

## What Is and What Could Be:

### The Potential Impact of Small-Donor Matching Funds in New York State Elections

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New York State's Governor Andrew M. Cuomo has proposed a system of public matching funds for state elections similar to the one being used successfully in New York City. "We must reconnect the people to the political process and their government," Gov. Cuomo said in his State of the State Message on January 4. "New York City's public financing system provides a good model for statewide reform. The system has helped to increase the number of overall contributors — and especially the number of small donors — in city elections." He urged the state legislature to enact public matching funds, along with other reforms, "to empower New Yorkers by giving them an equal voice in our elections."

This paper will evaluate Gov. Cuomo's claim that importing something like New York City's public matching fund system is likely to bring greater participation and equality to the state's campaign finance system. To foreshadow what is to come, the paper will argue that the best available evidence supports the claim. This conclusion is based on several years of research done by the nonpartisan Campaign Finance Institute (CFI) on the role of small and large donors in federal and state elections. A more extensive presentation of the evidence may be found in the co-authors' article, "Small Donors, Big Democracy: New York City's Matching Funds as a Model for the Nation and States," in the peer-reviewed *Election Law Journal*<sup>2</sup>

Governor Cuomo's proposal rests on a straightforward foundation. Political campaigns in the United States are typically financed by contributions from a small number of donors, with much of the money coming from those who give \$1,000 or more. In New York State, only a minuscule one-half of one-percent of the adult population gives any money at all to any candidate for statewide office or for the state legislature. CFI's research shows this to be nearly the lowest donor participation rate of any state in the country.

Moreover, the money from this handful of donors in state elections is tilted very much toward the high end. Candidates running for state office in 2010 got nearly half of their money (47%) from non-party organizations (such as political action committees), and

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<sup>2</sup> Michael J. Malbin, Peter W. Brusoe and Brendan Glavin: "Small Donors, Big Democracy: New York City's Matching Funds as a Model for the Nation and States," *Election Law Journal* 11:1 (2012), 3-20.

nearly another one-third (31%) from individuals who gave \$1,000 or more. In other words, more than three-quarters of the candidates' money (78%) came from big donors, many of whom had a direct stake in the business of government. In sharp contrast, the candidates received only 6% of their money from individuals who gave \$250 or less.

This distribution raises major questions about equality and power in a democracy. The few who give a lot of money disproportionately have the ear of those who are supposed to be making policy for everyone's benefit. That need not be so. The question is what should be done?

In the past, reformers have looked at restrictions on spending, but the Supreme Court has put a huge barrier in front of this approach. Even so, the court's views about restrictions do not rule out the goal. The Court says you cannot promote equality or participation by restricting or inhibiting speech. But it is perfectly constitutional to pursue the same goals by building up instead of squeezing down. You can dilute the power of the few by increasing the number and importance of low-dollar donors and volunteers. This in essence is what Governor Cuomo has proposed.

The constitutional theory is straightforward. The empirical question is whether this would actually work. Our research says that the answer is yes.

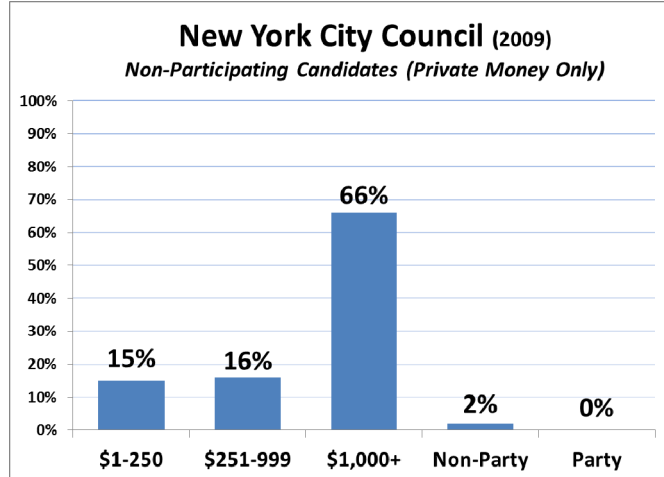
## **New York City in 2009**

New York City is one of only a few jurisdictions in the country with a public policy program specifically aimed at bringing small donors into the system. In 2009, the city gave participating candidates six dollars in public matching funds for each of the first \$175 they raised from individuals who lived in the city. This made a \$175 contribution to a candidate who participated in the system worth as much as a \$1,225 contribution without matching funds. Our research shows that this program had a dramatic impact.

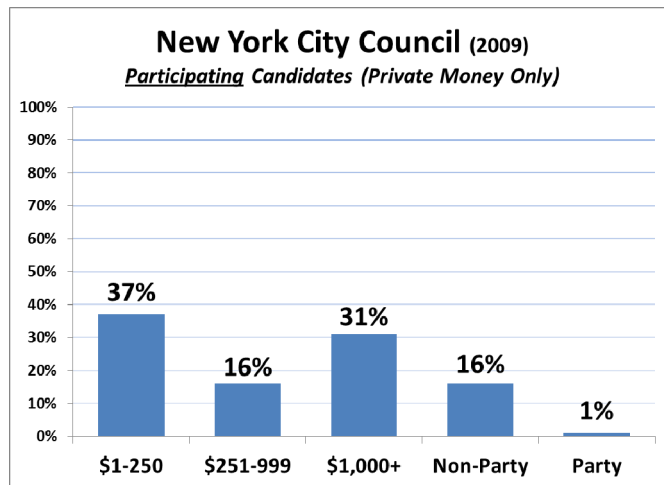
This section of the paper will summarize the results for New York City, followed by an analysis of how they would transfer to New York State. A future paper will look beyond the dollars to show that matching funds not only means greater numbers; it also means that a more diverse set of people is playing a greater role in the democratic process.

The idea behind importing a New York City-style matching fund system to state elections is that matching funds should change the fundraising incentives for candidates. To provide enough candidates for comparison, the following analysis focuses on the 51-member City Council, which is the legislative branch of the municipal government. Each Council member represents a constituency of more than 160,000 people, which makes a council district comparable in size to a New York State Assembly district. We can see the incentive effects by comparing the candidates who decided not to take public financing when they ran for City Council in 2009 to those who did choose to participate in the voluntary matching fund system. The first chart shows non-participants. Each of the bars shows the percentage of money coming from donors whose contributions to a candidate aggregated to the total amount shown. The charts exclude self-financing.

It turns out that non-participating New York City Council candidates raised their money from donors who gave pretty much the same amount proportionally as the donors who gave to the candidates for state office in a typical state. (The median state in our full article was Tennessee, whose candidates raised 16% of their money from donors who gave them \$250 or less.)

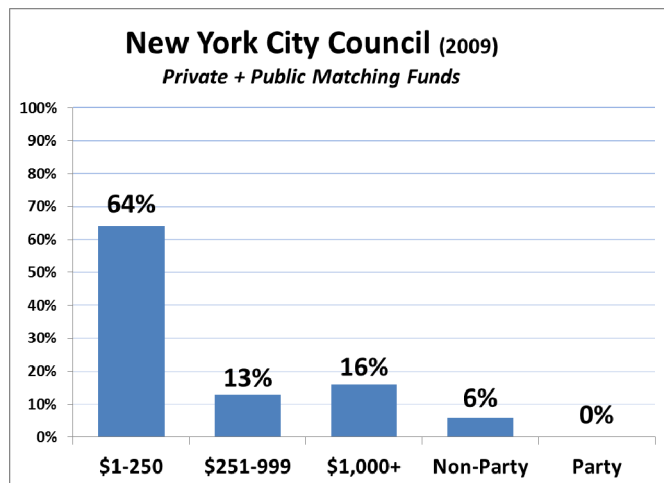


By comparison, the New York City Council candidates who chose to participate in the voluntary matching fund system showed a very different donor profile. To show the effect on candidates' fundraising incentives, the following chart shows only the private funds raised by the candidates.



The chart shows that participating candidates raised two-and-a-half times as much of their private contributions from small donors, proportionally, as did the non-participating candidates. In other words, public matching funds seem to have shifted the candidates' attention.

The next chart explains why. It shows what the distribution looks like when you assign the city's public matching funds to each of the donors whose contributions triggered the match. The chart therefore shows the relative financial importance of each set of donors to the candidates, from the candidates' perspective.



This is a stark comparison. Instead of seeing non-participating candidates who get 66% of their money from donors who give them \$1,000 or more, we see that donors who gave \$250 or less were responsible for 64% of the money that went to the participating candidates. This was a huge swing: small donors were responsible for four times as much, in percentage terms, while the large

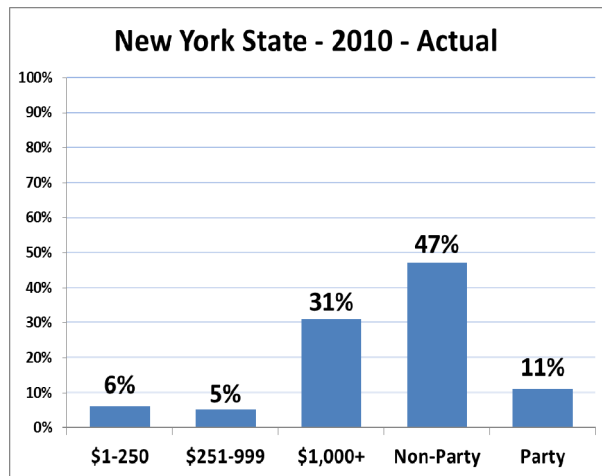
donors were cut down to only one-fourth of the role that they played for the non-participating candidates.

There can be no doubt that the city’s matching fund program was responsible for shifting the role of small donors in city elections. CFI’s historical research (detailed in the longer article)<sup>3</sup> also shows that the city’s multiple matching funds system led to a major increase in the sheer number of donors as well as a shift in the proportions. Candidates had an incentive to ask more people to give to them in small amounts, and that incentive in fact worked.

## Would the Results Transfer Statewide?

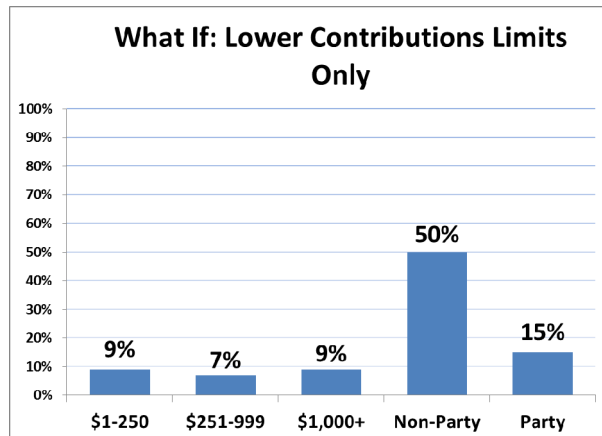
What would be the effect if New York State were to adopt a system like New York City’s? To answer the question, CFI ran a series of “what if” scenarios, based on the actual donors to the candidates for Governor and state legislature who ran in 2010. The first table shows the distribution of contributions to the candidates, as they existed in 2010.

The bar chart illustrates a point made earlier in this paper: only 6% of the funds raised by New York State candidates came from donors who gave them aggregate amounts of \$250 or less. In contrast, 78% of their money came from donors who gave \$1,000 or more, or from non-party organizations.



To estimate the impact of policy change on this pool of donors, we imagined three scenarios. The first considers contribution limits. The others add matching funds.

**Contribution limits only:** New York State in 2010 allowed individuals and political action committees to give up to \$55,900 to a candidate for governor (in the primary and general election combined), \$15,500 for Senate candidates and \$7,600 for the Assembly. Because Governor Cuomo has said that he wants lower contribution limits, without specifying an amount, we asked what would happen if the amounts were to be the same as in federal elections. This would make them \$5,000 for individual contributions (primary and general election combined) and

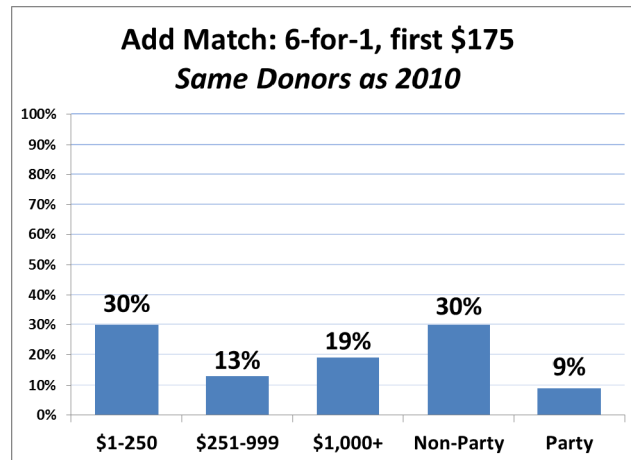


<sup>3</sup> Readers who want a more exhaustive treatment may see the full study on the website of the Campaign Finance Institute ([www.cfinst.org](http://www.cfinst.org).)

\$5,000 for a PAC contribution. The following chart shows what would happen to the distribution of funds if any money above these limits in 2010 were removed from the system.

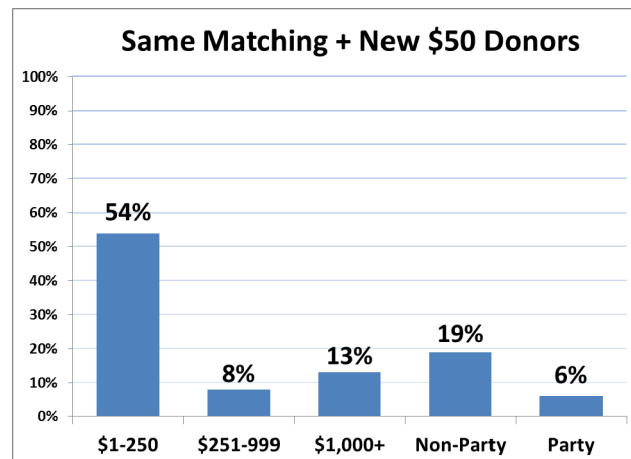
As the chart should make clear, lowering the contribution limit would have only a modest impact on the distribution of funds. This is not an argument against lower contribution limits. While lower limits might not effect small donors, there are other good reasons for lower limits that relate to the potential for corruption or undue influence.

**Matching funds with a static donor pool:** The next chart considers what would happen if the state adopted a New-York-City-style six-for-one match for the first \$175 contributed by an individual donor to a candidate. The chart assumes that every candidate voluntarily chooses to participate in the system. It also assumes that all donors who gave in 2010 continue to give exactly the same amounts as they did in 2010 (up to the new contribution limits). Finally, it assumes – unrealistically – that no new donors come into the system.



As the chart shows, these changes alone would more than quadruple the role of small donors over the status quo.

**Matching funds with new donors:** But it seems hard to believe that a matching fund system would leave the donor pool unchanged. Based on what we know happened in New York City, there can be little doubt that offering a six-for-one match would bring new donors into the system. The more difficult issue is to estimate how many.



Most of the donors in the system now are the ones who give small contributions (even though small contributions make up only a small portion of current money). But the small donors represent only a tiny fraction of those who could give, and we know that potential small donors are the ones most likely to be stimulated by matching funds.

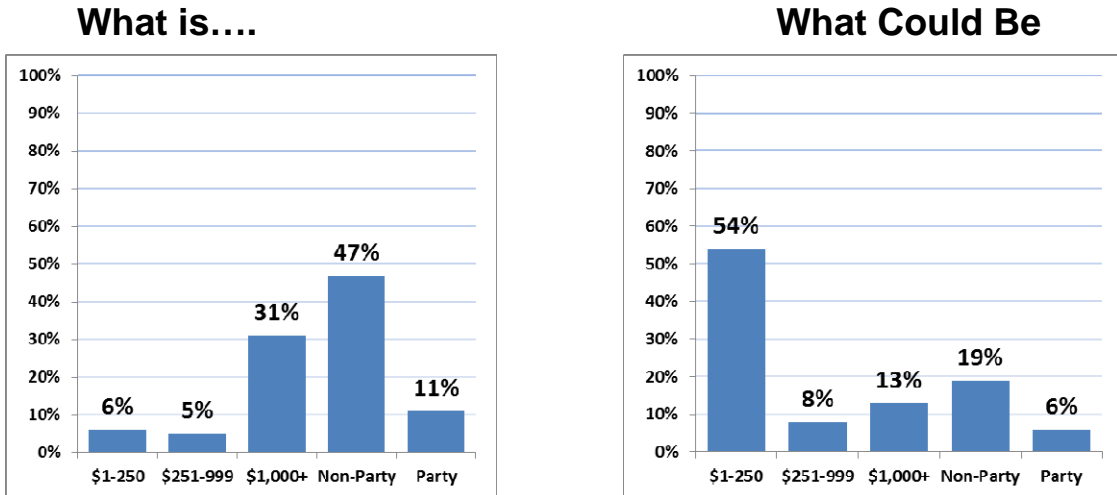
The next scenario assumes that candidates will attract enough new donors so that the state’s donor participation matches New York City’s rate (1.75% of the adult population). Lest this assumption be considered unrealistic, we note that it would be only slightly above the national median and less than half that of the country’s top performing states. We also assume that each new donor gives exactly \$50.

It is obvious from the chart that bringing new donors into the system would have a powerful effect. In this scenario, small donors would be responsible for more than half (54%) of the candidates' funds – more than eight times the proportion as under the current system. At the same time, the combined role of \$1,000 donors and non-party organizations would shrink from 78% to 32%.

To be sure, a 54% role for small donors at the state level would fall short of the 64% role these donors played for participating candidates in the City Council elections of 2009. The difference stems from the much greater importance political parties and non-party organizations play in state elections. Even so, 54% signifies that small donors would shift from their currently trivial role in New York State to being the most important donors to candidates for state office.

To recapitulate the main point with pictures: here is what the campaign finance system looked like in New York State in 2010, and what it could look like with small donor matching funds.

**Recap: NY State**



**Conclusion**

We conclude that the empirical assertions in Governor Cuomo’s State of the State address are strongly supported by the evidence. New York City’s public matching fund system has brought more small donors into the system and shifted the financial balance of power. We can also predict from the data that a similar system would bring parallel results in state elections. If the goal is to connect candidates more strongly with the people they are supposed to represent, the case seems compelling.