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It is clear that the public financing system for presidential primaries is in serious trouble. Declining taxpayer check-off rates, increasing numbers of candidates qualifying for matching funds, stagnant primary spending ceilings, front-loaded primaries, and the exploding cost of presidential campaigns, have all conspired to marginalize the public finance system. The blunt fact is that the public financing system no longer reflects the practical realities of running for President in the 21<sup>st</sup> century. Until the system accommodates those practical realities, it will play only a marginal role in the presidential primary process and may cease to play any meaningful role at all.

I'd like to outline several fundamental changes to the public financing system that I believe would not only improve the solvency of the system, but also make it more compatible with modern presidential campaigns.

At the outset, I want to stress that I'm not here to debate whether there should be public financing at all. I think that's a very serious question. The declining number of Americans who are checking-off their tax returns for public financing is powerful evidence that the American people are, at the very least, skeptical of the public financing system. From the mid-1970s through the mid-1980s, the check-off percentage averaged between 25 – 30%, and never dropped below 23%. However, from the mid-1980s through last year, the average percentages ran in the teens and low 20s, and during the last four years has hovered between 11 and 12%. When only 11 or 12% of the nation's taxpayers are contributing, I think it's very hard to conclude that the system has public support.

I understand that a number of theories can be advanced to explain the low check-off rates (inadequate publicity; mistaken beliefs that checking-off increases one's tax burden, etc.). But many of those theories strike me as thin rationalizations for what by any objective measure is an anemic participation rate. And I often hear the suggestion that even if the American people don't support public financing, they don't always know what's best for them, and the system needs to be maintained for their own good. I am not comfortable with those rationales, and I think it would be a mistake to study the public financing system without addressing this threshold question. If the American public opposes public financing of presidential elections, it would be bad public policy and a major disservice to try to perpetuate the system without popular support; I also think it would ultimately fail politically.

That being said, if we are going to have public financing of presidential primaries, I strongly believe that the system should be compatible with the financial and political realities of running a viable presidential campaign. Simply put, the reason more and more candidates are considering opting out of matching funds for the primaries is

growing concern that the amount of matching funds is too small, and the accompanying primary spending ceiling is too low, to wage a successful primary campaign until the national conventions. If this incongruity is not fixed, there is little chance that the public financing system is going to be strengthened.

I think it's important to note that this incongruity has not existed with the general-election grant, which I think explains why no major-party candidate has ever declined public funds for the general election, even though the grant is accompanied with a spending ceiling. In 2000, the general election grant for the major party candidates was \$67.5 million, which the candidates spent in the three months between the national conventions and election day. By contrast, the primary spending ceiling in 2000 was only \$40.5 million, for a primary season that was over 18 months long (more than 6 times the length of the general election period). Given the mathematics, it is little wonder that candidates have readily embraced public financing for the general but have serious doubts about taking it in the primaries. Wouldn't you?

In light of these electoral realities, I think several major steps could be taken that would increase the incentive for candidates to opt for matching funds in the primaries and thereby significantly strengthen the public financing system.

First and foremost, the spending ceiling for candidates who take matching funds should be substantially increased. Given that primary campaigns are 5-6 times longer than the general election period, a strong argument can be made that the primary spending ceiling should be higher than the general election limit. At the very least, the primary ceiling should be as high as the general election ceiling, which in 2000 was \$67.5 million and in 2004 is expected to be approximately \$74 million. Equal spending ceilings for the primary and general election would also parallel the equal contribution limits of \$2,000 for each election. Most importantly, raising the spending limit to this level would make it much more realistic for a campaign who wins its party's nomination to accept public funds without compromising the candidate's ability to campaign effectively all the way until the convention, even against a candidate who opts out of public financing. I think this is the single most important problem with the current system that must be fixed; if it isn't, I think most of the other proposals for modifying the system will only tinker at the edges and will not fundamentally strengthen the public financing system.

Second, we should increase the total amount of matching funds that a candidate can obtain. In 2000, Vice President Gore received \$15.5 million of matching funds, and Senator McCain received \$14.8 million. If the permissible matching fund pool was doubled to \$30 million, there would be a much greater incentive for candidates to opt in to the system, especially those that win their party's nomination, who could continue to raise funds and qualify for additional matching funds between the time they clinch the nomination and the conventions. It also would make it much more feasible for candidates who are in the public financing system to reach a spending ceiling of \$70 - \$80 million, which is essential for competing with a privately financed candidate who is able to raise more than \$100 million.

Third, consistent with increasing the total amount of matching funds that a candidate can receive, the top match should be doubled from the current level of \$250 to \$500. This would allow the matching funds system to keep pace with BCRA's doubling of the contribution limits from \$1,000 per election to \$2,000. Otherwise, the top match percentage will decline from 25% of a maximum contribution under the old limits to just 12.5% under the higher limits, which would be an additional disincentive to take matching funds.

Fourth, as we all know, during the last couple of presidential election cycles, there has not been enough money in the public financing system to fully pay the candidates all of the matching funds to which they are entitled starting in January of the presidential election year. As a result, many candidates have been forced to obtain bridge loans from banks until they receive their full allotment of matching funds, which is often not until several months later. Although bridge loans help mitigate the financial harm of delayed matching funds payments, candidates are not made whole because they aren't able to recoup their loan financing costs. To make candidates whole, such financing costs should be exempt from the primary spending ceiling, which would allow candidates to raise additional private contributions to cover such expenses. Current law allows candidates to exempt certain primary fundraising costs from the spending ceiling; providing a similar exemption here would allow publicly financed candidates facing a matching funds shortfall to be made completely whole, and wouldn't put candidates outside the system at any disadvantage.

Finally, the eligibility requirements for receiving matching funds should be tightened significantly. Currently candidates are required to raise \$5,000 (in individual contributions of \$250 or less) in 20 states to begin qualifying for matching funds. At \$250 a contribution, that means presidential candidates only need to receive 20 contributions in 20 states, or 400 contributions in total, to be eligible for matching funds. Many top-tier presidential candidates receive 400 such contributions in a single week or even in a single day.

Congress can condition the receipt of public funds on candidates showing that they have broad-based, significant support. The current criteria do not require any such showing. If requirements were increased ten-fold to \$50,000 in 20 states, that would require candidates to raise \$1million in private contributions across the country before they were entitled to receive public money, which would be a much more meaningful showing. At the very least, the eligibility requirements should be indexed for inflation, which hasn't occurred for 30 years. Tightening the eligibility requirements also would reduce the number of matching funds claimants, which would help the fund maintain a positive cash balance.

Some people contend that it would be a disaster for the country to lose the presidential public financing system for the primaries and that it would put the presidency on the auction block. I strongly disagree. If the American people fail to support public financing of presidential elections, we should abolish the system; it is inappropriate to force a system on the public over their objections. And even if public financing did not exist, the \$2,000-per-election limit is a far cry from the system that existed before Watergate, when no contribution limits existed at all, and disclosure was spotty at best.

All of that being said, I think we could make several changes to the system that would dramatically increase the incentive for top-tier presidential candidates to participate in the system. If we fail to make fundamental changes, we may quickly see a balkanized system in which top-tier candidates of both major parties stay outside the system, and only non-competitive candidates remain in the system. Such a result would effectively kill public financing, and we may be on the brink of that result today unless decisive action is taken to strengthen the system. Thank you.