

Democracy should be a competitive marketplace

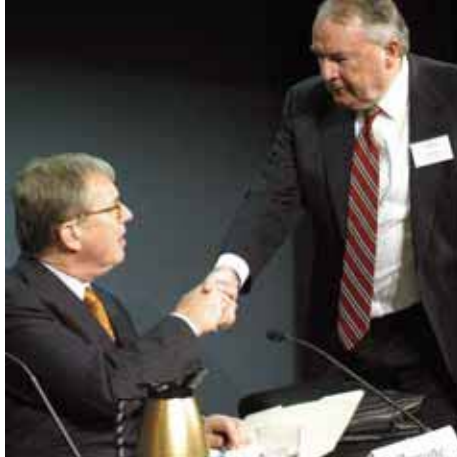
Cato-Brookings Conference Looks at Decline of Competition in American Elections

The key question at Cato's recent conference, "The Marketplace of Democracy," cosponsored by the Brookings Institution, was how to increase electoral competition and improve voter representation. Speakers agreed that the variables that affect competition are not easily changed and that some suggested remedies may have unintended effects on beneficial features of the existing electoral process. Speakers at the conference examined the causes of political stagnation and debated the merits of practical reform proposals, including term limits, redistricting, and campaign finance regulations.

Why is political reform important? Bradley A. Smith, former chairman of the Federal Election Commission, argued that voters are not interested in competition per se but are interested in electing high-quality, accountable representations. Smith endorsed term limits as a way to eliminate the rigid congressional seniority system that often stifles new ideas. John Matsusaka of the University of Southern California looked at the role of political reform measures in increasing politicians' responsiveness to voters. His data showed that direct democracy in the form of citizen-initiated referenda increases political responsiveness.

Keynote speaker Michael Barone argued that despite its flaws the American political system functions quite well, especially when compared with other democracies around the world. Barone's biggest complaint was that the presidential nomination process is biased in favor of party loyalists rather than candidates who would better represent the needs of the majority of voters. The long campaign season and great expense of running for office, he contended, favor dynastic candidates with little hands-on experience in the executive branch. He was concerned, however, that proposed changes to the system—especially restrictions on campaign finance and speech—will cause more problems than they solve.

The incumbency advantage provides an



Cato president Ed Crane welcomes Michael Barone of the *Almanac of American Politics* to the conference. At right, Thomas Mann of the Brookings Institution and Amy Walter of the *Cook Political Report*.

obvious target for political reform efforts. Political journalist Amy Walter identified a vicious cycle in which qualified challengers don't run because incumbents almost always win, and the incumbent advantage is magnified by the lack of qualified challengers. Gary Jacobson, a professor of political science at the University of California, San Diego, demonstrated how even a slight change in the party balance in competitive districts can discourage competent minority party candidates from challenging incumbents. Redistricting, he said, will not solve the problem unless districts are drawn deliberately to favor challengers. Bruce Cain and Thad Kousser of the University of California reported that term limits create more contested elections but do not increase party turnover or narrow margins of victory.

Incumbents are often able to raise more money than challengers on the basis of name recognition. One commonly proposed solution to that disparity is public financing of elections, but many conference participants were skeptical about its effects. Georgetown University's Michael Bailey cautioned that the incumbent politicians



who write the laws may design public financing programs to benefit themselves or their parties. Kenneth Mayer of the University of Wisconsin argued that people who expect public financing to produce revolutionary changes in the political system are being unrealistic but that public funding can be an important component of electoral reform. Paul Herrnsen of the University of Maryland argued that the law overwhelmingly favors major party candidates and that laws should be relaxed to encourage independent and minor party candidates to run.

Papers from the conference will be published as a book by the Brookings Institution in fall 2006. Audio and video files of this and other Cato events are available at www.cato.org/events.

Barone, Munger, and Jacobson on political stagnation

The Marketplace of Democracy

The decline of political competition and the overwhelming incumbent advantage are a growing concern for voters and experts alike. At a Cato Conference on March 9, cosponsored with the Brookings Institution, political journalist Michael Barone, Michael Munger of Duke University, and Gary Jacobson of the University of California, San Diego, examined the factors that contribute to electoral stagnation and discussed the merits of possible solutions.

MICHAEL BARONE: I am an optimist, so I want to make the case that the American marketplace is working pretty well. There are some market imperfections, of course, but all markets tend to have them. Overall, I think the system works to present choices to people, to register their opinions, and to provide a basis for informed governance that is capable of responding to opinion. And it has responded to the opinions of both the people who call for more government and those who call for less government.

The Founders did not want or desire a two-party system, but such a system emerged very quickly after the first Congress went into session. Madison argued in *Federalist* 10 that a large republic could contain the power of faction because a multiplicity of factions is inevitable in a large republic. Yet, a multiplicity of factions also makes decisionmaking very difficult.

If you look at countries whose electoral systems encourage factions, typically through proportional representation, you often find very small and unrepresentative groups at the fulcrum of power. In Israel, the religious parties have often had enormous clout and have been able to frustrate majorities on issues of

particular interest to them. For more than 20 years in Germany, the splinter Free Democratic Party, which always struggled to get more than the 5 percent threshold for representation, determined which major party would control the government.

Our system is different. The result has been that we give our voters relatively clear choices between two alternatives and have parties that are at least somewhat responsive to opinion because unresponsiveness could cost them votes. Sometimes those choices have been crisp. Sometimes they have been muddled. But in the last two decades, our parties have become ideologically much more coherent. People who do not like that result complain of bitter partisanship and polarized voting, but we should remind ourselves that partisanship is the natural result of the coherent, clear choices that political scientists say voters should have. The winners of elections then have the ability to put their programs into law.

A multiparty system might allow some voters to support candidates who share more closely all their political views. Libertarians, for example, do not have a viable party. But a multiparty system creates a lot of problems.

Just look over the border at Mexico, with its three-party system, which has been unable to address what are clearly some of the major issues before that country. In Canada, with its four-party system, the balance of power is now held by a party that wants to separate from the rest of the country. That system is a bit bizarre.

A third-party candidate could win a U.S. presidential election. Ross Perot and Colin Powell were viable independent candidates in the 1990s. But they were already well-known to voters. Our long public nominating process limits the field of potential candidates to people who enter the race already famous and able to independently finance their campaigns.

People often attack campaign financing as a market imperfection because some candidates are able to raise more money than others.

That argument was much more effective in the past than it is today. When I first started observing politics in the 1950s and 1960s, it was said that the Democratic Party could not raise as much money as the Republican Party because they represented the working people, whereas the Republicans represented rich people. Today, that imbalance doesn't really exist. The Democrats spent more than the Republicans in the 2004 presidential cycle. Both parties had plenty of money to do most of the things that they wanted to do to get their message across.

My own view is that Supreme Court jurisprudence on campaign finance is wacky. The reigning law seems to say that James Madison and the Founders passed the First Amendment in order to protect nude dancing, student arm bands, and flag burning, but they certainly did not want to protect this messy, awful stuff called political speech.

It is said that some kinds of candidates cannot get financing under the current system of campaign finance regulation. What we see today is that, with the Internet, every point of view seems to be able to find abundant financing. If you had told me at the beginning of 2003 that

Howard Dean—a medical doctor who is obviously an intelligent man but is palpably unqualified to be president, on the basis of temperament or knowledge—would be able to raise rafts of money, I wouldn't have believed it. But the Internet has made large-scale fundraising possible for even lesser-known candidates.

With a government that channels vast flows of money to and decides issues of moral importance for citizens, people are going to spend more money on campaigns, and they're going to spend more time and energy on the political process. Incumbents will always be able to raise more than challengers because they've proven that they can win elections and garner benefits for their constituents. But as the late mayor Richard J. Daley of Chicago said when asked whether there should be a benefit to winning elections, "Why should the people who backed the losers get the insurance contracts?"

All points of view seem to be represented in our democracy. Even as we bemoan polarization and gridlock and nasty partisan clashes, I think we also should recognize that those things have resulted in higher voter turnout and greater citizen involvement in politics. The Bush campaign attracted something like 1.4 million volunteers. Total turnout in the popular vote in 2004 was up 16 percent over 2000. John Kerry received the third-highest number of popular votes in history, and he lost the election.

I think that we are overdue for a change in the political contours of our country. It may happen in this election, but by 2010 we will certainly see some change in the political landscape. And although redistricting and campaign finance regulation can help protect incumbents or other favored candidates, when voters' opinions change, the advantages for incumbents or candidates in safe districts may be overcome. The ability of our political system to adjust to such changes in the political climate is a sign that our political marketplace is functioning well.

MICHAEL MUNGER: There is good political competition and bad political competition. The fundamental human problem is to

foster the good and block the bad. So, as I argued in my presidential address to the Public Choice Society in 1988, the fundamental human problem comes down to the design and maintenance of institutions that make self-interested individual action not inconsistent with the welfare of the community.

One example of a set of institutions that accomplish that reconciliation of selfish individuals and group welfare is the market, Adam Smith's "invisible hand." We still can't accurately predict the exact circumstances or



Michael Barone

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times when markets might work as he described, but it is definitely not always true that self-interest leads to the welfare of the community, even in marketlike settings. Nonetheless, by and large, we know that competition in markets serves the public interest. The question is this: under what circumstances is competition good in *politics*?

Good political competition is where ambition checks, or at least balances, opposing ambition. When President Bush tried to push through the Dubai Ports World deal, some senators and representatives objected

on its merits. But even more objected on the grounds that the president was usurping congressional authority. Our political rules have to create situations in which politicians' ambitions are opposed, in which attempts by one group or person to grab all power are always frustrated.

Bad political competition is what public choice theorists call rent seeking. In my classes, I ask students to imagine an experiment that I call a "George Mason lottery." The lottery works as follows: I offer to auction off \$100 to the student who bids the most. The catch is that each bidder must put the bid money in an envelope, and I keep all of the bid money no matter who wins. So if you put \$30 in an envelope and somebody else puts \$31, you lose the prize and your bid. When I play that game I sometimes collect as much as \$150. Rent-seeking competitions can be quite profitable. In politics, people can make money by running in rent-seeking competitions. And they do.

What are all those buildings along K Street? They are nothing more than bids in the political version of a George Mason lottery. The cost of maintaining a D.C. office with a staff and lights and lobbying professionals is the offer to politicians. If someone else bids more and the firm doesn't get that tax provision or defense bid or road system contract, it doesn't get its bid back. The money is gone. It is thrown into the maw of bad political competition.

Who benefits from that system? Is it the contractors, all those companies and organizations with offices on K Street? Not really. Playing a rent-seeking game like that means those firms spend just about all they expect to win. It is true that some firms get large contracts and big checks, but they would be better off overall if they could avoid playing the game to begin with.

My students ask why anyone would play this sort of game. The answer is that the rules of our political system have created that destructive kind of political competition. When so much government money is available to the highest bidder, playing that lottery begins to look very enticing. The Republican Congress has, to say the least, failed to stem the rising tide of spending on domestic pork-barrel projects. Political competition run amok has increased spend-

ing nearly across the board.

In a perfectly functioning market system, competition rewards low price and high quality. Such optimal functioning requires either large numbers of producers or low-cost entry and exit. Suppose that Coke and Pepsi not only had all the shelf space for drinks but asked in addition if they could make their own rules outlawing the sale of any other drink unless the seller collected 100,000 signatures on a petition to be allowed to sell cola. The Federal Trade Commission would not look favorably on the request, on the industry.

But in our political system, we have an industry dominated by two firms. Republicans and Democrats hold 99 percent of the market share and have undertaken actions at the state and national levels to make it practically impossible for any other party to enter. How did we come to have such a system, with outside competition for office nearly closed off but with inside competition for access to the public purse organized as a kind of expensive ritual combat, where Congress keeps all the bids?

I believe that the perverse competition in the political system is a direct consequence of the so-called progressive reforms. First, reformers systematically hamstrung the ability of political parties to raise funds independent of individual cults of personality. Parties are actually necessary intermediaries. They solve what my colleague John Aldridge calls the collective action and collective choice problems by giving voters a shorthand by which to identify and support candidates whose opinions they share. Campaign finance reform cut out soft money, thus weakening parties' ability to support new candidates, but doubled the limits on hard-money contributions to members of Congress.

Second, progressive campaign finance reform surrounds incumbents with a nearly impenetrable force field of protection. Any equal spending rule or equal contribution rule benefits incumbents, who can live off free media and other publicity. Any rule that restricts contributions or makes them more expensive, such as reporting requirements for contributions, benefits those with intense preferences and deep pockets. So restrictions on contributions ensure that

only the most hard-core competitors—those along K Street—participate in the political bidding wars.

The hidden problem is that politics actually abhors a vacuum. If real grass-roots parties are denied the soft money they need to mobilize people and solve the problem of collective action and collective choice, organized interests will fill that vacuum. Because no individual can influence government, stripping away intermediary organizations of individuals makes the remaining organized groups more powerful.

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The problem is not our inability to reform. The problem is precisely the extent to which we have reformed the system. Our reforms killed healthy political competition at the citizen level. And now all real political competition takes place in the offices on K Street. That's the kind of political competition that is antithetical to the interests of the community.

GARY JACOBSON: After falling irregularly for several decades, turnover in elections to the U.S. House of Representatives has

reached an all-time low. On average in the four most recent elections (1998–2004), a mere 15 of the 435 seats changed party hands, and only 5 incumbents lost to challengers. Since 1994 Republicans have won between 221 and 232 of the 435 House seats, and Democrats, between 204 and 212, by far the most stable partisan balance for any six-election period in U.S. history.

The historically low incidence of seat turnover and partisan change during the past decade has revived scholarly concern about the decline in competition for House seats that had been prompted by a similar period of stasis in the 1980s. It is easy to understand why. Turnover is by definition a product of competitive races. If low turnover reflects the disappearance of competitive districts and candidates rather than, say, unusually stable aggregate preferences among voters, then election results have become less responsive to changes in voters' sentiments.

A competitive election requires that both parties field competent candidates with sufficient financial resources to get their messages out to voters. But the decisions of potential candidates and donors about whether to participate depend on their estimates of the prospects of success. Politically skilled and ambitious politicians do not invest in hopeless efforts; neither do the people and organizations controlling campaign money and other electoral resources. Judgments about the prospects of success are strongly affected by incumbency—thus open seats tend to attract a much larger proportion of high-quality candidates who raise much more money than the typical challenger to an incumbent—but incumbency is not the only consideration. The underlying partisan balance in a district and national political conditions also count heavily in their decisions. Thus at least two developments unrelated to incumbency might have contributed to declining levels of competition and partisan turnover in recent years: a decrease in the number of districts where the partisan balance gives the out-party some hope of winning, and the absence of the kind of national partisan tides that raise the chances of victory for the favored party.

What is behind the decline in competi-

tive seats? The favorite culprit of many critics, the creation of lopsidedly partisan districts via gerrymandering, is a relatively small part of the story. A more important factor is that voters have grown more reluctant since the 1970s to vote contrary to their party identification or to split their tickets, making it increasingly rare for districts to elect House candidates who do not match the local partisan profile. A more speculative, though related, notion is that partisans have been voting with their feet by opting to live where they find the social—and therefore political—climate congenial, creating separate enclaves preponderantly red or blue. These alternative explanations for the disappearance of competitive districts are not incompatible; indeed, the processes they entail would be mutually reinforcing.

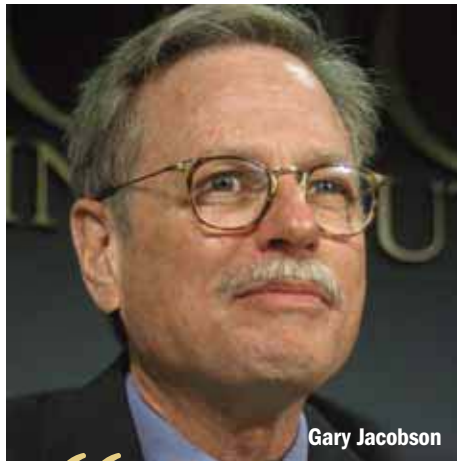
With the decline in the number of seats on which the current party's hold seems precarious enough to justify a full-scale challenge, strategic calculations about running and contributing have led to an increasing concentration of political talent and resources in the diminishing number of potentially competitive districts at the expense of the rest.

This trend is clearest in the shifting patterns of challenges to incumbents. The proportion of challengers who have previously won elective public office—a crude but serviceable measure of candidate quality—has headed downward, most notably among Democrats. But the disappearance of experienced challengers is confined to districts where the challenger's prospects were already slim because the partisan balance favored the incumbent.

In districts where the partisan balance (indicated by the presidential vote) is favorable to the challenger's party, the proportion of experienced challengers has grown substantially; evenly balanced districts have seen little change. Incumbents in districts favorable to the challenger's party have also become much less likely to get a free pass; in the 1970s and 1980s, about 17 percent of incumbents defending unfriendly territory were unopposed by major party candidates; since then, the proportion has fallen to less than 5 percent.

The increase in partisan polarization

and consistency has clearly favored the Republican Party, allowing it to profit from a structural advantage it had held for decades but, until recently, had been unable to exploit. For example, in 2000 the Democrat, Al Gore, won the national popular vote by about 540,000 of the 105 million votes cast. Yet the distribution of those votes across current House districts yields 240 in which Bush won more votes than



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Gore but only 195 in which Gore outpolled Bush. The principal reason for this Republican advantage is demographic:

Democrats win the votes of a disproportionate share of minority and other urban voters, who tend to be concentrated in districts with lopsided Democratic majorities. But successful Republican gerrymanders in Florida, Michigan, Ohio, Pennsylvania, and, after 2002, Texas enhanced the party's advantage, increasing the number of Bush-majority districts by 12, from 228 to 240.

If this analysis is on target, feasible solutions to the problem of declining competi-

tion for congressional seats are quite limited. Nonpartisan redistricting might create a few more evenly balanced and therefore potentially competitive districts. But because voters are to blame for most of the recent diminution of such districts, unless mapmakers sought deliberately to maximize their number through pro-competitive gerrymanders, the effect would probably be modest under the current distribution of partisans and their levels of polarization and party loyalty.

Campaign finance reforms are also unlikely to have much effect on competition. No more than a handful of challengers in recent elections could make a plausible claim that they might have won but for a shortage of funds; no matter how I analyzed the data, I could detect no significant effect of the incumbent's level of spending on the results of those elections or any others. Of the 15 House incumbents who have lost since 2000, only 4 were outspent by the challenger; on average they outspent the opposition by more than \$500,000. Experienced challengers and campaign donors do not ignore potentially competitive districts, and challengers do not lose simply because incumbents spend so much cash; their problem is a shortage of districts where the partisan balance offers some plausible hope. Senate races, too, have almost invariably attracted experienced and well-financed candidates whenever the competitive circumstances have warranted.

The one thing that clearly could generate a greater number of competitive races is not subject to legislative tinkering: a strong national tide favoring the Democrats. Such Democratic landslides as those of 1958 and 1974 put substantial numbers of Democrats into Republican-leaning seats (in addition to those they already held), thus leaving a larger portion inherently competitive. A pro-Democratic national tide would, by definition, shake up partisan habits, at least temporarily, counteracting the Republicans' structural advantage. But absent major shifts in stable party loyalties that lighten the deepening shades of red and blue in so many districts, the competitive environment is likely to revert to what it has been since 1994 after the tide ebbs.