financing programs went into effect.¹⁶ We witnessed no decline in the number of legislators from "traditional" backgrounds, and concluded that so-called "clean elections" systems neither increase the diversity of legislators' occupations nor reduce the number of legislators elected from "traditional" backgrounds.¹⁷

Tax-financing advocates also assert that "clean elections" programs increase the proportion of women in state legislatures. Again, the Institute tested this claim by examining the number of female legislators in Arizona and Maine, both before and after each state's taxpayer-funded campaign programs began.¹⁸ We found that the average number of female legislators in both states actually declined slightly after Arizona and Maine began providing taxpayer dollars to state legislative candidates.¹⁹

- VI. Taxpayer-financed campaigns do not result in financial savings for taxpayers.** Champions of tax-financing programs have alleged that such programs actually save taxpayer dollars by decreasing inappropriate giveaways and pork to so-called "special interest" groups. The Institute scrutinized this theory by evaluating the rate of growth in government spending

13 Matt Nese and Luke Wachob, "Issue Analysis No. 1: Do Taxpayer-Funded Campaigns Reduce Lobbyist and Special Interest Influence?," Institute for Free Speech. Retrieved on July 16, 2014. Available at: <http://www.ifs.org/wp-content/uploads/2013/08/Issue-Analysis-1.pdf> (August 2013).

14 *Ibid.*, p. 3.

15 "Experiences of Two States That Offered Full Public Funding for Political Candidates," United States Government Accountability Office. Retrieved on July 16, 2014. Available at: <http://www.ifs.org/wp-content/uploads/2012/11/GAO-2010-ME-AZ-Update.pdf> (May 2010), p. 42.

16 Matt Nese and Luke Wachob, "Issue Analysis No. 2: Legislator Occupations – Change or Status Quo After Tax-Funded Campaigns?," Institute for Free Speech. Retrieved on July 16, 2014. Available at: <http://www.ifs.org/wp-content/uploads/2013/08/Issue-Analysis-2.pdf> (August 2013).

17 *Ibid.*, p. 3.

18 Matt Nese and Luke Wachob, "Issue Analysis No. 3: Do Tax-Funded Campaigns Increase the Percentage of Women in State Legislatures?," Institute for Free Speech. Retrieved on July 16, 2014. Available at: <http://www.ifs.org/wp-content/uploads/2013/08/Issue-Analysis-3.pdf> (August 2013).

19 *Ibid.*, p. 3.

in Arizona and Maine both before and after each state's tax-financing program began.²⁰ We found that "the implementation of taxpayer-funded campaigns coincided with more rapid government growth and stable trends in per capita spending."²¹ Arizona and Maine both saw spending grow faster after implementation of their respective tax-financing programs in 2000 than it had in the years before. Additionally, per capita spending has remained stable in Arizona and Maine since 2000, relative to average spending nationwide. As a result, our analysis concluded that "there is no evidence supporting the contention that replacing private, voluntary contributions to candidates with tax dollars leads to savings for taxpayers, either in the form of decreased government growth or reduced per capita spending."²²

VII. Taxpayer-financed campaigns fail to improve voter turnout or public trust in government.

Tax-financing advocates argue that these programs can bring disengaged citizens back into the political process and improve public confidence and trust in government, but research into voter turnout rates and public polling show that tax-financed campaigns have failed to achieve these goals. A 2013 analysis by the Institute showed that voter turnout, which has increased nationwide in recent decades, had increased less in two states with taxpayer-funded campaigns than in states with traditional, privately-funded campaigns.²³ In Maine, average voter turnout in years without a presidential election actually decreased in the three general elections after the state's implementation of tax-financed campaigns, while turnout nationally increased in those years. Arizona, though experiencing small gains over the same time period, still experienced a slower rate of increase in voter turnout than the national average in both presidential and non-presidential election years.²⁴

Earlier research found that state campaign finance reforms fail to increase public trust and confidence in government in any meaningful way.²⁵ Additionally, an academic study of over 35 national polls from the past two decades determined that taxpayer-financed campaigns for gubernatorial and state legislative races had no impact on voter trust or confidence in government.²⁶

20 Matt Nese and Luke Wachob, "Issue Analysis No. 4: Do Taxpayer-Funded Campaigns Actually Save Taxpayer Dollars?" Institute for Free Speech. Retrieved on July 16, 2014. Available at: http://www.ifs.org/wp-content/uploads/2013/11/2013-11-19_Issue-Analysis-4_Do-Taxpayer-Funded-Campaign-Actually-Save-Taxpayer-Dollars.pdf (November 2013).

21 *Ibid.*, p. 3.

22 *Ibid.*

23 Luke Wachob, "Issue Analysis No. 8: Do Taxpayer-Funded Campaigns Increase Voter Turnout?" Institute for Free Speech. Retrieved on July 16, 2014. Available at: http://www.ifs.org/wp-content/uploads/2013/12/2013-12-03_Issue-Analysis-8_Do-Taxpayer-Funded-Campaign-Increase-Voter-Turnout.pdf (December 2013).

24 *Ibid.*, p. 3.

25 David M. Primo and Jeffrey Milyo, "Campaign Finance Laws and Political Efficacy: Evidence from the States," *Election Law Journal* 5:1. Retrieved on July 16, 2014. Available at: <http://www.rochester.edu/college/psc/primo/primomilyoelj.pdf> (2006).

26 Jeff Milyo, "Do State Campaign Finance Reforms Increase Trust and Confidence in State Government?," University of Missouri. Retrieved on July 16, 2014. Available at: http://web.missouri.edu/~milyoj/files/CFR%20and%20trust%20in%20state%20government_v3.pdf (April 2012).



Placing Tax-Financed Campaigns in Context

- I. **Tax-financing programs are costly, and there are pressures to increase their costs over time.** The history of tax-financing systems illustrates that there is pressure to increase the cost of these programs over time, as supporters seek and often succeed in efforts to expand the original program. For example, New York City's program started with a \$1 to \$1 match (up to the first \$1,000 per contributor) in 1989, grew to a \$4 to \$1 match (up to \$250) in 1998, and jumped dramatically to a \$6 to \$1 match (up to \$175) today.²⁷ As another example, the Presidential Election Campaign Fund, a federal tax-financing program for presidential candidates, started with a \$1 tax return check off, which is now \$3 per taxpayer, and there are proposals to increase the amount to \$5 or \$10 per taxpayer.²⁸

Additionally, the number of participating candidates in a tax-financing program is likely to increase over time if the program is perceived to help elect candidates in its first few election cycles. Taken together, these programs often grow in cost considerably over time.

At the same time, citizen participation in voluntary checkoffs to fund these programs may decline over time as the program's novelty and prominence in news coverage wanes. If the program is perceived to be unsuccessful in improving government, citizens may be even more likely to participate less in checkoff programs. This has been the case at the federal level where, according to the Federal Election Commission, "participation in the [Presidential Election Campaign Fund] tax check-off program has declined each year, from a high of 28.7% for 1980 returns, to 6.4% for returns filed with the Internal Revenue Service (IRS) in 2012."²⁹

- II. **The public generally does not support giving tax dollars to politicians for their campaigns.** In the 2010 Cooperative Congressional Election Study (CCES), a national representative survey of 55,400 Americans, 71.34% of respondents either "strongly disagreed" or "disagreed" that "government should give taxpayer dollars to candidates to pay for their campaigns."³⁰ When the question was worded to ask if respondents agreed that politicians "should be allowed to use public funds to pay for their campaigns," a majority (53.22%) continued to either "strongly disagree" or "disagree."³¹

The discrepancy in those two results demonstrates the importance of wording in polling about tax-financed campaigns. While supporters of these programs frequently point to polls in Arizona and Maine that purport to demonstrate public support for their respective systems, these polls typically ask respondents if they support "clean elections" laws. Unsurprisingly, people tend to voice support for "clean elections." However, as the CCES survey demonstrates, a majority of Americans oppose the actual function of these euphemistically named programs. Opinion polls on tax-financed campaigns must be

27 "A Brief History of the CFB," New York City Campaign Finance Board. Retrieved on July 16, 2014. Available at: <http://www.nycfb.info/press/info/history.aspx> (2012).

28 "Presidential Election Campaign Fund," Federal Election Commission. Retrieved on July 16, 2014. Available at: <http://www.fec.gov/press/bkgnd/fund.shtml> (April 9, 2014).

29 *Ibid.*

30 Jason M. Farrell and Nima Veisheh, "Issue Review: Public Perception and the 'Appearance of Corruption' in Campaign Finance: An Analysis of CCES National Survey Data," Institute for Free Speech. Retrieved on July 16, 2014. Available at: <http://www.ifs.org/wp-content/uploads/2012/11/Public-Perception-and-the-Appearance-of-Corruption-in-Campaign-Finance-Report-Final.pdf> (December 16, 2011), p. 5.

31 *Ibid.*

carefully scrutinized to ensure that results are not biased by poor question wording or a failure to inform respondents of the details and costs of the program.

- III. Rather than reducing polarization, Arizona’s taxpayer-financed campaign program has produced one of the most polarized state legislatures in the country.** According to Princeton University’s Nolan McCarty and the University of Chicago’s Boris Shor, who tracked the ideology of state legislatures over the past 17 years, Arizona has one of the most conservative state legislatures in the country and is “polarizing very fast.”³² The state has grown increasingly polarized despite the fact that exit polls in the 2012 presidential elections showed Arizona’s Republican voters “were no more likely to say they were very conservative or a member of the tea party than those in the average state.”³³

As the Arizona State Legislature’s polarization increased, observers noted the role played by Arizona’s taxpayer-financed campaign program. A *Five Thirty Eight* article quotes a former primary challenger of Senator John McCain (R-AZ) saying that an “unintended consequence [of the public finance law] is that it has empowered conservatives.”³⁴ A *National Journal* feature explained that Arizona’s program “benefited fringe candidates” without improving political participation from ordinary citizens.³⁵ The article notes that “Arizona lags behind the nation in terms of voter turnout” and quotes a Republican mayor who observed a lack of competitiveness in the state’s elections: “It isn’t hard to get elected to the Legislature... Now the people who used to be engaged aren’t engaged.”³⁶ Ruth Marcus described the program for *The Washington Post* in 2010 writing about the State Legislature’s passage of a restrictive immigration bill, and noted, “[t]he barriers to entry were extremely low. People with little experience in politics at any level ran for the legislature and won.”³⁷ Marcus continued: “Safe seats plus the Clean Elections funding equaled more extreme candidates -- and a legislature where moderate Republicans are nearly extinct.”³⁸

The unintended consequences of Arizona’s taxpayer-financed campaign program should serve as a warning to other states. The real world effects of these programs are a far cry from the rhetoric used to support them, and sometimes, just the opposite.

32 Boris Shor, “How U.S. state legislatures are polarized and getting more polarized (in 2 graphs),” *The Washington Post*. Retrieved on July 16, 2014. Available at: <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/01/14/how-u-s-state-legislatures-are-polarized-and-getting-more-polarized-in-2-graphs/> (January 14, 2014).

33 Harry Enten, “The Wild, Conservative West,” *Five Thirty Eight*. Retrieved on July 16, 2014. Available at: <http://fivethirtyeight.com/features/the-wild-conservative-west/> (March 4, 2014).

34 *Ibid.*

35 James Oliphant, “How the Right Hijacked Arizona,” *National Journal*. Retrieved on July 16, 2014. Available at: <http://www.nationaljournal.com/magazine/how-the-right-hijacked-arizona-20140331> (March 31, 2014).

36 *Ibid.*

37 Ruth Marcus, “In Arizona, election reform’s surprising consequences,” *The Washington Post*. Retrieved on July 16, 2014. Available at: <http://www.washingtonpost.com/wp-dyn/content/article/2010/05/04/AR2010050404054.html> (May 5, 2010), p. 1.

38 *Ibid.*, p. 2.



Conclusion

Apart from the failures of and practical concerns inherent in taxpayer-financed campaigns, these programs have been ensnared in a history of legal challenges arising from significant First Amendment violations stemming from these laws. In the 2011 cases *Arizona Free Enterprise Club's Freedom Club PAC v. Bennett* and *McComish v. Bennett*, the Supreme Court invalidated a matching funds provision in Arizona's tax-financing program, which had provided additional taxpayer dollars to candidates who were opposed by the spending of independent groups, or outspent by privately-financed opponents.³⁹ The Court ruled that Arizona's matching funds provisions violated the First Amendment by substantially burdening political speech without sufficient justification. This decision is in line with the Court's 2008 ruling in *Davis v. Federal Election Commission* that the government cannot provide preferential benefits to some candidates based on the spending of other candidates.⁴⁰ Any taxpayer-financed campaign program thus must be carefully crafted to comply with the First Amendment.

Notwithstanding the significant constitutional problems inherent in the design of many tax-financing programs, proponents of taxpayer-financed campaign systems often champion these government programs in the face of scandal. However, it's crucial to remember that tax-financing programs will not prevent participant politicians from cutting corners and lining their pockets, but these programs could make politicians' misdeeds much more expensive for taxpayers. A matching funds program would not prevent embezzlement, bank fraud, bribery, straw donor schemes, or any other number of serious crimes perpetrated by candidates for office and elected officials alike. Proposing to get rid of corruption with more tax dollars is an idea fraught with peril.

Ultimately, tax-financing programs have failed to live up to their lofty expectations, while wasting precious taxpayer dollars, and forcing citizens to subsidize the candidacies of individuals with which they may disagree on many issues. State policymakers would be wise to seriously scrutinize any tax-financing proposals in their state.

³⁹ *Arizona Free Enterprise Club's Freedom Club PAC v. Bennett*, 131 S. Ct. 2806 (2011).

⁴⁰ *Davis v. Federal Election Commission*, 128 S. Ct. 2759, 2771-74 (2008).



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