

# **Do Public Funding Programs Enhance Electoral Competition?**

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Clean Elections works! The Positive Impact on the 2002 Election is Clear!

- Clean Elections Institute, March 2003<sup>1</sup>

Arizona's law is a moral outrage, suppresses free speech, and violates political and civil rights.

- survey response by Arizona candidate who refused public funding, to the GAO<sup>2</sup>

It is too soon to determine the extent to which the goals of Maine's and Arizona's public financing programs are being met.

- General Accounting Office, May 2003<sup>3</sup>

So there you have it. Clean election laws (which provide full public funding to candidates who agree to forego private contributions altogether and abide by spending limits and other conditions) are saving democracy from the fatal effects of political corruption, restoring public confidence in the electoral process and infusing civic life with a new vigor. They are also an overt attempt to poke government's nose into the campaign process, create a new class of unaccountable bureaucrats with the power to punish candidates who believe in exercising their First Amendment rights, and dole out taxpayer money to extremist candidates lacking any other support. Or, perhaps, nobody – apart from advocacy groups and those with strongly held ideas about the subject – is quite sure what is happening, because elections occur in a complex web of causal forces, of which campaign spending is only one element.

If states are the laboratories of democracy, then Maine and Arizona are in the midst of a massive experiment in campaign finance reform. Their systems have undergone a wholesale revamping, instituting nearly complete public funding for state legislative and statewide races. Two election cycles have now been completed under the new law.

Arizona and Maine were not the only states to make significant changes in their campaign finance law. Hawaii changed its public funding law in 1995, raising grant size from

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<sup>1</sup> <http://www.azclean.org/documents/PositiveImpactofCleanElections.doc>

<sup>2</sup> General Accounting Office, *Campaign Finance Reform: Early Experiences of Two States That Offer Full Public Funding for Political Candidates*, GAO-03-453, May 2003, 131.

<sup>3</sup> General Accounting Office, *Campaign Finance Reform*, 3.

what had been a trivial amount (\$50 for State House candidates) to several thousand dollars, depending on the number of registered voters in each district. New York City changed its public funding program for City Council candidates to a 4-1 matching formula, in which each \$1 raised in qualifying contributions is matched by a public grant of \$4 (in December 2004, the City Council raised the maximum matching rate to 6-1). Wisconsin and Minnesota continued with their own long-standing public funding programs, both of which have been in existence since the 1970s. This combination of major change and continuity presents an unusually favorable opportunity to see if public funding has made any difference, or achieved the goals that it was intended to achieve.

Does public financing work? Does it achieve any of the goals that are put forth as justification? The short answer is that nobody knows, because there has been no comprehensive evaluation of public finance systems to establish what conditions and program elements lead to successful outcomes. Much of what we think we know is based on either a limited amount of data, or on anecdotal impression. Consequently, the elements of clean elections programs – funding amounts, eligibility rules, spending limits, etc. – are based more on guesswork than on solid evidence. The clean elections movement is in part motivated by axioms about the political process: that the need to raise funds deters many candidates from emerging; that candidates need protection against independent expenditures and issue ads; and that incumbents are as a rule unbeatable. While these are without a doubt reasonable conclusions, they have not been subjected to rigorous analysis and testing. “The justifications normally offered for public funding,” wrote Malbin and Gais in 1998, “all rest on long strings of difficult assumptions.”<sup>4</sup>

Advocates of public funding offer four main arguments about the consequences of taxpayer-financed elections. First, public funding can help potential candidates overcome the barriers that might deter them from running. In a vicious cycle, potential candidates who lack the

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<sup>4</sup> Michael J. Malbin and Thomas L. Gais, *The Day After Reform: Sobering Campaign Finance Lessons from the American States* (New York: The Rockefeller Institute Press, 1998), 70.

ability to raise campaign funds are not taken seriously, and candidates who are not taken seriously cannot raise campaign funds. The cost of a campaign, even at the state legislative level, prevents potentially qualified candidates from even entering. A system of public grants can give candidates the seed money necessary to launch broader fundraising efforts, or even provide them all the resources they need to run credible campaigns. By reducing the campaign funding barrier, public funding systems might encourage candidates to emerge. Grants can be especially crucial for challengers, who face particularly daunting prospects in taking on an incumbent.

A corollary advantage to public financing is that it can encourage the emergence of candidates who lack substantial personal resources. Observers of congressional elections have noted the increasing tendency for candidates to invest thousands – if not millions – of dollars of their own money in their campaigns. A similar phenomenon operating at the state level would make it harder for candidates without personal fortunes to run; as a consequence, public funding might increase the ideological and demographic diversity of candidates, as well as the range of policy positions that are put before the electorate.

Second, public grants can make elections more competitive. By reducing the fundraising advantages that, in particular, incumbents have over challengers, public funding systems can “level the playing field” and reduce the number of landslide victories.

Third, public funding can reduce the influence of private contributions on both candidates and officeholders. By replacing individual, corporate, labor, or political action committee contributions with public funds not tied to any particular interest, public funding can, in theory, refocus attention away from parochial concerns to those of more concern to the broader public.

A fourth argument put forth by advocates is that public financing can control campaign costs. Since candidates who accept public grants must, as a general rule, agree to abide by expenditure limits, higher participation in public funding programs can reduce the spiral of ever-higher campaign spending.

Do public funding programs achieve these goals? Until recently, any analysis of public funding was confined to a comparison of Wisconsin and Minnesota, since Hawaii's program offered only trivial grants to candidates until 1996.<sup>5</sup> As recently as 1998, Malcom E. Jewell and William E. Cassie, concluded that that since Wisconsin and Minnesota were the "only two states that provide for public financing of legislative elections. . . it [is] difficult to assess the impact of public finance as it could apply to other states."<sup>6</sup> In one of the few studies to even attempt to measure the impact, across states, of public funding on competitiveness, Malbin and Gais concluded that "there is no evidence to support the claim that programs combining public funding with spending limits have leveled the playing field, countered the effects of incumbency, and made elections more competitive."<sup>7</sup> However, this study, of necessity, was again limited to a focus on Wisconsin and Minnesota, and stands in contrast to research which concluded that public funding can indeed make a difference.<sup>8</sup>

It is, however, important to establish coherent policy based on a strong empirical foundation. Unrealistically low spending limits and inadequate grant amounts deter participation and thus fail to achieve much improvement over the status quo. Policies that are *too* generous, however, might lead to an unexpectedly chaotic campaign landscape that proves difficult for voters to wade through, or the funding of fringe candidates who lack public support.

Our goal is to apply traditional techniques of social science inference to assess the impact of public funding on state legislative elections. Although there have already been a few cuts at this, we argue that these initial evaluations are incomplete. Some reports, especially those

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<sup>5</sup> Examples of these studies include Kenneth R. Mayer and John M. Wood, "The Impact of Public Financing on Electoral Competitiveness: Evidence From Wisconsin, 1964-1990." *Legislative Studies Quarterly* 20:69-88 (1995), and Kenneth R. Mayer, *Public Financing and Electoral Competition in Minnesota and Wisconsin*. Citizens' Research Foundation, University of Southern California (April 1998).

<sup>6</sup> Malcom E. Jewell and William E. Cassie, "Can the Legislative Campaign Finance System be Reformed?" In Joel A. Thompson and Gary E. Moncrief, eds., *Campaign Finance in State Legislative Elections* (Washington, DC: Congressional Quarterly Press, 1998), 225.

<sup>7</sup> Malbin and Gais, *The Day After Reform*, 136.

<sup>8</sup> See Mayer, *Public Financing and Electoral Competition in Minnesota and Wisconsin*.

produced by advocacy groups that strongly support public funding, overstate the effect of the new law and ignore other factors (such as term limits or redistricting) that have without question shaped outcomes.<sup>9</sup> Others, including the General Accounting Office's evaluation of the Maine and Arizona programs, understate the reforms' impact, in part by making some unusual methodological choices and jettisoning valuable data. We will navigate between these two edges, and make an effort to specify the conditional nature of our conclusions, which can be summarized as follows:

1. There is no question that public funding programs have increased the pool of candidates willing and able to run for state legislative office. This effect is most pronounced for challengers, who were far more likely than incumbents to accept public funding.
2. Public funding appears to have increased the likelihood that an incumbent will have a competitive race.
3. The reelection rate for incumbents in Maine and Arizona dropped significantly in 2002 and 2004, even after controlling for the pairing effects of redistricting. While some of this can be attributed to public funding, in many cases other factors – scandal, anomalous earlier results, and the destabilizing effects of redistricting – offer plausible explanations for the results. In any event, the GAO's calculations of the 2000 and 2002 reelection rates are simply wrong, since it did not count any incumbents who lost in primary contests.
4. Inadequately funded public funding programs are ineffective. If the public grants are not large enough to permit candidates (especially challengers) a reasonable chance to run a competitive campaign, the programs will have no appreciable effect on election outcomes, competitiveness, or candidate behavior.

So, there is strong evidence that public funding has increased the pool of willing candidates, and some evidence that more seats are contested because of the existence of public funding. The evidence is less clear – although certainly present – that the sharp decline in

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<sup>9</sup> See, for example, the Clean Elections Institute, *The Road to Victory: Clean Elections Shapes 2002 Arizona Elections*, December 2002; Marc Breslwo, Janet Groat, and Paul Saba, , *Revitalizing Democracy: Clean Elections Shows the Way Forward*. Money and Politics Implementation Project (January 2002).

incumbency reelection rates can be attributed to campaign finance reform. Finally, the reforms have not fundamentally altered the responsiveness of legislatures to short term swings in voting.

At the same time, there is no evidence – apart from the normative question of the appropriateness of public funding programs – that clean elections has done any harm to the competitive environment. Fears that clean money would be tantamount to an incumbent protection act are unfounded, as are, as near as we can tell, objections that money would be used by fringe candidates who would do nothing but feed at the public trough.<sup>10</sup> Although some observers claim that spending limits prompt interest groups and parties to spend money on independent or issue advocacy campaigns, there are few indications that this has happened in legislative races.

We focus on state legislative elections, for several reasons. First, because multiple elections occur at precisely the same time, we have a much larger set of races to analyze (than, for example, a single gubernatorial or attorney general election, or, in Arizona’s case, elections to a handful of seats on the Corporation Commission).<sup>11</sup> Second, we believe a plausible case can be made that public funding is more likely to affect legislative elections, since statewide races are more likely to attract well-known and experienced candidates who may be less influenced by the existence of a public funding program. For legislative candidates, especially first time challengers, public funding is more likely to make a difference in the decision to run or not.

We are most interested in the question of whether public funding increases the level of competition in legislative elections. There are, of course, many ways to measure the efficacy or responsiveness of a political system or election system: citizen engagement, turnout, partisan

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<sup>10</sup> One possible negative consequence of public funding is that there is some evidence that it has led to more independent spending, particularly in competitive races in which the candidates are bound by spending limits. Unfortunately, it is not always possible to track independent expenditures, since at the state level these activities are not always reported. See Raymond J. La Raja, and Matthew Saradjian, “Maine Clean Elections: An Evaluation of Public Funding for Legislative Elections,” University of Massachusetts Policy Center, January 19, 2004.

<sup>11</sup> The Corporation Commission is a regulatory agency with authority over public utilities, railroad and pipeline safety, securities and securities brokers, and rules of incorporation for state businesses. <http://www.cc.state.az.us/>

balance, levels of corruption, openness, to give a few possibilities. But competitiveness has been a focus of past research on state politics, beginning with V.O. Key's pathbreaking studies of southern states.<sup>12</sup> It is difficult to argue with the position that, other things being equal, more competition is preferable to less. Our view is that in a state with truly competitive elections, many other problems – whether corruption, insulation, or undue interest group influence – will take care of themselves.<sup>13</sup>

### **Background of the Arizona and Maine Clean Elections Law**

Table 1 lists the salient features of public election funding programs in Arizona, Hawaii, Maine, Minnesota, and Wisconsin. Because Arizona and Maine enacted the most comprehensive reforms, we begin with a short discussion of those two states.

Arizona is a predominantly, though not overwhelmingly, Republican state. Republicans currently have a 38-22 majority in the House (up from 36-24 in 2001-2002), an 18-12 majority in the Senate (up from 15-15 in 2001-2002), and almost a 6 percentage point advantage in statewide party registration (41 % Republican, 35% Democratic).<sup>14</sup> According to the 2000 Census, 25.3% of the state population is Hispanic, 4.9% Native American, and 2.8% African American. The state is divided into 30 legislative districts, each of which elect 2 at large Representatives and 1 Senator. Terms are 2 years.

The Clean Elections law was enacted in a 1998 referendum, narrowly passing by 51.8% - 48.2%. Under the act, candidates who raise a specified number of \$5 dollar qualifying contributions, and who agree to certain conditions, are eligible for an election subsidy that

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<sup>12</sup> For a review of this literature, see Thomas M. Holbrook and Emily Van Dunk, "Electoral Competition in the American States," *American Political Science Review* 87:955-962 (no. 4, December 1993).

<sup>13</sup> Mayer and Wood, "The Impact of Public Financing on Electoral Competitiveness,"

<sup>14</sup> Voter registration figures calculated from State of Arizona Registration Report, January 1, 2003, issued by the Secretary of State: [http://www.sosaz.com/election/Active\\_Voter\\_Count.pdf](http://www.sosaz.com/election/Active_Voter_Count.pdf)



displaces nearly all private contributions or spending.<sup>15</sup> These grants – \$10,790 for primary elections, and \$16,180 for general elections – are supplemented by additional matching grants for candidates facing privately funded opponents who exceed these limits, or in response to independent expenditures against them. Candidates who decline to take part face reduced contribution limits and additional reporting requirements.<sup>16</sup> The program is funded through a combination of a 10% surcharge on civil or criminal fines, voluntary tax form checkoffs and contributions, and all qualifying contributions.

The program was in place for the 2000 election cycle, although constitutional challenges to the financing mechanism created uncertainty about its viability.<sup>17</sup> Steve May, a Republican state legislator, claimed that the 10% surcharge violated the First Amendment, since it coerced individuals into subsidizing speech by candidates whose views they might oppose. A state Court of Appeals agreed, throwing the entire system into limbo, with candidates unsure of whether they would receive grants or have to pay back money they had already received.<sup>18</sup> The state Supreme Court upheld the law's constitutionality in October 2002.<sup>19</sup>

Assessing the effect of the clean elections law is more difficult since its implementation coincided with two other significant changes to state election law. In 1992, Arizona enacted term

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<sup>15</sup> Legislative candidates must raise a minimum 200 contributions from voters in their district. Candidates who accept public funding can raise small amounts of “early” private contributions in an initial exploratory phase (\$2,650 in 2002), and may use up to \$530 of their own money.

<sup>16</sup> See State of Arizona, Citizens’ Clean Elections Commission, *Annual Report: January 1, 2002 – December 31, 2002*, 12.

<sup>17</sup> A second lawsuit challenged the method of appointing members to the Clean Election Commission (*Citizens Clean Elections Commission v. Myers*, 196 Ariz 516, 1 P. 3d. 706, 2000). As enacted, Commissioners were appointed by the Governor, from a list of nominations submitted by the Arizona Commission on Appellate Court Appointments, a part of the state court system that performs a similar nominating function for judicial appointments. The Arizona Supreme Court rejected this procedure as unconstitutional, holding that the Governor must make the appointments. Because the court held this provision severable, the failure of this one part was not fatal to the rest of the law.

<sup>18</sup> Paul Davenport, “State Court Overturns Biggest Funding Source for Public Campaign Funding,” Associated Press, June 17, 2002.

<sup>19</sup> *May v. McNally*, 203 Ariz. 425, 55 P. 3d 768, 2002.

limits for state legislators, limiting them to 4 consecutive terms.<sup>20</sup> The 2000 elections were the first in which members were “termed out,” and 15 legislators (9 Representatives and 6 Senators) were ineligible for reelection in 2002. Second, in 2000 voters opted to conduct the decennial reapportionment process using an Independent Redistricting Commission, rather than allow state legislators to draw district lines. Advocates of the independent commission approach hoped that the new approach would produce districts less tied to incumbent interests (indeed, the law prohibited the commission from identifying or taking into account incumbents’ residency when drawing the new districts). The near simultaneous effects of these three major reforms – public funding, term limits, and a new approach to redistricting – produced significant turnover in both chambers, and it is not immediately apparent how the effects should be allocated.

In addition, the 2004 election cycle was unusually tumultuous, because of legal disputes surrounding the new legislative districts that the Independent Commission created for the 2002 elections. In January 2004, a state court rejected the redistricting plan in a lawsuit challenging the constitutionality of the proposed districts. Holding that the Commission did not comply with the constitutional language requiring it to create competitive districts “to the extent practicable. . . where to do so would create no significant detriment to other goals” (Article IV, Part 2, section (1)(14)(F) of the Arizona Constitution), a State Superior Court Judge ordered the Commission to draw up a new plan for the 2004 elections.<sup>21</sup> The Commission complied, and in April 2004 submitted a map to the U.S. Department of Justice for preclearance under Section 5 of the Voting Rights Act.<sup>22</sup> But the filing deadline for state office passed before the DOJ had approved the new plan, so state officials were forced to use a version of the 2002 plan for the upcoming 2004 elections, and will have to draft a new plan for the 2006 elections. The uncertainty over the

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<sup>20</sup> Proposition 107, which passed 74%-26%.

<sup>21</sup> *Arizona Minority Coalition for Fair Redistricting. v. Independent Redistricting Commission*, Maricopa County Superior Court, CV 2002-004380, January 19, 2004.

<sup>22</sup> As a covered jurisdiction under the Act, Arizona may not make any changes to its voting procedures or practices without obtaining prior approval (or preclearance) from the Department of Justice.

district maps meant that some prospective candidates had no idea which district they lived in, and some of these may have chosen to stay out of the ring until 2006.

A larger problem is that Arizona's House elects its members from multimember districts, a practice that makes it more difficult to compare results here to results in other states. We address some of these methodological difficulties, and describe our application of an existing method of measure competitiveness in multicandidate systems, in Appendix A.

In Maine, the campaign finance situation is less complicated. Maine's Clean Elections law provides grants equivalent to the average spending in the previous two election cycles, with the amounts depending on whether a candidate is running uncontested or against an opponent.

Maine's legislature is part-time, with relatively low pay and modest staff support. The State House has 151 representatives, with each representing a constituency of 8,400 people in 2004. There are 35 Senators, each representing a district of about 36,000 people. Democrats currently control both chambers, with an 80-67 margin in the House (with 4 third party members) and an 18-17 majority in the Senate. Members of both chambers are term limited, and are prohibited from serving more than four consecutive terms (this restriction became effective in 1996, when the first batch of legislators became ineligible for reelection).

Because of the large size of Maine's legislature, small constituencies, and part-time status, legislative elections are often informal affairs. Candidates, particularly in House elections, often spend only a few thousand dollars, or even less, and it is not unheard of for a candidate to run in the a Democratic (or Republican) primary, lose, and appear on the general election ballot under the other party's banner. It is even more common for candidates to win the primary, and then drop out. The rules for naming replacement candidates are, as a result, fairly loose.

### **Why Would Public Funding Work?**

Public funding of elections, according to its proponents, is designed to have several positive effects on the election process. First, it reduces the amount of private money in

campaigns, thus freeing candidates and officeholders from a sense of obligation to their big contributors. Second, it reduces the amount of time that candidates and officeholders need to spend raising money, allowing them to shift their attention to the more substantive aspects of campaigning and governing. Third, public funding eliminates one of the barriers that keep potential candidates from even entering the campaign arena. A corollary to this is that public funding can reduce the fundraising advantage that incumbents inevitably have over challengers.

All of these effects share two essential features: they are premised on the idea that public funding will (a) lower the *cost* of running for office and (b) increase the expected *benefits* of running, by raising the likelihood of winning.

To put it in “soft” rational choice terms: running for office is expensive, both in terms of money and opportunity cost. A decision to run will generally, then, be shaped in large part by the probabilities of putting a successful campaign together. Credible candidates – those with political experience; who already hold a lower level elected position; or who have political career ambitions – will be likely to take the probability of winning into account when deciding whether or not to run. Incumbents take advantage of this by trying to create an aura of invulnerability, which in practical terms often involves accumulation of huge campaign war chests.

The notion of candidates acting strategically is hardly new. In one of the most forceful statements of the argument, Jacobson and Kernell wrote:

If we accept that politicians are not fools, it is clear that variations in the quality of candidates and the quantity of resources they can mobilize for a campaign cannot be random. Ambitious career politicians looking to enter or move up the hierarchy of elective offices are likely to be the most formidable challengers. But they also have the most to risk in the attempt; defeat is at best a setback, at worst ends the career. Thus the best candidates will also be the most cautious in deciding when to run for higher office. They will be the most sensitive to the odds on winning and most aware of the factors that affect those odds.

One of those factors is of course the availability of money and other resources for the campaign; astute politicians know how important it is.<sup>23</sup>

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<sup>23</sup> Gary C. Jacobson and Samuel Kernell, “Strategy and Choice in the 1982 Congressional Elections,” *PS* 15:423-430 (No. 3, Summer 1982), 424.

Public funding should, then, only serve to encourage candidates to emerge.

### **Does it Work? The GAO Report and Beyond**

Past work on public funding has come to a mixed result: some studies find evidence that grant programs increase election competitiveness while others find no effect. As we noted above, the significant recent changes in Arizona and Maine make another round of investigation worthwhile.

Section 310 of the Bipartisan Campaign Reform Act (BCRA) – more commonly known as McCain-Feingold – directed the General Accounting Office to study the Maine and Arizona public funding systems in the 2000 and 2002 election cycles.<sup>24</sup> The GAO’s cautious May 2003 report offered some support for the clean elections programs, but concluded that “it is too soon to determine the extent to which the goals of Maine’s and Arizona’s public financing programs are being met.”<sup>25</sup> The report found that more candidates in both states were running and winning with public funding, and that funding differences between incumbents and challengers had narrowed. But it also found no evidence that elections had become more competitive, or that interest group influence had diminished.<sup>26</sup>

The GAO report received scant press attention, with no major mentions in the national media, perhaps in part because of its tentative nature (a Lexis-Nexis search did not result in a single mention in any national newspaper). The reform group Public Campaign, which supports public funding, criticized the report as “too cautious in [its] analysis” and argued that the GAO’s

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<sup>24</sup> PL-107-55 (2002). The law required the GAO to report on “the number of candidates who have chosen to run for public office with clean money clean elections including (I) the office for which they were candidates;(II) whether the candidate was an incumbent or a challenger; and (III) whether the candidate was successful in the candidate's bid for public office; and (ii) the number of races in which at least one candidate ran an election with clean money clean elections.”

<sup>25</sup> General Accounting Office, *Campaign Finance Reform: Early Experiences of Two States That Offer Full Public Funding for Political Candidates*, GAO-03-453, May 2003, 5.

<sup>26</sup> GAO, *Campaign Finance Reform*, 3-6.

own evidence could have supported stronger conclusions.<sup>27</sup> The publisher of the trade newsletter *Political Finance* argued that the authorizing language resulted in a report that intentionally overstated the impact of the clean elections law, attributing to public funding outcomes that actually resulted from term limits.<sup>28</sup>

A review of the GAO's methods reveals that the office did, in fact, significantly underestimate most measures of electoral competitiveness, in large part because the authors performed many of their calculations using unorthodox measures. Many of these choices were justified as necessary because of some unusual features of Arizona's political landscape (in particular), but there are perfectly adequate and commonly accepted alternative methods that take advantage of data that the GAO discarded. The GAO's analysis, in fact, should be viewed with some caution for the following reasons.

First, the GAO's analysis of "contestedness" – the likelihood that a candidate would have an opponent – examined only evidence from primary elections. The GAO's justification for this was that candidates were much more likely to run unopposed in primary rather than general elections. Primary competition, though, does not measure the overall level of political competitiveness that may exist in a district. There are good reasons, having nothing to do with campaign finance, why primary elections are less likely to be contested than general elections. Particularly when an incumbent is running for reelection, state and local party organizations may actively discourage – and potential candidates be reluctant to take on – primary challenges that may weaken the party's eventual candidate in the general election. No sensible political party, moreover, would actively encourage primary challenges if doing so risks losing the seat to the other major party. Potential challengers may decline to run simply because of deference, or party discipline, or because running against an incumbent of one's own party is a poor career move.

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<sup>27</sup> Public Campaign, *A Critical Reading*, May 20, 2003 (<http://www.publiccampaign.org/pressroom/pressreleases/release2003/release05-21-03.htm>).

<sup>28</sup> Edward Zuckerman, "GAO Looks Through Flawed Prism, And Finds No Evidence of Success," *Political Finance*, June 2003.

Of course, contested primaries are more likely for the out-party, for open seats, and when an incumbent is embroiled in a scandal or otherwise weak. But in these cases, primary competitiveness is only a rough proxy for overall district competitiveness.

Second, the GAO's calculation of incumbent reelection rates looks only at general elections and does not include incumbents who lost in the primary. Including incumbent primary losses can have a dramatic effect on reelection rates; to give one example, the GAO report calculates an incumbent reelection rate of 90% for the Arizona House in 2002, based on 30 incumbents running in the general election and 27 winning.<sup>29</sup> But 40 incumbents ran that year, with 9 losing in primary contests.<sup>30</sup> The overall reelection rate in 2002 was 28/40, or 70%, not 90%. Even if we remove from this calculation incumbents who were paired against each other through redistricting (thus guaranteeing an incumbent loss, see below), the reelection rate was 28/37, or 75.6%.

Third, the GAO did not distinguish between challengers who ran against an incumbent and candidates who ran in open seats (i.e., races in which no incumbent was running). The GAO calculated challenger success rates by dividing the number of nonincumbents who won by the number who ran. This practice will yield inaccurate results for two reasons. First, looking at challenger success rates is fraught with difficulty; the reason is that as the number of challengers goes up (a positive development, under the logic of clean elections), the success *rate* will almost invariably drop. For there is a maximum number of challengers who could conceivably be successful – one per seat. If two challengers vie for an open seat, the challenger success rate is by definition 50%. If eight challengers enter the race, the success rate (1 out of 8) drops to 12.5%. A lower success rate, by itself, tells us little about whether challengers are successful in beating incumbents. In addition, the failure to examine open races separately means that the GAO is, to

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<sup>29</sup> GAO, *Campaign Finance Reform*, 38.

<sup>30</sup> Our calculations counted Representative Joe Hart (R, 3<sup>rd</sup> District) as an incumbent, as he was a State Senator termed out of office. Since House and Senate districts are identical in Arizona, we concluded that Hart's Senate incumbency gave him the same advantages as House incumbency would have.

put it simply, comparing apples and oranges: in no sense can an open seat be compared to a race between a challenger and an incumbent. Open seats are, almost by definition, more competitive, more likely to be contested, and more likely to attract high-quality candidates, even without public funding.

Finally, the GAO report did not take into account the impact of redistricting in its analysis of the 2002 elections, although it did note that redistricting can have a significant effect. Redistricting can affect elections in several ways. Redrawn districts can often present incumbents with a dramatically different political situation, especially if population shifts have been extensive, boundaries have been radically changed, or entire districts have been shifted from one part of a state to another. More important than this, though, is the fact that incumbents can be paired after redistricting: this occurs when district boundaries change in a way that pits two or more incumbents against each other in a single new district (this also means that another district has been created somewhere else, with an open seat). In an election with paired incumbents, by definition at least one incumbent will lose, even though this will have nothing to do with campaign finance. A failure to correct for this will understate the “true” incumbent reelection rate.

Our intention in noting these criticisms is not to bash the GAO, which operated under the constraints of both a statutory mandate and the difficulties in addressing an overtly political question in the context of a broader policy analysis. Rather, our intent is to highlight some of the difficulties in sorting through an extraordinarily complex set of causal mechanisms (and, we make no claim that we have had the final word on the question). We now turn to our own analysis of electoral competition, which offers a somewhat clearer picture of the impact of the Maine and Arizona reforms.



## Data on Electoral Competition

To measure the extent to which public funding has affected electoral competition, we calculated the following indicators, from 1990-2004, for elections to the lower house in the state legislatures in Arizona, Hawaii, Maine, Minnesota, and Wisconsin:

- the percentage of incumbents who faced a major party opponent (**contestedness**)
- the percentage of incumbents who were in a competitive race, defined as one in which the winner received less than 60% of the two-party vote (**competitiveness**)
- the percentage of incumbents who ran and were reelected to office (**reelection rate**)

For the first and third indicators, we controlled for the presence of paired incumbents in the 2002 elections.<sup>31</sup> We did not count a race as contested if the two (or more) major party candidates were paired through redistricting, and removed losing paired incumbents from our calculations of incumbent reelection rates.

For comparison, we also calculated these figures, where available, for elections to the U.S. House.<sup>32</sup>

In figure 1, we report contestedness from 1990 to 2004. One key to this and the subsequent figures is the change in 2000-2004 in Maine and Arizona, when the full public funding system was in place. Several patterns emerge from this graph. Arizona experienced a significant jump in the number of contested races in 2002 and 2004, increasing from under 40% in 2000 to over 50% in 2002 and 2004. Not only was this increase large, it also reversed the previous trend of uniformly fewer contested elections between 1994 and 2000. While we cannot attribute this shift entirely to public funding (which was also in place for 2000), it is likely to have

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<sup>31</sup> Arizona, Hawaii, Minnesota, and Wisconsin had completed their redistricting processes in time for the 2002 elections, although Arizona is now making some changes to its new districts in response to a court order. Maine redistricts on a different schedule, with new districts put in place for the 1994 and 2004 elections.

<sup>32</sup> House data are taken from Harold W. Stanley and Richard G. Niemi, *Vital Statistics on American Politics, 2003-2004* (Washington, DC: Congressional Quarterly Press, 2003).

played a key role. Of the 25 major party challengers who took on an incumbent in the general election in 2002, 12 were publicly funded. Given that these races present poor electoral odds for the challenger – incumbents are difficult to beat except in unusual circumstances – it is a defensible inference that some of these candidates would probably have stayed away without the existence of public funding.

The patterns for Maine and Hawaii are murkier, though in the expected direction. Both saw the percentage of contested incumbents increase in 2002, and again in 2004. Maine's contested rate in 2004 (98%) was higher than it was at any point since 1990.

Wisconsin and Minnesota show a continuation of patterns that have existed throughout the 1990s. Minnesota's public funding program, which combines direct grants with refunds of small individual contributions, is generally regarded as effective in both encouraging candidate participation and in fostering a competitive environment. Wisconsin, which provides grants that have not changed since 1986, is at the other end of the spectrum, with low candidate participation rates and a program generally considered close to irrelevant. In Minnesota, uncontested House elections are rare, with contested rates almost always higher than 90%. In Wisconsin, uncontested incumbents are almost the norm, with just over half of incumbents facing a major party opponent.

In figure 2 we report the levels of competition that exist in these contested races. We defined a competitive race as one in which the incumbent received less than 60% of the two-party vote. This is not a universally accepted threshold – many political professionals would consider a 60-40 race something of a blowout – but we regard it as an acceptable minimum baseline of competitiveness, especially given the advantages that incumbents have in these low visibility races. Setting a stricter definition of a 55% victory margin would significantly reduce the number of competitive races, and since we are especially concerned with change over time, we regard the 60% measure as adequate.

Figure 2 shows that the percentage of competitive races went up in Hawaii, Maine and Minnesota between 1998 and 2004. In Maine, 64% of incumbents were in competitive races, nearly doubling the 1998 rate (35%), and exceeding the rate in Minnesota. The increase in Hawaii was much more modest, with only a slight improvement over the 2002 and 2000 rates.

The 2004 Arizona House elections proved something of a disappointment to campaign finance reformers, as the percentage of incumbents in competitive races in 2004 was the same as it was in 2000 (about 36%), declining from a post-1990 record of 47% in 2004. At the same time, in Arizona this measure of competition remains higher than it was during the pre-public funding era (1998 and earlier).

In 2004, Minnesota continued its pattern of having close races, with over half of its House incumbents facing competitive challengers. Wisconsin trails the pack, with only one incumbent in four facing a competitive race in 2004. Wisconsin, in fact, is only marginally more competitive than the House of Representatives, which we include in this chart for comparison.

The congressional comparison is instructive, as Congress is now seen as the archetype of an uncompetitive electoral venue. Many political scientists have argued that levels of competition in House races have been declining for decades; In the 1970s, researchers argued that the incumbency advantage was increasing and that seats-votes responsiveness (or the degree to which the number of seats a party held corresponded to the overall number of votes it received across all congressional elections) had dropped.<sup>33</sup> Not everyone agreed with this assessment; Gary Jacobson, in particular, observed that not all indicators of competitiveness were declining, and that the incumbency advantage varied considerably from one election cycle to the next.<sup>34</sup>

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<sup>33</sup> For a review of this literature, see Stephen Ansolabehere, David Brady, and Morris Fiorina, "The Vanishing Marginals and Electoral Responsiveness," *British Journal of Political Science* 22:21-38 (No. 1, January 1992).

<sup>34</sup> Gary C. Jacobson, *The Politics of Congressional Elections*, 5<sup>th</sup> ed. (New York: Addison, Wesley, Longman, 2001), 27-30. See also Paul S. Herrnson, *Congressional Elections: Campaigning at Home and in Washington* (Washington, DC: Congressional Quarterly Press, 2000), 31-35.

Incumbent success rates can appear inflated, because those who face serious challenges often retire rather than face the risk of a difficult and uncertain reelection fight.

Still, it seems hard to dispute that the last few election cycles show a clear drop in the competitiveness of congressional elections. Emory University political scientists Alan Abramowitz, Brad Alexander, and Matthew Gunning argue that the 2004 House elections “may have been the least competitive in the postwar era.”<sup>35</sup> Our data point to the same conclusion. From 1994 to 2002, the percentage of U.S. House incumbents running in competitive elections dropped from about 37% to 15% (dashed line in figure 2). Abramowitz and his colleagues attribute this decline to redistricting and the increasing cost of putting together a meaningful challenge. In any event, this comparison shows that the trend in publicly funded state legislative elections is in the opposite direction, toward *closer* elections.

Figure 3 shows the incumbent reelection rate; that is, the percentage of incumbents who run and are reelected to another term.. This represents what many would consider to be the payoff measure. Opponents of public funding often argue that it is nothing but an incumbent protection act: since incumbents have formidable advantages in name recognition, experience, and ability to mobilize supporters, the spending limits that always accompany public grants could, in this view, simply institutionalize the inability of challenges to overcome the incumbency advantage. But this has not happened. In Arizona, the incumbent reelection rate has dropped from a Congress-like 98% in 1998 to 75% in 2002 (even after controlling for incumbency pairings), and remained low in 2004, at 77%. Compared to 1998, incumbent reelection rates are also lower in Maine, Hawaii, and Minnesota through 2004. The changes in these states, though, appear to be within “normal” limits, and are not radically different from levels that existed throughout the 1990s.

Wisconsin, making for 3-for-3 sweep, again holds the record for the least competitive elections. 98% of unpaired incumbents won reelection in 2004 (88 out of 90 winning). For

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<sup>35</sup> Alan Abramowitz, Brad Alexander, and Matthew Gunning, “Incumbency, Redistricting, and The Decline of Competition in House Elections.” Paper delivered at the 2005 Annual Meeting of the Southern Political Science Association, January 2005, p.1.

comparison, we plot the trend for U.S. House elections. In 2004, House incumbents were all but assured of reelection. Of the 400 who ran, 395 won, for a reelection rate of 99%.<sup>36</sup>

What accounts for these results? Obviously, they cannot be attributed entirely to changes in campaign finance law, but all of the trends are in the expected direction. The dramatic changes in Arizona cannot be attributed to term limits, since we are focusing on incumbents who are running for reelection; nor can the Maine results be the result of redistricting, since the state did not begin the process until after the 2002 elections. And the stark lack of electoral competition in Wisconsin clearly sets it apart from the other states in this group – even from Hawaii, which has been dominated by the Democratic party for decades.

One difference among these states is the varying amounts of money available to candidates through the public funding programs. We can distinguish between the full public funding systems (Arizona and Maine), those which provide multiple sources of public grants (Minnesota), and those which provide relatively small grants (Hawaii and Wisconsin). In table 2, we calculate the overall percentage of candidate spending in the 2002 state legislative elections made up by public funds.

**Table 2 – Public Composition of Campaign Spending  
Both Chambers**

	<b>Total Candidate campaign Spending, 2002</b>	<b>Aggregate Public Funds</b>	<b>% of public funds</b>
<b>Maine</b>	\$ 2,927,454	\$ 2,062,762	70.5%
<b>Arizona</b>	\$ 5,737,227	\$ 3,084,298	53.8%
<b>Minnesota</b>	\$ 12,370,369	\$ 6,049,863	48.9%

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<sup>36</sup> We do not count two Texas incumbents in this total (Democrats Charles Stenholm and Martin Frost), since they lost after being paired with other incumbents after the mid-decade redistricting in Texas.

<b>Wisconsin</b>	\$ 8,449,888	\$ 449,684	5.3%
<b>Hawaii</b>	\$ 5,872,989	\$ 34,498	0.6%

These data suggest a clear explanation for why public funding has apparently made so little difference in Wisconsin. The data also confirm that public funding could not have possibly had any effect in Hawaii, since grants continue to make up only a trivial fraction of overall campaign spending. One question that this raises is what, then, accounts for the relatively favorable trends in Hawaii elections in the past few cycles?

**Conclusion: Does Public Funding Make Elections More Competitive?**

We are left with something of a mixed picture. There is compelling evidence that Arizona and Maine have become much more competitive state in the wake of the 1998 Clean Elections programs. The fact that indicators of competitiveness in Arizona have remained stable through the 2002 and 2004 cycles is evidence that the electoral dynamic has changed. We have revised our view of the impact of Maine’s program: based on the 2002 elections, we concluded that it was too early to tell whether public funding had changed the electoral landscape. With the 2004 results in hand, we can say that public funding appears to have significantly increased the competitiveness of State House elections, based on the percentage of incumbents who face major party opponents and run in reasonably close races. Minnesota’s program continues to show a high degree of efficacy.

Hawaii and Wisconsin are examples of ineffective programs; the key characteristic of both states is that public funds make up only a fraction of what candidates raise and spend.

One significant inference that we draw is that there is no merit in the argument that public funding programs amount to an incumbent protection act. The fear that spending limits would

put challengers in an impossible strategic situation and make incumbents even more unbeatable has simply not been realized.

There are limits to what these data can tell us, in any event. We do not yet have evidence that public funding has altered roll-call voting patterns or legislative coalitions, as might be expected if interest group influence or party influence has declined as legislators utilize their newfound independence. But the evidence points strongly to the conclusion that, under the right set of circumstances, public grants can significantly increase the level of election competition.

## Appendix: Assessing Competitiveness in Arizona House Elections

Calculating margins of victory and competitiveness in multi-candidate districts poses some challenges; it is not immediately obvious how to translate the typical definition of competitiveness – say, a winning margin of 55-45% in a two candidate race. Moreover, some districts might be fully contested – with each party running as many candidates as seats – while others might be partially contested, with, say, one party running only a single candidate in a two-slot election. The GAO, in noting these difficulties, skirted the problem by simply not including Arizona House races in its analysis. But this is not an ideal solution, since it requires jettisoning valuable data. Neimi, Jackman, and Winsky offer a few possible metrics: proportion of races fully, partially, or uncontested; incumbent success rates; the number of districts that elect candidates from both major parties.<sup>37</sup> These authors offer as well an innovative method of creating “pseudo-single member districts” in fully contested districts, by pairing the candidates against each other in ways that simulate two-candidate races. In this method, the top Democratic (or Republican) vote-getter is paired with the weakest Republican (or Democratic) vote getter; the Democrat (Republican) with the 2<sup>nd</sup> most votes is paired with the Republican (Democrat) with the most votes. Each of these pairings is analyzed as if it were a single election.

For elections that are not fully contested – meaning that one party runs two general election candidates, the other only one – we count the highest vote getter of the fully contesting party as unopposed.<sup>38</sup>

Example: consider the result from the 2000 Arizona House election district 4:

Jake Flake	R	26,806
Debra Brimhall	R	23,836
Claudia Maestas	D	19,997

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<sup>37</sup> Richard G. Niemi, Simon Jackman, and Laura R. Winsky, “Candidacies and Competitiveness in Multimember Districts,” *Legislative Studies Quarterly* 16:91-109 (No. 1, February 1991).

<sup>38</sup> This is not a perfect solution, since the highest vote recipient could, conceivably be the single Democratic (or Republican) candidate.



M.Phil Martin                      D            17,908

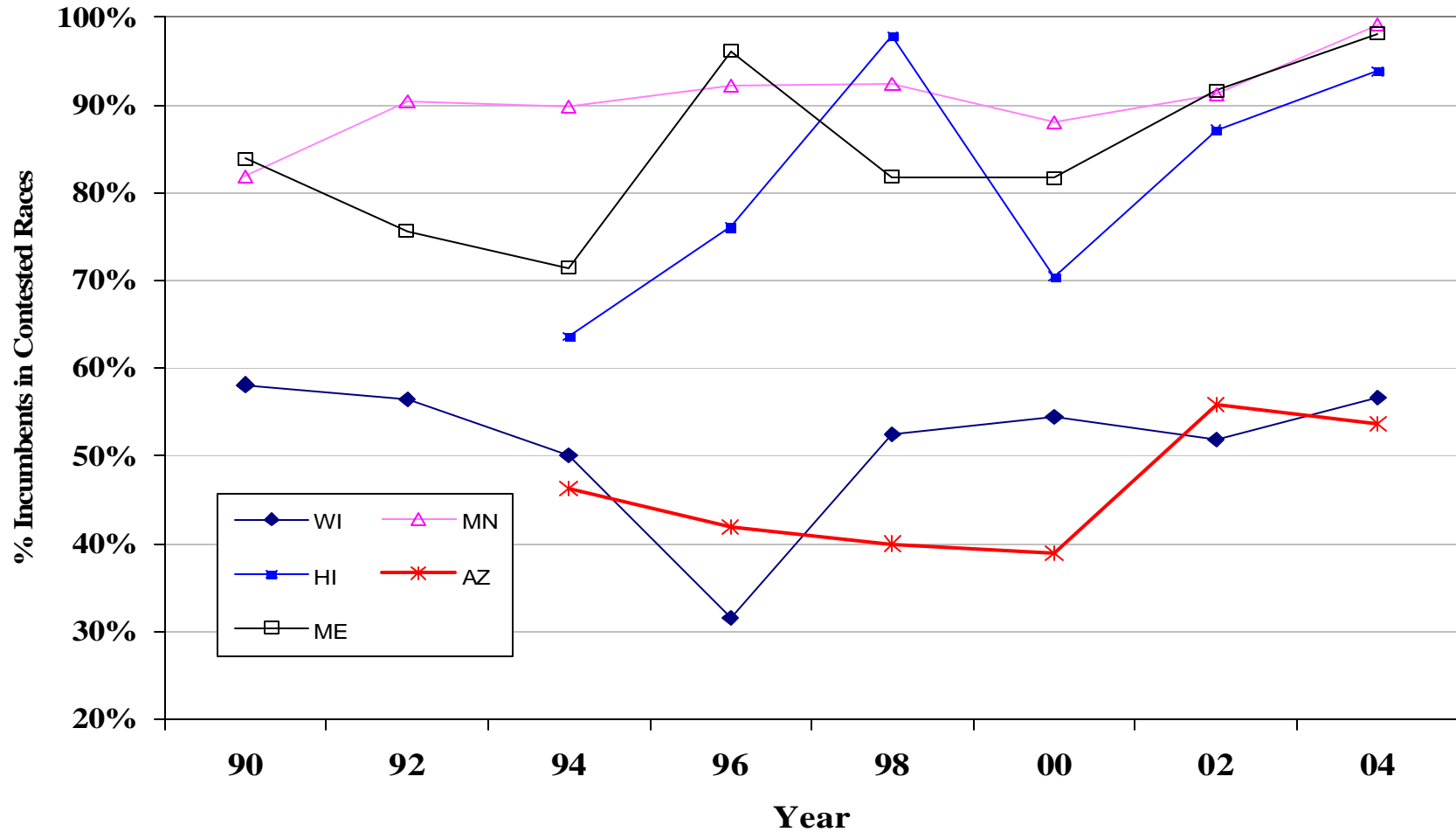
To create two pseudo-pairs, we match Flake against Martin, and Brimhall against Maestas, yielding the following:

4A	Flake	R	26,806	59.9%
	Martin	D	17,908	40.1
4B	Brimhall	R	23,836	54.4%
	Maestas	D	19,997	45.6%

Under our definition of competitive – a winning total under 60% – both races would count as competitive, 4B comfortably so, and 4A by the narrowest of margins.

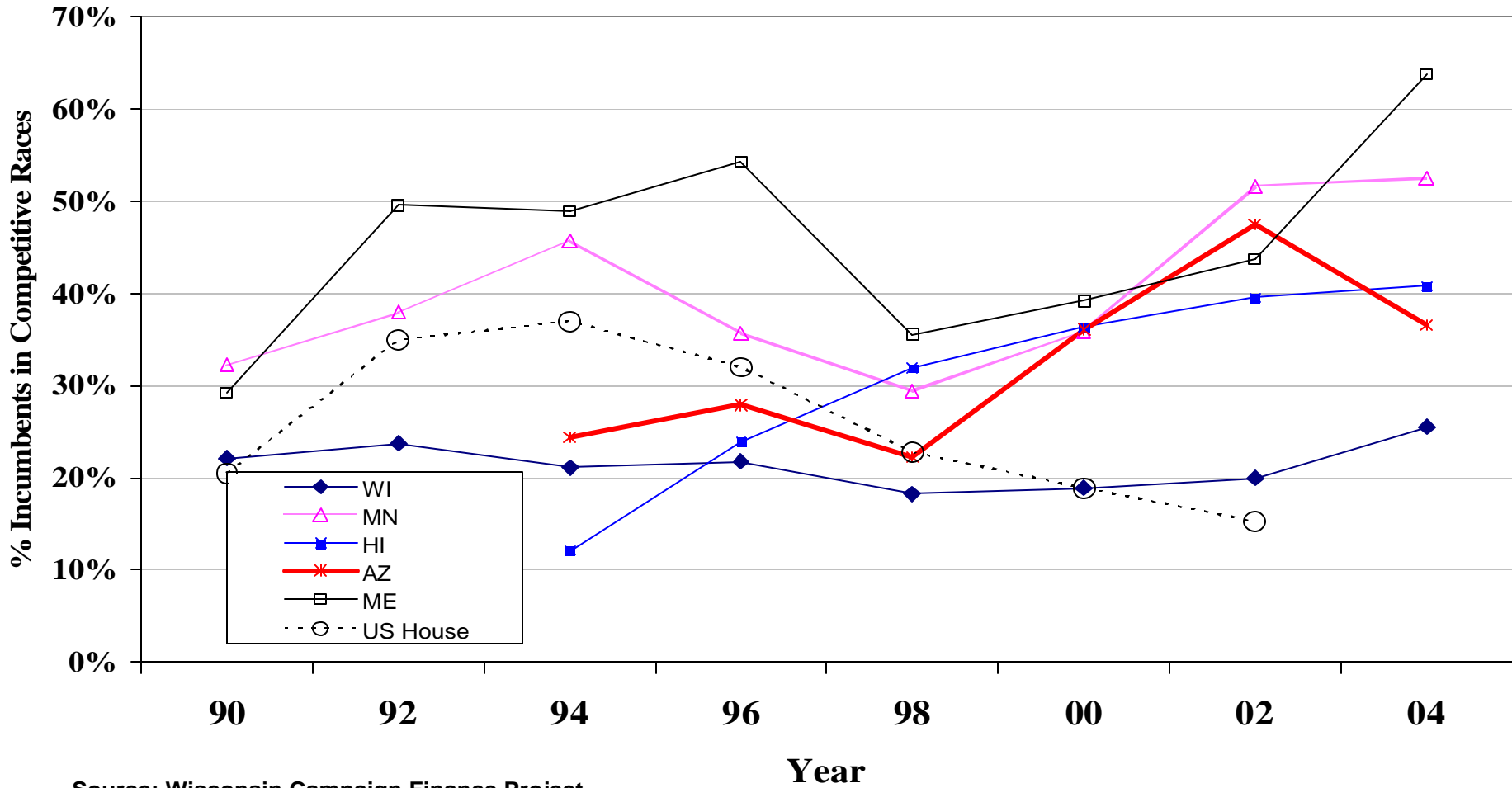
We use this method to create “pseudo-pairs” for each election, and count these as the equivalent of single-member results.

**Figure 1: Incumbents Facing Major Party Challenger  
General Election - State House/Assembly - Excluding Incumbent Pairings**



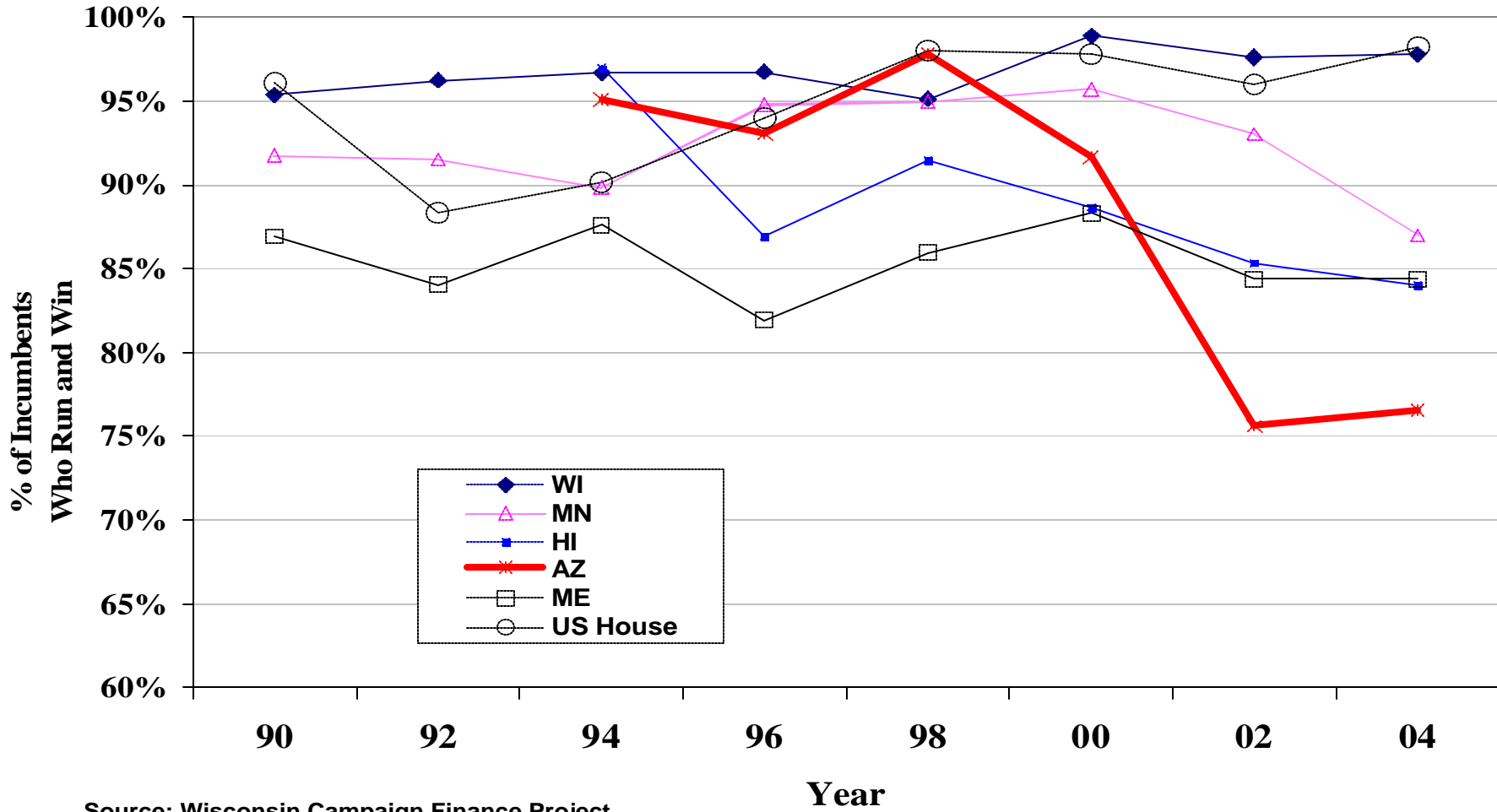
Source: Wisconsin Campaign Finance Project

**Figure 2: Incumbents In Competitive Races (<60% of vote)  
General Elections - State Assembly/House**



Source: Wisconsin Campaign Finance Project

**Figure 3: Incumbent Reelection Rates  
Excluding Incumbent Pairings - State Assembly/House**



**TABLE 1 – Characteristics of Public Funding Programs**

	<b>Arizona</b>	<b>Maine</b>	<b>Wisconsin</b>	<b>Minnesota</b>	<b>Hawaii</b>
Effective	2000	2000	1978	1976	1996
Qualification	Threshold of 210 \$5 contributions. These funds are deposited in public fund program and are not kept by the candidate	Threshold number of \$5 qualifying contributions, 50 for House, 150 for Senate. These funds are deposited in the public fund program and are not kept by the candidate	<ul style="list-style-type: none"> <li>Win primary with at least 6% of total vote for office</li> <li>Raise threshold amount in \$100 contributions (\$1,725 for Assembly, \$3,450 for Senate)</li> </ul>	Threshold amount raised in \$50 contributions: \$1,500 for House, \$3,000 for Senate	Threshold amount raised (\$1,500 for House, \$2,500 for Senate)
Maximum Grant	<ul style="list-style-type: none"> <li>Up to spending limit</li> <li>Matching funds (up to an additional \$56,600) provided to participating candidates running against privately financed opponents, and to offset independent expenditures against</li> <li>Independent candidates receive 70% of spending limit</li> </ul>	<ul style="list-style-type: none"> <li>Up to spending limit</li> <li>Matching funds (up to an additional 200% of original grant) provided to participating candidates running against privately financed opponents and to offset independent expenditures against</li> </ul>	<ul style="list-style-type: none"> <li>\$15,525 for Senate (2002)</li> <li>\$7,763 for Assembly (2002)</li> </ul>	<ul style="list-style-type: none"> <li>amount of direct grants determined by dividing total funds by number of candidates, but may not exceed 50% of spending limit</li> <li>Small contribution refund program reimburses individuals up to \$50 for contribution to participating candidate</li> </ul>	<ul style="list-style-type: none"> <li>Amount of grant limited to 15% of spending limit</li> </ul>
Spending Limit (contested election)	<ul style="list-style-type: none"> <li>\$28,300 for primary/general in both House and Senate elections</li> <li>\$11,320 for single party dominant districts</li> </ul>	<ul style="list-style-type: none"> <li>\$5,406 for primary/ general in House</li> <li>\$23,728 for primary/ general in Senate</li> </ul>	<ul style="list-style-type: none"> <li>\$17,250 for Assembly</li> <li>\$34,500 for Senate</li> <li>Limits unchanged since 1986</li> </ul>	<ul style="list-style-type: none"> <li>\$34,100 for House (2004)</li> <li>\$64,866 for Senate (2002)</li> <li>Separate spending limits for election and non-election years</li> </ul>	Spending limit fixed as \$1.40 x number registered voters in district  2004 range: House: approx. \$14,000-\$19,000 Senate: approx \$23,000-\$45,000
Special Conditions	<ul style="list-style-type: none"> <li>Unopposed candidates not eligible for public funds beyond qualifying contributions</li> <li>Nonparticipating candidates faced additional reporting requirements</li> </ul>	<ul style="list-style-type: none"> <li>Nonparticipating candidates face additional reporting requirements</li> <li>Participating candidates permitted to raise small amounts</li> </ul>	Spending limits apply only if all candidates accept public funds  29	<ul style="list-style-type: none"> <li>Spending limits increase by 10% for first time candidates and by 20% for candidates running in competitive primary</li> <li>Spending limits waived when nonparticipating opponent exceeds threshold expenditures</li> </ul>	

