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Introduction

The economics of electoral democracy is a subject that has been almost entirely neglected by scholars. Democracy requires elections and running for office necessitates resources. But theorists of democracy have had almost nothing to say about how much money should be spent by candidates, or where that money should come from in order to achieve a political system of equality. There is a gaping void in democratic theory.

It is true that an extensive literature exists that argues the United States' political system is damaged by the role private wealth plays in it. Thus Ian Shapiro writes that deliberation in the United States is impeded by the fact that "powerful players…make it their business to shape the terms of public debate through the financial contributions they make available to politicians and political campaigns."[1] Similarly Robert A. Dahl, writes that "because market capitalism inevitably creates [economic] inequalities, it limits the democratic potential of polyarchal [modern representative] democracy by creating inequalities in the distribution of political resources."[2] But aside from these off-hand comments none of these

[1] Ian Shapiro, *The State of Democratic Theory* (Princeton and Oxford: Princeton University Press, 2003), p. 30.
[2] Robert A. Dahl, *On Democracy* (New Haven and London: Yale University Press, 1998), p. 91

scholars provides a framework by which to assess how candidacies in a democratic electoral system should be paid for. A theory of fair electoral financing does not exist.

Schumpeter's Model

Part of the problem here resides in the fact that almost all of the theorizing that has been done in the past with regard to democracy has concerned itself with limiting popular political influence, not enhancing it. Dating back to Madison, de Tocqueville, and John Stuart Mill, the concern was that the masses in political ascendancy might use their electoral power to impose destructive policies of economic expropriation. Democracy might become, in Maier's words "a voracious mass confiscatory force" heedless of the economic damage it would inflict.[3] To avoid this, these and other theorists sought to devise rules and institutions that would protect against the threat of unconstrained popular rule. Identifying a mechanism for paying for political participation that would approximate political equality was the last thing on their minds.

In the twentieth century the foremost theorist who sought to make "democracy safe for the world"[4] was the economist Joseph A. Schumpeter. In his 1942 book

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[3] Charles S. Maier, "Democracy since the French Revolution," in John Dunn (ed.) *Democracy The Unfinished Journey: 508 BC to Ad 1993* (Oxford: Oxford University Press, 1992), p. 126, 127.
[4] Charles S. Maier, "Democracy Since the French Revolution," p. 126

Capitalism, Socialism and Democracy Schumpeter offered a self-consciously elitist conception of democracy that, as Gerry Mackie has put it, “became canonical in postwar American political science.”[5] But the fact is that not even Schumpeter, an eminent theorist of economic development and business cycles, had anything to say about the financing of the electoral model he advocated. Nevertheless, his model is sufficiently elaborated and corresponds closely enough to the real world of politics that both its content as well as its omissions provide a valuable starting point for the construction of an economics of electoral democracy.

Schumpeter, like the theorists before him, believed that society has to be protected from the public’s irrationality. According to him voters “prove themselves bad and indeed corrupt judges of … [national] issues and often they even prove themselves bad judges of their own long-run interests.” He argues that while consumers of goods and services are rational, such rationality is absent when it comes to political issues. With commodities, consumers “learn to act upon unbiased expert advice about some things (houses, motorcars) and themselves become experts in others.” But in politics, Schumpeter writes, “what strikes me most of all and seems to me to be the core

[5] Gerry Mackie, “Schumpeter’s Leadership Democracy,” *Political Theory*, Vol. 37, No. 1 (2009), p. 129

of the trouble is the fact that the sense of reality is so completely lost."[6]

With this the case, the political role for members of the public in an electoral democracy should be confined to choosing the individuals who will in fact govern. This process of selection is done in an electoral process that Schumpeter believes closely approximates the functioning of markets. In this perspective, political parties are the analogues of firms, and voters in their role as consumers choose among office-seekers. Thus Schumpter approvingly quotes a politician's comment: "What businessmen do not understand is that exactly as they are dealing in oil, so I am dealing in votes." In this competition "…the reins of government should be handed to those who command more support than do any of the competing individuals or team." As he puts it, with elections "the deciding of issues by the electorate [is] secondary to the election of the men who are to do the deciding."[7] In sum, for Schumpeter, "democracy does not mean and cannot mean that the people actually rule in any obvious sense of the terms 'people' and 'rule.'" Rather, democracy means that the people by participating as consumers in a political market place

[6] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, (New York: HarperPerennial, third edition, 1950) p. 260-1, 258, 261.
[7] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, p. 285, 273, 269.

"…have the opportunity of accepting or refusing the men who are to rule them."[8]

The candidates among whom the public is to make a selection are, in the Schumpeterian system, part of a political elite that can be entrusted with decision-making – an elite that will know how to exercise what he calls "Democratic Self-control." They will share the belief that "the democratic method, that is to say the sphere of 'politics,'" should not be extended to "all economic affairs." With them in charge, there would be no danger that democracy would engage in the kinds of confiscatory policies that Madison et al worried about.[9]

Aside from the desirability of business experience, Schumpeter has little to say about the social origins of the political elite. He indicates that the availability of "politicians of sufficiently good quality" necessitates "a social stratum, itself a product of a severely selective process, that takes to politics as a matter of course." Access to this class should be "neither too exclusive nor too easily accessible for the outsider." What Schumpeter hopes will emerge are politicians who possess "a

[8] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, p. 260, 284-5. Gerry Mackie, "Schumpeter's Leadership Democracy," Presented at 2004 Annual Meeting of the American Political Science Association, p. 2
[9] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, p. 294, 299.

professional code and a common fund of views." But as Medearis notes "Schumpeter seems never to have reached a satisfactory answer as to who would constitute the necessary elite."[10]

The Political Market

Schumpeter's use of a market analogy is intended to suggest that the political system he describes would yield results comparable to the socially desirable outcomes that economic theory teaches emerge from competitive markets. In that theory consumers dictate what is produced, subject only to the constraints imposed on supply by the prevailing technology and the availability of productive inputs. Their choices and the pattern of their expenditures determine which products are profitable to produce and suppliers respond accordingly. With competition, furthermore, the volume of the goods and services produced approximates a socially optimal level. In Schumpeter's analogy, voter sovereignty also prevails. Voters decide who will be in office, though that sovereignty, like that of consumers is constrained, in this case by the range of policy options offered by a responsible and rational political elite. The implicit suggestion is that just as with markets, this

[10] Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, p. 291; John Medearis, *Joseph Schumpeter's Two Theories of Democracy* (Cambridge MA: Harvard University Press, 2001), p. 102.

electoral arrangement results in desirable political outcomes.

In fact, however, the validity of Schumpeter’s market analogy and its use in identifying a desirable political system is of marginal use. For, while it is true that in Schumpeter’s system voters do choose among candidates in a way that resembles buyers deciding which brand of a commodity to purchase, that political selection process does not, unlike what occurs in product markets, involve a financial transfer. The cost of voting for one candidate is simply the inability to vote for another. No financial payment is involved. Politicians do compete with each other for electoral support, as Schumpeter emphasizes, but those votes do not pay bills.

What makes this important is that consumers in output markets provide the revenue that allows firms to produce and supply goods and services. The sovereignty that consumers possess resides in their ability to shift their payments from one producer to another. Consumers dictate what is produced because they vote with dollars. If demand is too small to generate a sufficient profit level, producers will respond by producing something else.

By contrast, in the political marketplace though voters do get to choose among the candidates, their choice does not involve providing office-seekers with the resources to engage in the production process - to mount their electoral campaigns and ascend to the legislature. That income has to come from another source than the voters.

In the United States typically the costs of running for office are financed by voluntary political donors. These are individuals who both can afford to make such contributions and have judged that the benefits they obtain from doing so are at least equal to the gains they could secure by allocating those resource to alternative uses. A more appropriate analogy than Schumpeter's would be that in electoral politics funders are the sovereign consumers, not the voters.

But what are they buying? Barring the case of corruption and outright quid pro quos, contributions to political office-seekers can best be understood as purchasing influence over the legislative process. Donors make contributions if they think two conditions will be satisfied: that the influence they thereby secure will exceed the level they would possess if they did not make donations, and that that increase is sufficiently large for them to forego other uses to which those dollars could be put. The intent is to increase the likelihood of victory for a candidate who can be expected to legislate significantly in accord with the preferences of the donor.

Public Goods and Legislative Influence

When consumers buy normal goods, other people do not have access to those products. It is theirs alone. In economic theory such goods are called rivalous. One person's purchase denies the product to all others. But there are some outputs that are non-rivalous. These by their nature necessarily are shared. The two best examples are policing services to protect against domestic crime and the maintenance of the military in order to maintain national security. Both are non-rivalous; neither can easily be confined to an individual buyer or even a group of buyers. Once crime in a community has been brought under control all of the neighbors benefit, whether or not they have contributed funds to the policing budget. Similarly, if defense spending increases national security, all citizens - payers and non payers - alike are safer.

The problem is that with non-rivalous goods there is an incentive for would-be consumers to free-ride: benefit from the product without paying for it. But when that occurs extensively production suffers, unless the government intervenes. If non-rivalous goods are marketed to private consumers, demand in the market occurs only to the extent that people eschew getting something for nothing. Since it is assumed that the numbers of such individuals will be significantly lower than if there was no free-riding, demand as expressed in the market will be at a lower level than if all beneficiaries were paying consumers. The consequence is a less than socially level of the service will be produced.

But insufficient availability is not the only problem that emerges when non-rivalous goods are paid for privately. In addition they will be distributed in socially undesirable patterns. For purposes of illustration consider what would happen if the defense budget were to paid for from private sources.

If instead of being funded from tax revenues, the defense budget were financed privately it is safe to assume there would be a good deal of free-riding. People will refrain from contributing to the defense budget on the assumption that they will be protected whether or not they do so. But it is also reasonable to assume that at least some private individuals will pass up the opportunity to free ride and make a voluntary contribution to the nation's defense. These consumers however will not be able to confine the affects of defense spending to themselves.

Providing security for one cannot be done without providing at least some security for all.

There are at least two groups who might well forego freeloading and voluntarily contribute to the defense budget. One would be composed of individuals who choose to pay for patriotic reasons. They would do so because they think it is their responsibility and duty as citizens to contribute financially in order to protect the country. For them, it is the right thing to do. While not ruling out the possibility that there might be large numbers of such citizens, it seems unlikely that sufficient funds to achieve effective national security could be raised from this source alone. Free-riding is a powerful disincentive to spending.

In the face of a resulting shortfall, those in charge of the country’s defense would have to appeal to a second potential pool of donors. These are people who might be convinced that by contributing to the defense budget they could promote their personal interests to an extent that would justify their eschewing the free-riding option available to them. The target group would be individuals who could come to believe that in exchange for a contribution, their security interests would take precedence over those of the free-riders. National security administrators would have to satisfy these potential donors that their contributions were going to be adequately reciprocated.

But in catering to the interests of this second group of donors, defense outlays would in all likelihood become inefficient. Instead of expenditures being measured exclusively by the criterion of achieving national security, that goal would be counter-balanced by considerations of how the donors would respond to such outlays. Defense fundraisers would have to promise to provide the kinds of services the potential funders wanted, whether or not those preferences represented an effective way to achieve national security. The scope for waste and abuse of the system would be extensive.

The Politics of Influence-Sovereignty

As it would be with the provision of privately funded national security, so it is with privately purchased political influence. That influence is non-rivalous. The purchasing of political influence affects many more people than the buyer. To the extent that that influence is successful in shaping legislation, its impact extends to everyone in the society. But free-riding is present as well. Most people do not make campaign contributions, depending on others to provide the resources necessary for candidates to run for office. But as in the case of the defense budget, the result of free-riding is to distort the outcome, in this case the shape of legislation. Because only a very small percentage of the population makes political donations, the legislation that emerges from the political process more reflects their influence more than the influence of non-donors.

There are only a few studies of the demographic composition of donors, but in one representative sample in 2008 only 13 percent of those surveyed reported having made any political contribution at all and in that same year only 0.44 percent of the country's adult population made donations large enough ($200) to be enumerated by the Federal Elections Commission.[11] Similarly a 1995 survey revealed that the wealthiest nine percent of the population contributed more than half of all political donations. Indeed the wealthiest three percent of the population contributed thirty-five percent of that total. As the authors of the survey put it, "the special inequality associated with monetary contributions affects the poor

[11] The ANES Guide to Public Opinion and Electoral Behavior, "Gave Money to Help a Campaign 1952-2008," http://electionstudies.org/nesguide/toptable/tab6b_5.htm; Center for Responsive Politics, "Donor Demographics," http://www.opensecretets.org/bigpicture/donordemographics.php?cyle=2008&filter=A

most strongly, but it also means that most of the middle class is underrepresented as well.[12]

Based on their survey data, Francia and associates report that "most donors …are conservative on economic and social-welfare issues. More than the rest of the population, they support cutbacks in social spending, oppose spending to alleviate poverty and oppose a national health insurance system.[13] In fact the gap between funder views and that of the public is wide. In the most recent ANES survey, a representative sample of the population was asked to rank on a 7 point scale whether they thought there should either a cut in government services or an increase. In contrast to the prevailing Congressional consensus that there should be a reduction in such government spending, 41 percent of respondents placed themselves in the three categories calling for an increase while 34 percent called for cutbacks.[14]

The ideological hegemony exercised by the donors has recently been made even more clear in the empirical work carried out separately by Larry M. Bartels and Martin

[12] Sidney Verba, Kay Lehman Schlozman, and Henry E. Brady, *Voice and Equality: Civic Voluntarism in American Politics* (Cambridge MA and London: Harvard University Press, 1995), pp. 193, 195.
[13] Peter L. Francia, John C. Green, Paul S. Hernson, Lynda W. Powell and Clyde Wilcox, *The Financiers of Congressional Elections* (New York: Columbia University Press, 2003, pp. 60-1
[14] The ANEW Guide to Public Opinion and Electoral Beahvior, "Government Spending 1982-2008," http://electionstudies.org/nesguide/toptable/tab4a_5htm

Gilens. Bartels writes that during the period of the 1980s and early 1990s senators "were consistently responsive to the views of affluent constituents but entirely unresponsive to those with low incomes." Bartels finds this disparity in responsiveness even after accounting for differences in voter turnout, knowledge and contact with representatives.[15] Gilens' results are similar. He too finds a strong statistical relationship between the views of affluent citizens and policy outcomes. His conclusion, like that of Bartels, is that "influence over actual policy outcomes appears to be reserved almost exclusively for those at the top of the income distribution."[16]

It is true that neither Bartels nor Gilens explicitly test the hypothesis that the disparities in representation that they find are traceable to campaign funding. Bartels does acknowledge however that that hypothesis is supported by his evidence, though he adds "that support is quite indirect and the role of money in shaping public policy clearly deserves much more careful empirical examination."[17] Even so, as Lawrence Lessig puts it "there is a wide gap in the policy preferences of 'the funders' and 'the

[15] Larry M. Bartels, *Unequal Democracy: The Political Economy of the New Gilded Age* (Princeton and Oxford: Princeton University Press, 2008) p. 275, 277, 280.
[16] Martin Gilens, "Inequality and Democratic Responsiveness," *Public Opinion Quarterly*, 69 p. 778
[17] Larry M. Bartels, *Unequal Democracy*, p. 281

People'…and in the face of that gap, Congress tracks not 'the People' but 'the funders.'"[18]

In this way private political fund-raising creates the mechanism by which a common set of views among politicians is achieved, just as Schumpeter hoped would occur. Those office-seekers who do not subscribe to the orthodoxy prescribed by the funders find that they have to scramble to obtain even an inadequate level of financial support. Knowing this, politicians according to Lawrence Lessig, "learn to take a position on a particular issue in anticipation of the need to secure" donor support. This, adds Lessig, in words that bring to mind Schumpeter's call for an appropriate socialization process for politicians, is "simply articulating more completely the views of a member [of Congress], as that member grows into her job."[19] The non-rivalous influence obtained with campaign donations thus fills the principle gap in Schumpeter's model. It produces the kind of ideologically constrained class of politicians that he believed was safe for democracy.

The fact that office holders are more responsive to the views of their high income constituents than the rest of the population is analogous to the inefficiencies in

[18] Lawrence Lessig, *Republic Lost: How Money Corrupts Congress – and a Plan to Stop It* (New York and Boston: Twelve, 2011) p. 151-2
[19] Lawrence Lessig, *Republic Lost: How Money Corrupts Congress – and a Plan to Stop It,* p. 149.

military policies that would occur if the defense budget were privately funded. Instead of the political system positively responding to the policy preferences of the majority, as it would in an efficient democracy, what results is biased to the interests of a small number of people. They funding system distorts outcomes.

Change?

America possesses a Schumpeterian democracy. The electorate chooses the politicians who will serve in office. Those elected officials have been socialized to adhere to the political norms associated with the preferences of wealthy campaign contributors. There is no danger that elected officials will undertake the confiscatory policies about which Schumpeter and other theorists of democracy were concerned. The non-rivalous nature of political influence means that the donor class' views set the limits of the policy options that are seriously contemplated.

The question that has recently arisen in the United States is not whether there is an excess of democracy but rather whether there is too little. What prompts this question is the apparent contradiction that exists between the continued commitment of the American electorate to the electoral process and their hostile attitude toward the

Table 1

Voter Turnout Rates for U.S. Representatives in Presidential and Non-Presidential Years, 1960-2008

Presidential | Non-Presidential

Year	Rate	Year	Rate
1960	58.5	1962	45.4
1964	57.7	1966	45.4
1968	55.0	1970	43.6
1972	50.6	1974	35.7
1976	48.8	1978	34.5
1980	47.5	1982	37.7
1984	47.4	1986	33.6
1988	44.9	1990	33.6
1992	51.3	1994	36.5
1996	45.9	1998	33.1
2000	47.1	2002	34.8
2004	51.6	2006	36.1
2008	53.3	2010	37.0

Source: U.S Census Bureau, *Statistical Abstract of the United States: 2012*, Table 397

Table 2

Percentage of Respondents Who Believe "Government Is Run for a few big interests looking out for themselves?

1964	29	1988	64
1966	33	1990	71
1968	40	1992	75
1970	50	1994	76
1972	53	1996	69
1974	66	1998	64
1976	66	2000	61
1978	67	2002	48
1980	70	2004	56
1982	61	2006	Na
1984	55	2008	69
1986	Na		

Source: The ANES Guide to Public Opinion and Electoral Behavior, Table 5A.2
http://www.electionstudies.org/nesguide/toptable/tab5a_2.htm

government they elect. There is no evidence of a retreat from the public’s belief in self-government. There has however been a dramatic increase in the belief that the politicians the electorate votes for no longer faithfully serve the public’s interests.

Since the 1960s there has been little change in the participation of the American people as voters in the political process (Table 1). There was a drop-off in voter participation rates for members of Congress in both presidential and non-presidential years during the 1970s and 1980s. But there was a small but noticeable recovery in both of these measures in the two decades that followed. The voter participation rate in 2008 was the highest recorded in any presidential year since 1968 and the rate in 2010 was higher than in any non-presidential year since 1982. To be sure these rates are low. Nevertheless there is little evidence here of a long term decline in the interest of the American people to participate in choosing representatives.

In contrast, the table makes it obvious that there has been a dramatic decline in the attitude of the public toward the government. The percentage of respondents who believed that the government is run for big interests increased from 29 percent in 1964 to 70 percent in 1980. This jaundiced view subsided somewhat during the 1980s. But by 1988 the percentage of people who were distrustful about the government's commitments was back to 64 percent. With the exception of the years in the immediate aftermath of the attacks on the World Trade Center, that is where distrust stayed ranging within a narrow range of 61 percent to 76 percent. Trust in government, lost forty years ago, has not been recaptured.

The irony is that even as trust in government declined during these years, two major pieces of campaign finance reform legislation were passed. The Federal Elections Campaign Act of 1971 as amended in 1976 (FECA) limited the permissible level of campaign contributions to candidates for Congress and established a voluntary full public funding system in the general presidential elections and a matching system in primaries. FECA also contained provisions limiting the campaign expenditures by candidates, though these limitations on spending were ruled to be unconstitutional by the United States Supreme Court. Thirty years later the Bipartisan Campaign Reform Act (BCRA) closed a loophole in the campaign finance legislation by imposing restrictions on funds donated to parties, contributions that had in the past been unregulated or "soft." Again, parts of the legislation were rejected by the Court on constitutional grounds, though the regulations on "soft money" were accepted.

But whatever the merits of these reforms, they were not sufficient to move the public from the belief that the government is not committed to responding to their interests. The data in Table 2 provide no suggestion of any change after passage of FECA or BCRA. The public's belief that the government caters to the wealthy has remained steadfast.

That alienation persisted because the legislation that was passed failed to address the non-rivalous nature of political influence. Both laws were designed to regulate, not eliminate, private political contributions. After their passage, non-rivalous political influence was still for sale, an influence that was retained by a very small number of donors.

The problem of non-rivalous influence can only be solved by treating political campaigning as a public good. That would require reform legislation to shift from regulating contributions, as it has in the past, to providing public funding for candidates. With that, there would be a decrease in the sale of non-rivalous influence. To be consistent with free speech principles, such a public funding system would have to be voluntary. It still would be permissible for a candidate to run for office using private contributions financing. But a generously endowed public funding system would create the opportunity for voters to elect candidates who could legitimately claim financial independence from special interests. Because it creates the opportunity for independence from private donors, public funding possesses the potential to rekindle the electorate's belief that the government can be responsive to the needs of more people than just the elite.

Potential objections to such a system are numerous: it would enhance the role of the very government that the public distrusts; it would be expensive and public funds could be better utilized on other projects; it might not work – rich people will exercise their influence in innovative ways if they are deprived of the opportunity to pay for political campaigns. Though each of these reservations has merit, but each can be effectively countered. Public funding would reduce non-rivalous influence and thereby become a mechanism by which distrust is overcome; there is nothing that is more valuable than the institutions of democracy and so election campaigns can claim a priority status in the allocation of government funds; no system is perfect, the rich will still be powerful, but treating election campaigns as a public good would create a counterweight to elite dominance.

Conclusion

The fact that the economics of democracy has not been a subject of academic discussion has meant that the design flaws in the system of private financing of election campaigns in the United States have not been adequately exposed. Treating election campaigns as a public good represents a means to both explain the sources of the distrust that exist between the people and their government and to provide the perspective from which corrective legislation, expanding the domain of political equality, can be enacted.