Valentino Larcinese

On the Growing Dangers of Money in American Democracy

KEY MESSAGES

- **Democratic politics requires balancing a trade-off between equality and liberty. The current US campaign finance system, shaped largely by a series of Supreme Court decisions, has prioritized liberty, particularly through a questionable interpretation of money as speech**
- **As a result of these rulings, money from individuals, corporations, and unions can flow to candidates without regulation, restriction, or, in some cases, transparency (through "dark money")**
- **Although it is challenging to establish direct causal effects, growing evidence suggests that money does influence politicians. Moreover, through issue advertising, financial contributions shape the political agenda and influence the salience of certain issues in public debate**
- **This dynamic has significant implications for the policies produced by the American political system. Wealthy donors tend to be substantially more conservative on economic issues than the general population**
- **Campaign finance reform is one of the most pressing challenges facing the future of US democracy and requires urgent attention**

As US citizens prepare to elect a new president this November, the flow of money to finance candidates' campaigns intensifies. In the 24 hours following his conviction for falsifying business records in early June, the Donald Trump campaign received more than USD 50 million. In the month following President Biden's withdrawal from the race, as it became clear that the Democratic Party's grandees were firmly backing his vice president, Kamala Harris received an astounding half-billion dollars. As money poured into the coffers, some prominent Democratic donors had the audacity to publicly advocate for what they expected if the Democrats won the presidency. Just two days after Biden's withdrawal message on Twitter, Expedia's Chairman Barry Diller and LinkedIn founder Reid Hoffman called for a change at the helm of the Federal Trade Commission, where Lina Khan has drawn the ire of large corporate groups.

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The role of money in US politics has increased at an impressive rate in recent years. As shown in Figure 1, candidates in the 2020 electoral cycle raised almost USD 15 billion, of which USD 4 billion was donated for the presidential election. These numbers set US politics apart from all other democracies, where money still plays an important role, but contributions and spending are more tightly regulated, and electoral campaigns are often publicly funded. Why is there so much money in American politics? And how much of a difference does it make for American citizens and the policies they receive?

CAMPAIGN FINANCE AND THE TRADE-OFF BETWEEN LIBERTY AND EQUALITY

Democratic politics requires a delicate balance between equality and liberty. On one hand, democracy is based on equal representation of all citizens, a process in which, ideally, each individual holds the same weight. At the same time, free speech is essential for public deliberation and the scrutiny of different candidates and proposals. Unfortunately, these two principles can conflict with each other, particularly when inequality of resources, a normal feature of a capitalist market economy, leads to some individuals or groups having a disproportionately louder voice, drowning out the voices of less resourceful citizens.

Landmark regulations passed in the 1970s recognized this trade-off and attempted to limit the influence of a few wealthy donors on democratic processes. The Federal Election Campaign Act of 1971 (FECA) and its 1974 amendments established disclosure requirements and set limits on the amount of money that could be donated to candidates, political parties, and Political Action Committees (PACs).

Since then, however, various Supreme Court decisions, starting with the landmark 1976 Buckley vs. Valeo case, have clearly prioritized liberty over equality. In Buckley vs. Valeo, the Supreme Court distinguished between contributions and expenditures. It accepted limits on contributions as necessary to prevent corruption but rejected spending limits, arguing they would restrict free speech and violate the First Amendment. According to this interpretation, "money is speech."

The American system also makes a crucial distinction between coordinated spending, which is subject to limits as it is akin to campaign contributions, and independent spending, which is uncoordinated with candidates and not subject to limitations.

Within this framework, all attempts to rein in big money have been frustrated, either by the creativity of political actors and lobbyists or by Supreme Court rulings. The most significant of these efforts was the Bipartisan Campaign Reform Act of 2002 (BCRA), sponsored by Senators Russ Feingold and John McCain. The BCRA responded to the proliferation of soft-money contributions, which were unregulated and not subject to FECA limits since they were not used to promote specific candidates or in coordination with campaigns.

However, the BCRA has since been rendered ineffective by various Supreme Court rulings. Most notably, the 2010 Citizens United vs. FEC and SpeechNow.org vs. FEC rulings struck down restrictions on independent political expenditures by corporations and unions, arguing such limits violated the First Amendment. Independent expenditure-only committees, commonly known as Super PACs, could now raise and spend money from individuals, corporations, and unions without limitations – not just for issue advocacy but also for electioneering communications, as long as they maintained the fiction of non-coordination with candidates. The floodgates were opened, and money could now flow freely without restrictions. Additionally, donors could remain anonymous by using conduits, such as 501(c) organizations, turning soft money into dark money.

THE RISE OF SUPER PACS AND THE FICTION OF INDEPENDENCE

Unlike traditional PACs, Super PACs can raise and spend unlimited sums of money to advocate for or against political candidates. The critical distinction is that while PACs contribute directly to campaigns, Super PACs are prohibited from coordinating directly with candidates or their campaigns.

The post-Citizens-United era has seen an explosion in the number and influence of Super PACs, fundamentally altering the dynamics of American electoral politics. In recent election cycles, Super PACs raised and spent billions of dollars, dwarfing the amounts raised by traditional PACs and candidates' campaigns. As of August 15 this year, Super PACs and other groups with no limit on what they can raise and spend (outside spending) have already spent USD 1.1 billion, double the amount spent during the same period in the 2019–2020 electoral cycle when independent expenditures hit an all-time record (Cloutier 2024).

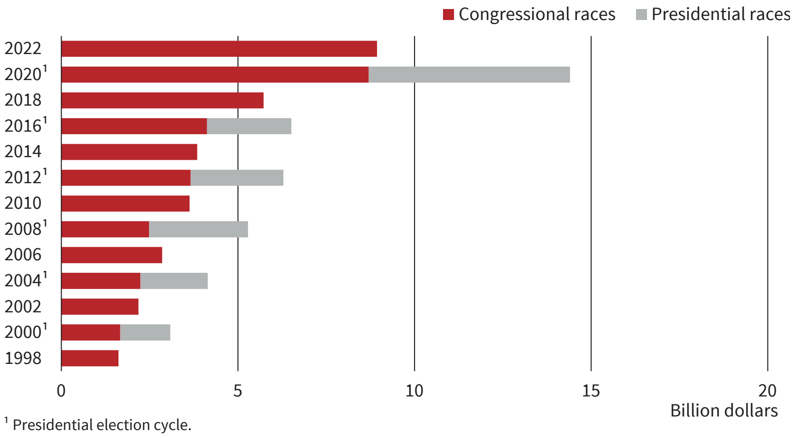
Hence, the current US campaign finance system fully prioritizes a possibly flawed idea of free speech over equal representation. Several points are important to note. First, the Supreme Court has played a key role in creating the current situation. Key rulings like Citizens United were passed by a 5–4 majority on purely ideological lines. The conservative dominance in the Supreme Court since the Bush Jr. presidency has been instrumental in shaping the current interpretation of this trade-off.

Second, the legal rationale for allowing Super PACs to operate without contribution limits – that they operate independently of candidates – is purely fictional. The distinction between coordinated and uncoordinated spending is nebulous both in principle and in practice, since electioneering can happen tacitly, without formal contacts between the agents involved. Moreover, the revolving door between parties, corporations, and Super PACs ensures that those conducting "independent" campaigns are well-acquainted and have no difficulty coordinating in practice.

Third, even when Super PACs do not coordinate with candidates, their influence is not any less problematic. By setting the agenda of public debate, Super PACs can increase the salience of certain issues solely based on their importance to donors. This likely induces office-seeking politicians to follow the policy agenda advocated by wealthy donors, even without explicit coordination. Additionally, by raising the prominence of certain issues, Super PACs can benefit particular candidates without issuing direct endorsements. According to the "issue-ownership" hypothesis (Petrocik 1996), and to plenty of evidence from surveys, voters tend to perceive Republican candidates

Figure 1

Total Cost of Elections (1998–2022)



[1] Presidential election cycle.
Source: OpenSecrets.com.

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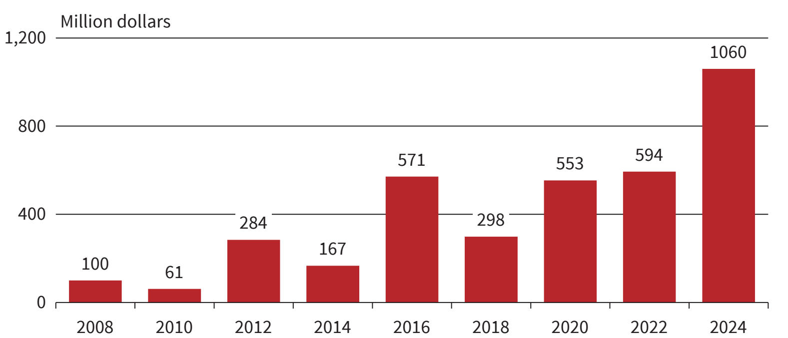
Figure 2

Outside Spending Is Outpacing Prior Election Cycles



Note: OpenSecrects analysis of federal campaign finance reports through Aug. 15, 2024, compared to spending through the same date in prior two-year election cycles.
Source: Cloutier (2024).

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as more credible on certain issues (like law and order, or immigration) and Democrats as more credible on others (like environment or healthcare). By amplifying the salience of certain issues, wealthy donors can boost specific candidates, even without explicit endorsements.

THE "DONORATE" VS. THE ELECTORATE

This surge in Super PAC activity has fueled concerns about the outsized influence of wealthy individuals and special interest groups in elections. It is indeed hard to portray donations of USD 125 million (Timothy Mellon to Donald Trump's MAGA Super PAC) in one electoral cycle as mere free speech.

This is particularly troubling because the policy preferences of donors – especially large donors – are very different from those of most citizens. Rich Americans are especially more conservative on economic issues, particularly on matters related to labor market regulation, taxation, social spending, and redistribution (Page et al. 2013; Broockman and Malhotra 2020; Broockman et al. 2019; Cohn et al. 2023). In fact, on the economy, the wealthiest Americans have been found to be consistently more conservative than even the top 10 percent (Page et al. 2013 and 2018). Similarly, a survey of big donors shows that Republican contributors are significantly more conservative on economic issues than Republican voters, with this difference increasing for top 1 percent donors (Broockman and Malhotra 2020). In summary, campaign contribution patterns may induce legislators to give more weight to the political preferences of rich voters, which tend to be substantially more conservative than average on economic and fiscal matters.

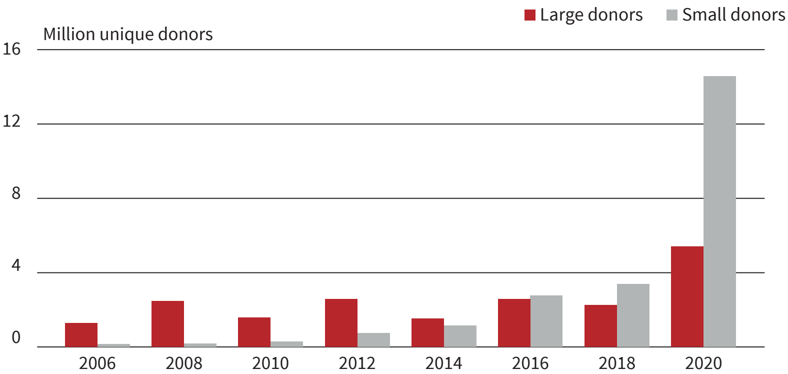
More generally, compared with the electorate, even just considering people who actually exercise their right to vote, the "donorate" heavily overrepresents white, male, wealthier, and older citizens (Hill and Huber 2017). In both parties, the differences between donors and non-donors are substantially more relevant than the differences between voters and non-voters. Hill and Huber (2017) also find that donors of both parties are ideologically more extreme than voters, including primary voters who tend to be more extreme than the rest of the electorate. Hence, the recent surge of money in politics could also be partially responsible for the increasing polarization of American politics.

On the other hand, the increase in small campaign contributions that has also been witnessed in recent years can, in fact, make the "donorate" more representative of the electorate. Small contributions are mostly expressive forms of support for a candidate, akin to volunteering time or participating in rallies.[1] Barack Obama's 2008 campaign claimed success in mobilizing new small donors, particularly using the new opportunities offered by the internet. Kamala Harris raised a record half-billion dollars during the first month of her campaign, of which about 40 percent (or USD 200 million) came from donations of less than USD 200. Approximately one-third of Donald Trump's donations in this electoral cycle come from small donors (less than USD 200), much of it contributed immediately after his conviction.

The available data shows indeed that the number of small donors has increased substantially in recent years, from about 50,000 in the 2006 electoral cycle to nearly 14.5 million in 2020 (see Figure 3, reproduced from Bouton et al. 2024). Small donors tend to have lower incomes and are more likely to be female and from ethnic minorities compared to large donors (Bouton et al. 2024).

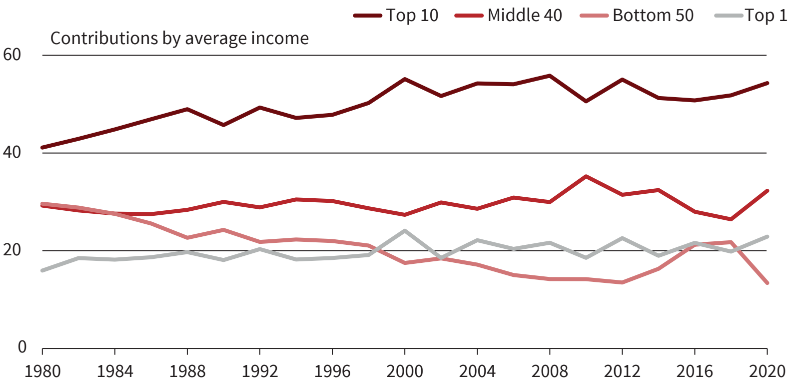
While the number of donors has increased, the concentration of contributions has also intensified (Bonica et al. 2013). In 2018, 0.01 percent of the voting-age population accounted for nearly half of total contributions (Cagé 2024). In Larcinese and Parmigiani (2023), we show that wealthier areas (census tracts) are increasingly accounting for a larger share of donations. In 1980, census tracts below the median income accounted for about 30 percent of total contributions; by 2020, their share had shrunk to around 15 percent, well below the share of total contributions donated

Figure 3
Total Number of Small and Large Unique Contributors by Election Cycle (2006–2020)



Source: Bouton et al. (2024). © ifo Institute

Figure 4
The Raising Concentration of Campaign Donations at the Census Tract Level



Source: Larcinese and Parmigiani (2024). © ifo Institute

[1] Evidence also suggests that candidates relying disproportionately on small donors tend to be more effective legislators (Prat et al. 2010).

by the top 1 percent (Figure 4). We point out that this trend may well be a consequence of increasing income inequality. If rising inequality leads to greater political influence for the wealthy, which in turn results in policies that further exacerbate inequality (such as tax cuts for high-income individuals), we may be witnessing a spiral where both economic and political power become increasingly concentrated in fewer hands, an oligarchic spiral.

DOES MONEY MATTER?

The American judicary has always taken a very narrow view to justify restrictions on the flow of money into politics: that such limits are necessary to prevent corruption. In this view, only an explicit, proven quid pro quo is considered problematic. Unsurprisingly, this quid pro quo has been notoriously difficult to prove in court. The same difficulty applies to academic research attempting to demonstrate the influence of money on legislative activity and public policy. Finding the "smoking gun" is challenging; consequently, most evidence is correlational, and finding causal effects of campaign contributions on policymaking has proven difficult.

Nevertheless, several recent studies have shown that contributions do function as leverage in political decisions. Using a large dataset covering the period from 1988 to 2014, Fouirnaies and Hall (2018) demonstrate that shifts in procedural power, such as committee membership, lead to significant reallocations of campaign finance money. In their study of the sugar industry, Grier et al. (2022) show that the voting behavior of members of Congress is influenced by changing patterns of contributions.

Gilens et al. (2021) took advantage of the fact that the Citizens United ruling had different impacts in different US states, as some states had previously banned independent corporate expenditures and were thus forced to re-allow them. These "treated" states saw an increase in corporate-friendly policies compared with other states. At the same time, no effect was found on policies that had little or no impact on corporate welfare.

Other studies find that members of Congress respond more to the political preferences of wealthy donors than to the preferences of their electorate (Canes-Wrone and Gibson 2019; Canes-Wrone and Miller 2022). This is consistent with evidence showing that implemented policies tend to align well with the preferences of the top 10 percent of the income distribution but are virtually uncorrelated with the preferences of the remaining 90 percent (Gilens 2012). Of course, other explanations for this correlation are possible; for example, representatives may simply share the same preferences as the top 10 percent because they come from similar social backgrounds. However, this explanation would not be less problematic as it would call into question the role of money in political careers and in the persistence of political elites.

POLICY CONCLUSION: WHAT CAN BE DONE?

Campaign finance in the US is a complex and pressing issue, but you will rarely find it as a topic of debate for presidential candidates. Long gone are the days when presidential candidate John McCain made campaign finance reform a key part of his agenda. This is not surprising given how much presidential campaigns now depend on big donors.

However, this does not mean reforms are not being attempted at the federal level or experimented with in local politics. One of the most notable federal efforts was the introduction of the For the People Act (H.R.1) in 2021, which aimed to overhaul the campaign finance system by promoting transparency, reducing the influence of dark money (political spending by 501(c) organizations that do not disclose their donors), and strengthening enforcement mechanisms. The bill passed the House of Representatives twice but faced significant and effective opposition in the Senate.

At the state level, some jurisdictions have experimented with public financing models, implemented in various ways. One interesting example is the Seattle City Council, where residents receive four publicly funded vouchers worth USD 25 each and can distribute them to candidates who, in turn, agree to specific spending limits.

Another approach to public funding is matching small-dollar donations to encourage broader participation in the political process and reduce candidates' reliance on large donors. New York City's public matching funds program, for instance, provides candidates with public funds that match small contributions (up to a 9-to-1 ratio), significantly amplifying the impact of grassroots fundraising.

However, while these solutions can be effective at the local level, they are unlikely to make a significant impact in federal politics. It is worth noting that a system of public funding for presidential elections was once provided by FECA, and every serious contender for the presidency used these funds until the early 2000s. Public funding consisted of matching funds for small donations (less than USD 250) in the primaries and a fixed amount for presidential nominees in the general election. However, public funding came with spending limits. The surge in private money led candidates to abandon public funds so they could raise and spend without restrictions. Al Gore in 2000 was the last candidate to use matching funds for the primaries, and Obama in 2008 was the first to refuse public funds for the general election, correctly anticipating that he could raise and spend much more with private contributions.

Thus, it seems unlikely that the creative solutions for fairer elections being tested at the local level will have any broader impact on federal politics. The overarching challenge remains the Supreme Court's interpretation of the First Amendment and the fiction of separation between coordinated and independent spending. Any meaningful reform at the federal level would likely require either a constitutional amendment or a significant shift in the Court's jurisprudence, both of which are highly unlikely in the current political climate.

The remaining hope is that, as the cost of campaigns continues to rise, and as new technologies enable ever more sophisticated fundraising and spending strategies, the pressure to revisit the campaign finance system will grow. Whether the United States can strike a balance between the legitimate need for free speech and political debate, and greater political equality among its citizens, remains one of the most pressing questions for the future of its democracy.

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