

CAMPAIGN FINANCE REFORM SERIES

THE FLOW OF MONEY IN
CONGRESSIONAL ELECTIONS

BY KENNETH WEINE



Copyright © 1998 by the Brennan Center for Justice at New York University School of Law. All rights reserved. No part of this book may be reproduced or transmitted without permission in writing from the publisher, Brennan Center for Justice, 161 Avenue of the Americas, 5th Floor, New York, New York 10013.

Brennan Center Board of Directors



William J. Brennan, III, *Chair*
Smith, Stratton, Wise, Heher & Brennan

E. Joshua Rosenkranz, *Executive Director*

Nancy Brennan
Executive Director, Plymouth Plantation

Murray H. Bring
*Vice Chairman & General Counsel,
Philip Morris Companies Inc.*

David W. Carpenter
Sidley & Austin

Professor Peggy C. Davis
NYU School of Law

Peter M. Fishbein
Kaye, Scholer, Fierman, Hays & Handler

Professor Martin Cuggenheim
NYU School of Law

Hon. A. Leon Higginbotham, Jr.
*Kennedy School of Government,
Paul, Weiss, Rifkind, Wharton & Garrison*

Professor Thomas M. Jorde
*University of California, Berkeley
School of Law;
President, LECC, Inc.*

Edward J. Kelly, III
Managing Director, J.P.Morgan & Co.

Professor Larry Kramer
NYU School of Law

Anthony Lewis
The New York Times

Professor Nancy Morawetz
NYU School of Law

Professor Burt Neuborne
*Legal Director, Brennan Center;
NYU School of Law*

Ronald L. Olson
Munger, Tolles & Olson

Dwight D. Opperman
Chairman, Key Investment, Inc.

Daniel A. Reznick
*General Counsel, District of Columbia Financial
Responsibility & Management Assistance Authority*

Dean John E. Sexton
NYU School of Law

Walter J. Smith, S.J.
*President & C.E.O.,
The HealthCare Chaplaincy, Inc.*

Clyde A. Szuch
Pitney Hardin, Kipp & Szuch

Jeannemarie E. Smith, *Treasurer*
C.F.O., NYU School of Law

Steven A. Reiss, *General Counsel*
Weil, Gotshal & Manges



Affiliations are for identification only.

About the Brennan Center for Justice

The Brennan Center for Justice is a nonprofit institute devoted to discourse and action on issues of justice central to the jurisprudence of Justice William J. Brennan, Jr. The Center was founded in 1995 by Justice Brennan's family, friends, former law clerks, and admirers, in partnership with New York University School of Law. The Democracy Program is one of the Center's primary program areas. In keeping with its mission to enhance the openness of our democracy, the Brennan Center is a public education and litigation resource for campaign finance reform advocates, local and national public officials, and journalists. The Brennan Center has also worked on ballot access rules. In 1996 it participated in a successful lawsuit challenging New York's Republican presidential primary ballot rules; and subsequently published *Voter Choice '96*, a 50-state survey of state ballot access laws.

About the Campaign Finance Reform Series

This paper is one of a series of papers issued by the Brennan Center exploring issues of money and politics. The following titles are part of the series:

Campaign Finance Reform and The Constitution: A Critical Look at *Buckley v. Valeo*

By Burt Neuborne

The Values of Campaign Finance Reform

By Burt Neuborne

A Survey of Existing Efforts to Reform the Campaign Finance System

By Burt Neuborne

The Flow of Money in Congressional Elections

By Kenneth Weine

For more information, or to order a Brennan Center publication, contact:

Brennan Center for Justice

161 Avenue of the Americas
5th Floor
New York, New York 10013
(212) 998-6730

Fax: (212) 995-4550

Cover design by Jennifer Eisenpresser

About the Author

Kenneth Weine is a Staff Attorney at the Brennan Center for Justice. He has worked on political campaigns and political fundraising at almost every level (city, congressional, and senatorial) and for almost all players in the political process (candidates, PAC's, and lobbyists). Among the positions he has held are: political fundraiser, EMILY's List (1994); political fundraiser, Lana Pollack for U.S. Senate (1994); organizer, Neighbor to Neighbor, a grassroots lobbying organization (1991); and field organizer, Harvey Gantt for U.S. Senate (1990).

Mr. Weine graduated from Benjamin N. Cardozo Law School (1995) and the University of Michigan (1988). His reflections on fundraising and grass-roots organizing on political campaigns have been published in the *The New York Times* and *The Washington Post*.

Acknowledgments

This paper was funded by a generous grant from the Joyce Foundation, which is not responsible for its content. The Center is grateful for the skillful editing of E. Joshua Rosenkranz, and for Frances Suazo's layout expertise and Jennifer Eisenpresser's cover design. Weil, Gotshal & Manges provided proofreading services.

The following people and law firms contributed valuable background papers, many elements of which were incorporated into this series: F. William Brownell and David S. Harlow of Hunton & Williams; Gregory E. Bylinsky and Dean Garfield of Kaye, Scholer, Fierman, Hays & Handler; Robert Mauriello and Elizabeth J. Sher of Pitney, Hardin, Kipp & Szuch; Steven M. Dunne and Roger Witten of Wilmer, Cutler & Pickering; Marc De Leeuw; C. Barr Flynn; and NYU law students Richard Brosnick and Janet Meissner Pritchard.

The following people also made helpful comments on earlier drafts of papers in this series, for which we are very grateful: Marsha Berzon; Lillian BeVier; Lawrence N. Hansen; Marty Jezer; David J. Leviss; Ellen S. Miller; Alan B. Morrison; Robert M. O'Neil; Trevor Potter; Lisa Rosenberg; Roy A. Schotland; and Bradley Smith.

The Brennan Center is grateful for the ongoing support of the following foundations, which fund the Center's Democracy Program:

Carnegie Corporation of New York
Deer Creek Foundation
Ford Foundation
Joyce Foundation
Open Society Institute
Florence & John Schumann Foundation

Table of Contents

Introduction	7
Definitions	9
The Proliferation of Political Funds	10
The Six Pipelines of Federal Campaign Money	12
Direct Contributions to Candidates	12
Funneling Money through Political Parties	13
Funneling Money through Non-Party Sources	17
Inside the Pipelines	19
Campaign Spending	23
The Incumbent's Edge	23
Campaign Spending Deconstructed	24
Conclusion	28

Introduction

Federal campaigns — races for the House of Representatives, Senate, and the presidency — cost over \$2 billion in the 1996 political cycle. State and local races cost an estimated \$2 billion more. These spiraling costs often inspire calls to diminish the role of money in politics. To respond to these calls reformers must get behind these raw numbers and explore the complexities of how and where money flows in our political system. Understanding the various routes through which money travels is the necessary first step of any effort to diminish the role of money in our political system and restore integrity to the political process.

Unless reformers understand the money flow, their efforts are bound to yield unintended consequences. Reformers may seek to address one problem only to create or exacerbate another. For example, the goal of capping contributions to candidates is to prevent donors from having undue influence over officeholders. But often these limits merely send money to less accountable routes that still present the dangers of undue influence. While candidates must disclose the name, profession, and employer of their large donors, none of this information needs to be disclosed for certain contributions to political organizations (e.g., the Sierra Club or the Chamber of Commerce) which can spend unlimited funds supporting candidates. Accordingly, candidates often respond to contribution limits by asking their supporters to donate to organizations they know will spend money supporting their campaigns. This practice shields from public disclosure contributions that benefit candidates.

An understanding of how money flows in our political system will also ensure that reformers have more realistic expectations of what they can accomplish. Reformers must understand that no

matter how carefully one has planned an effort to reduce the role of money in politics, a cadre of campaign professionals is sure to find and exploit new loopholes to accomplish old tasks.

The recent growth in use of “issue advocacy” spending illustrates this phenomenon. To stop wealthy interests from exerting undue influence over the political process, Congress limited the size of campaign contributions and forbade corporations and labor unions from donating to or influencing campaigns. Candidates bypass these contribution limits by raising funds for advertisements that are clearly directed at influencing voters for or against identified candidates but stop short of urging viewers to “vote for” or “defeat” the candidates. In the 1996 elections, federal contribution limits were virtually suspended, as candidates solicited huge contributions for political parties from corporations, labor unions, and wealthy individuals. These contributions paid for hundreds of millions of dollars of advertisements for or against identified candidates.

Thus, whether the unrelenting money flow is driven by a genuine desire to engage in political speech or by economic self-interest, reformers must understand that funds will continue to flow through ever-changing routes and that monied interests will respond almost instantaneously to new restrictions.

This paper maps the flow of money in connection with congressional campaigns. It begins by describing the pipelines through which campaign money flows. Then it identifies the sources that feed each pipeline and measures the flow through each. Finally, it sketches how campaigns spend their money. A hypothetical race for Congress — between Rep. Ian Power and challenger Charles Change — will be considered

throughout this paper. Many features of the presidential system and of state and local systems mirror congressional elections. But to regulate properly the role of money in politics, reformers must carefully map the money flow of specific political environments. □

Definitions

Campaign finance discussions often suffer from imprecise terminology. To ensure precision the most common terms are defined below:

- **Express Advocacy:** A political communication that directs an individual to vote for or against a candidate. Congress may regulate express advocacy to protect the integrity of the electoral process, but it may not regulate generic political speech. There is much controversy over where to draw the line between express advocacy and generic political speech. Political parties and organizations argue that express advocacy constitutes only speech using certain magic words, such as “vote for,” “vote against,” or “reelect.” Campaign reformers urge a broader definition and the courts are split as to whether the Constitution permits one.
- **Issue Advocacy:** A political communication that does not involve express advocacy (*see above*).
- **Hard Money:** A political contribution that is regulated under federal law. Only funds used for express advocacy are regulated. To raise these funds, candidates, political parties, and organizations must abide by restrictions on the sources and sizes of their contributions. A helpful way to remember this term is, “Hard money is hard to raise.”
- **Soft Money:** Technically, this term applies to any political contribution that is not regulated under federal law. The typical usage, however, limits the term to unregulated contributions to political parties. Federal law allows political parties to raise money in any amount and from any source so long as these funds are not used for express advocacy. Soft money is supposed to be spent on “party building” activities, which include voter registration drives, voter education drives (campaigns to educate voters on the importance of an issue), and get-out-the-vote drives. The use of soft money has vastly expanded in recent years. Political parties formerly educated voters by distributing flyers throughout neighborhoods. Now, parties spend millions on television advertisements. Political fundraisers and candidates, of course, treasure soft money because there are no limits as to how much or from whom these funds can be raised.
- **Coordination:** Campaign activity that is synchronized between separate political entities. The issue of coordination most often arises when a political party or political action committee (PAC) share resources or strategies with a candidate. If a PAC independently spends \$10,000 on an advertisement supporting a candidate without consulting his campaign it has not engaged in a coordinated activity. This \$10,000 expenditure does not count against the amount the PAC can give directly to the candidate. But if the same PAC consults with the campaign about its advertisement, federal law treats the \$10,000 expenditure as a contribution to his campaign.
- **Independent Expenditure:** An express advocacy communication benefiting a candidate that is not coordinated with his campaign. □

The Proliferation of Political Funds

In order to understand how money flows in politics today, it is helpful to examine the forces that shaped it. Until the 1970s, federal campaign money was raised in unlimited amounts, and most funds ended up in the accounts of candidates. In 1974, with the passage of amendments to the Federal Election Campaign Act (FECA), Congress limited the size of these contributions and how much candidates, political parties, and organizations could spend on campaigns.

The Supreme Court drastically reshaped FECA's integrated scheme of contribution and spending limits. In a 1976 decision, *Buckley v. Valeo*, 424 U.S. 1 (1976), the Court equated campaign spending with political speech and held that the First Amendment cannot tolerate limiting political expenditures. On the other hand, the Court upheld FECA's contribution limits. The Court reasoned that the constitutional burdens imposed by contribution caps were justified because these limits helped prevent the corruption of officeholders. The Court feared that without such limits officeholders might be tempted to allow money to compromise the political process.

FECA, as modified by *Buckley*, has had a profound impact on the federal campaign finance system. Before FECA, campaign fundraisers could rely on political patrons to write big checks to candidates; and candidates could then spend as much money as they desired. If FECA had not been modified by *Buckley*, fundraisers would have had to limit the size of the contributions they collected, and candidates would have had to live within strict spending limits. The *Buckley* decision, which controls campaign rules to this day, undid half of FECA's burdens. Candidates

are free to spend without limit, but fundraisers remain restricted by FECA's contribution caps. Therefore, the demand for campaign money is unlimited — candidates are driven to exceed their opponents' spending — but these funds must be raised in small increments.

Political fundraisers responded to the combination of FECA and *Buckley* by developing new ways to funnel money to candidates. Formerly, individuals had one principal outlet to fund campaigns — checks to candidates. And candidates had one principal pipeline from which they received funds — contributions from individuals. Today, individuals can inject money into electoral politics through at least nine outlets, some of which are also open to corporations and unions, and candidates can benefit from at least six pipelines of political funds.

Consider the behavior of a hypothetical political donor before and after FECA. Susan Rhodes owns a construction company in the State of Moot. The financial livelihood of her corporation, RhodeBuilder Inc., depends on Rep. Ian Power's delivery of a \$20 million grant to extend the local interstate. Rep. Power, a Republican incumbent, wants to deliver this grant but first he has to win reelection against a strong environmental candidate, Charles Change.

Before FECA, Rhodes could have given Rep. Power's campaign one large personal check. After FECA and *Buckley*, Power still needs to raise an enormous amount of money — as no spending limits apply — but Rhodes must find alternative routes to channel money to his campaign. There are at least nine outlets through which Rhodes can direct money to Power.

For certain outlets — marked below by an asterisk (*) — Rhodes cannot pump in more than an aggregate of \$25,000 (in support of Power or anyone else). Apart from that restriction, Rhodes may engage in the following activities:

- Write two \$1,000 personal checks to Power for Congress, one for the primary election and one for the general election.
- Write a \$20,000 check to the Republican Party and hope the party spends this money in coordination with Power’s campaign.
- Write a \$20,000 check to the Republican Party and hope the party uses these funds on an independent expenditure benefitting Power.*
- Give an unlimited amount to the Republican Party’s soft money account and hope the party spends this money on advertisements that support Power (with out expressly advocating for him).
- Set up RhodePAC. This PAC must collect contributions from at least 50 individuals possibly RhodeBuilder Inc.’s employees and their spouses — and donate these funds to at least five candidates. Individuals, including Rhodes, can write checks of up to \$5,000 per year to Power (\$5,000 per election, so \$10,000 for the election cycle).

Additionally, RhodePAC can spend unlimited funds for an independent expenditure effort that expressly urges voters to reelect Power, or vote against Change, so long as this spending is not coordinated with Power’s campaign.*

- Contribute \$5,000 to any other PAC with a history of supporting Power.*
- Set up the Rhode Education Fund, an organization to educate voters on the importance of building roads (or any issue she chooses). Rhodes can contribute an unlimited amount of personal or corporate money to this organization, which in turn can engage in issue advocacy. For example, the Rhode Education Fund can pay for advertisements that praise Power’s voting record or call Change an irre-sponsible liberal, but stop short of expressly advocating for Power or against Change.
- Solicit two \$1,000 checks from each of her friends and bundle an unlimited number of these checks in one envelope addressed to Power.
- Spend an unlimited amount on an independent expenditure supporting Power, so long as she does not coordinate her effort with his campaign, and only her personal funds, not those of any other contributor, are used for this effort.□

The Six Pipelines of Federal Campaign Money

The funds from the nine financial outlets described above flow into six distinct pipelines that benefit candidates. These six pipelines fall into three categories: one for money that flows directly to candidates; a second for money that flows through political parties; and a third for money that flows through entities that are independent of parties and candidates.

Direct Contributions to Candidates

Pipeline #1: Candidate Committee Money

The candidate committee is the heart of the effort to elect a House Member or Senator. Contributions to the candidate committee can come from three sources: individuals (Rhodes), PACs (RhodePAC), and the candidates themselves (Power).

Donations from individuals to candidates are the most common form of political contribution. FECA allows individuals to give candidates \$1,000 for each election. Therefore, an individual can give a candidate \$2,000 each political cycle — \$1,000 for the primary election and \$1,000 for the general election — even if the candidate faces no primary opponent. This cap is why hard money is hard to raise. The \$1,000 limit has been in place since 1974, without any adjustment for inflation. A contribution of \$1,000 in 1974 dollars is worth roughly \$300 today.

One method individuals use to gain more influence from their contributions is “bundling.” Bundling is a process by which a group of individuals linked to a common entity or cause all write checks to one candidate, and then bundle

this money together and hand it off to the candidate. Susan Rhodes can give Rep. Power her two \$1,000 checks. But to enhance her clout, she can give Power 20 \$1,000 checks — two from herself and two apiece from nine RhodeBuilder Inc. employees.

Bundling is an elastic term. Its most essential component is an individual or organization shepherding contributions for one or several candidates. Contributions do not have to be simultaneously delivered to a candidate for these contributions to be considered part of a bundle, as long as the candidate associates all of the contributions with the same source.

The second source of the candidate committee pipeline, PACs, can give candidates \$5,000 for each election (\$10,000 each election cycle). FECA never actually uses the term PAC, referring instead to “multi-candidate political committees.” These committees can collect voluntary contributions from individuals who share a common purpose. Individuals can give PACs up to \$5,000 annually. But as discussed above, these contributions count toward the \$25,000 annual limit for individuals.

The third source of this pipeline, the candidate, can contribute through two routes: a direct contribution to his candidate committee or a loan to his candidate committee. Candidates favor loans rather than outright contributions to their campaigns for the simple reason that if a candidate’s committee ever has a surplus, it can reimburse the candidate, even years after the election for which the loan was made.

Overall, Susan Rhodes can funnel money into the candidate committee pipeline in two

ways: a direct route, which involves writing checks to Power for Congress (\$1,000 for the primary election and \$1,000 for the general election, whether or not Power has a primary opponent); and an indirect route, which involves writing checks to a PAC (\$5,000 to RhodePAC and \$5,000 to any other PAC likely to support Power). Additionally, Rhodes can use her clout within the company to persuade her employees to contribute to Power and if she really wants to call attention to herself she can send these checks to the Power campaign in one big bundle. She cannot, of course, funnel RhodeBuilder Inc.'s money into Power's campaign, either directly or through a PAC. She can, however, use corporate money to defray RhodePAC's overhead expenses.

Funneling Money through Political Parties

Political parties have three pipelines that benefit candidates: one for money the parties can spend in coordination with their nominees; a second for funds the parties use for independent expenditures supporting their nominees; and a third for money the parties use for "party-building" activities that indirectly (or sometimes quite directly, though not expressly) benefit candidates.

Pipeline #2: Political Party Coordinated Expenditures

Coordinated expenditures of political parties are regulated by FECA. Although composed of regulated funds — hard money — this pipeline can be filled more easily than the candidate contribution pipeline. Individuals can donate \$20,000 each year to political parties (subject to the aggregate limit of \$25,000 per year to candidates, PACs, and parties). Political parties can also raise money from PACs, which can contribute up to \$15,000 annually. Corporations and unions are not allowed to contribute hard money to political parties.

FECA prescribes annually adjusted formu-

las, based on inflation and voting-age population, to determine how much political parties can spend in coordination with their nominees. In 1996, a political party could make a coordinated expenditure of up to \$30,910 on behalf of each of its House nominees. The parties could spend between \$61,820 and \$1.4 million in coordination with their Senate candidates, depending on the size of the candidate's state. For candidates this pipeline can function virtually as an extra checkbook. While political parties are not allowed to give the money from this pipeline to candidates, they can spend these funds in any way the candidate prefers.

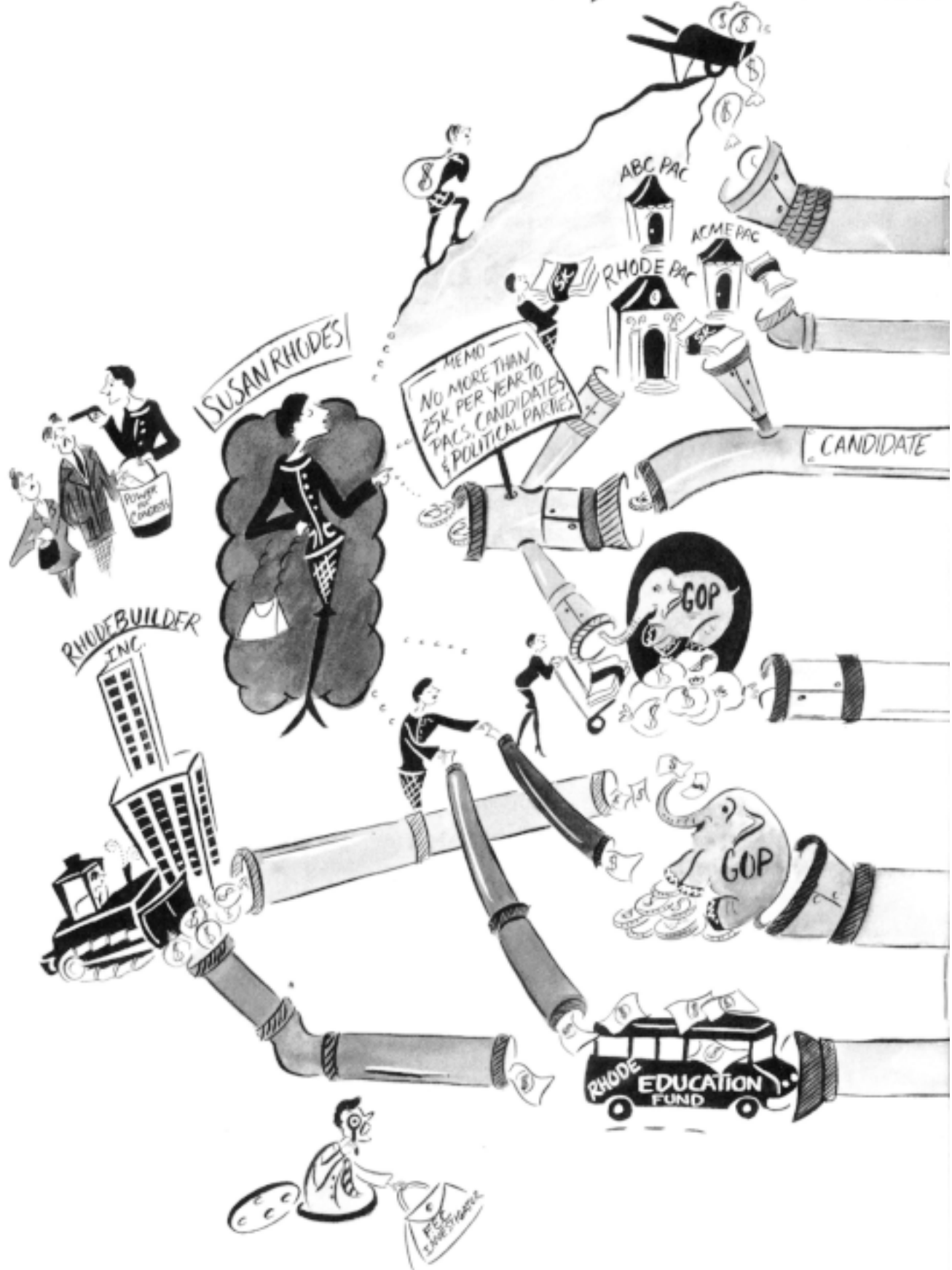
Susan Rhodes' or RhodePAC's help for Congressman Power will be somewhat indirect if it comes through the political party coordinated expenditure pipeline. Rhodes can write a \$20,000 check to the Republican Party (RhodePAC can contribute \$15,000), but she can only hope that the party will spend this money in coordination with Power's campaign, as FECA does not allow individuals to earmark which candidate should receive the benefit of contributions to the political party.

However, there is little doubt that if Power was the one who raised significant party contributions from Rhodes and several others, the party would reward him with an expenditure from this pipeline.

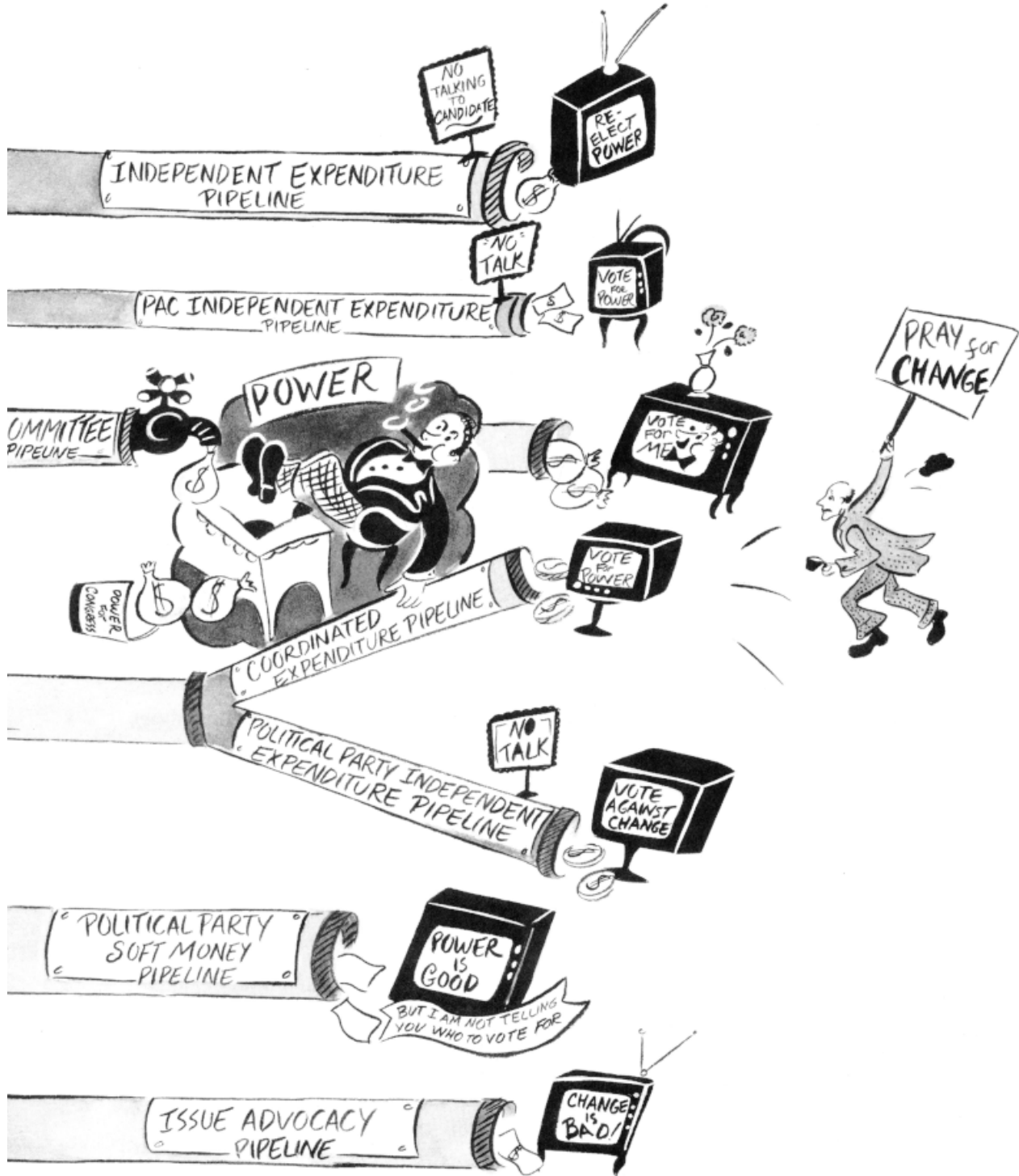
Pipeline #3: Political Party Independent Expenditures

The political party independent expenditure pipeline is the newest funding source, having opened in 1996 with the Supreme Court decision *Colorado Republican Federal Campaign Committee v. FEC*, 116 S. Ct. 2309 (1996). Until *Colorado Republican*, the law had always treated a party and its candidates as if they acted as an inseparable unit. It was assumed that they necessarily coordinated all of their campaign efforts.

WAYS IN WHICH AN INDIVIDUAL CAN HOW SUSAN RHODES CAN HELP INCUMBENT



FUND A CONGRESSIONAL CAMPAIGN
POWER DEFEAT CHALLENGER CHANGE.



Thus, when a party spent money supporting or opposing a candidate, this spending was thought of as a contribution directly to the candidate and was counted against the amount of money the party could spend in coordination with its nominee (or eventual nominee). The *Colorado Republican* decision rejected this assumption. According to the Supreme Court, the Colorado Republican Party, which had yet to pick its Senate nominee, could spend money attacking the expected Democratic Party nominee, and this spending did not count against the amount of money the Republican Party could spend in coordination with its eventual nominee.

The facts of *Colorado Republican* were relatively unusual, as a political party rarely spends large amounts attacking an opponent before it has chosen its own nominee. Narrowly read, *Colorado Republican* holds only that when a political party has yet to choose a nominee, it can engage in independent expenditures because there is no danger that this spending is coordinated with a campaign. Political parties, however, have read the decision much more broadly. The parties now behave as if they can spend unlimited amounts in independent expenditures even if a nominee has been chosen, so long as the party and the nominee do not coordinate their efforts.

Colorado Republican had an instant and profound impact on the 1996 elections. Immediately after the decision, both political parties created independent expenditure units. In New Hampshire's 1996 Senate campaign, for example, the Republican Party was limited to spending \$61,820 on behalf of its nominee through the coordinated expenditure pipeline. But because of *Colorado Republican*, the Party was able to use its newly created independent expenditure unit to spend an additional \$921,711 on behalf of its nominee.

It is important to note that the *Colorado Republican* decision affects only how a party can

spend its money, not how it can raise the money it spends. Funds used for communications expressly advocating the election or defeat of a candidate still must be raised the hard way — in annual increments up to \$20,000 from individuals and \$15,000 from PACs. The Republican Party, therefore, can accept \$20,000 from Rhodes and \$15,000 from RhodePAC. Rhodes can hope, but can't be sure, that these funds will be spent on independent expenditure advertisements directly benefiting Congressman Power.

Pipeline #4: Political Party Soft Money

Unlike the prior pipeline, there are no limits on the amount or source of soft money contributions that can be made to political parties. Individuals, PACs, corporations, and labor unions can each pour an unlimited amount of soft money into political parties. The critical difference between the party's soft money pipeline and the two hard money pipelines described above is the use of the funds. Soft money cannot be spent on messages that expressly advocate the election or defeat of an identified candidate. These funds may be used only for "party building" activities — efforts that help a party, not just one candidate. Classic examples of such activities include "slate cards" (pamphlets listing all of a party's nominees), voter registration drives, get-out-the-vote drives, and issue advocacy advertisements (generic communications, such as "Vote Republican," which promote the message of a party, but not its specific candidates).

As noted in the definitions section, there is much controversy over the distinction between issue advocacy and express advocacy. In recent years, many advertisements paid for with soft money have been indistinguishable from candidate advertisements. For example, in one 30-second attack advertisement used for a 1996 Senate race, a candidate was mentioned 11 times, once every three seconds. The party justified the soft money expenditure on the ground that the advertisement did not use the magic words

of express advocacy (e.g., “vote for,” “vote against,” or “reelect”). It is this type of line-blurring between issue and express advocacy that critics fear has debilitated FECA’s contribution limits. After all, soft money contributions to political parties are often solicited by the very candidates whom the party helps out with thinly veiled campaign advertisements.

Soft money has expanded greatly the role of labor unions and corporations in the political process. In the 1988 campaigns, under pressure to compete with the Republican Party’s hard money fundraising prowess, the Democratic Party began raising and spending large sums of soft money. The Republicans followed suit in the same election cycle, and soft money has since become the fastest growing funding pipeline. According to the Republican National Committee’s finance director, “It’s taken people 20 some years to figure out that there’s nothing wrong with giving a large soft money check. There was a lot of shyness about big checks after Watergate, but now it doesn’t seem to matter anymore. The world doesn’t end with disclosure.”

Soft money is a convenient outlet for Susan Rhodes. By writing a corporate or personal check of unlimited size to the Republican Party’s soft money account, she can bypass FECA’s individual contribution limits, fully aware that the party will use her money to attack Change or promote Power. This contribution will surely endear her to Power, especially if Power was the one who solicited the contribution on the party’s behalf.

Funneling Money through Non-Party Sources

Non-party sources include individuals, political organizations, PACs, labor unions, and corporations. These sources benefit candidates through two pipelines.

The two pipelines are often conflated in the popular press. For example, the AFL-CIO spent \$35 million in the 1996 elections. The vast majority of this money was drawn from the union federation’s treasury and spent on issue advocacy, but press reports repeatedly labeled this as an independent expenditure. This confusion was natural, since the ultimate product — advertisements bitterly attacking candidates — were virtually indistinguishable from independent expenditure advertisements.

Pipeline #5: Non-Party Independent Expenditures

The non-party independent expenditure pipeline is made up of FECA-regulated funds (hard money) that are used to advocate expressly for a candidate. There are two varieties within this pipeline: PAC spending and individual spending.

An individual is permitted (and constitutionally entitled) to spend any amount of his own money on independent expenditures. The only restraint that FECA places on individuals who wish to spend independently is a prohibition against coordination. An individual spender cannot coordinate her activities with a campaign or pool her money with any other individual. If spending among individuals is coordinated, FECA treats this effort as a PAC, capping at \$5,000 the amount that any individual can contribute to the pool. Thus, if Rhodes collects money from a RhodeBuilder Inc. employee to help pay for an advertisement that she wants to place independently for Power, Rhodes can only contribute \$5,000 to this effort. But if she collects no money from other sources, Rhodes can independently spend an unlimited amount supporting Power.

PACs, like individuals, are permitted not only to contribute money (to candidate committees

and political parties, as described above) but also to spend money. The funds for such expenditures are subject to the same fundraising restrictions as the money PACs contribute to candidates. In either context they can raise voluntary contributions from individuals in increments of no more than \$5,000 a year. There is, however, no limit to how much hard money PACs can spend independently supporting a candidate. While RhodePAC can give Power only \$5,000 per election, it can spend an unlimited amount of hard money expressly advocating for him, as long as this spending is not coordinated with his campaign.

Pipeline #6: Issue Advocacy Money

Not all political contributions are related to elections. Susan Rhodes can set up the Rhode Education Fund — an organization dedicated to educating voters on the importance of building roads, or any other issue Rhodes chooses. The Rhode Education Fund can collect contributions from any source and in any size. Thus, Rhodes can pour in any amount of her own money or funds from RhodeBuilder Inc. FECA's dislo-

sure rules do not apply to organizations involved in issue advocacy. The only restriction on these funds is they cannot be used for express advocacy. As discussed above, this restriction has not been particularly constraining lately. Organizations have funded advertisements that are thinly veiled campaign communications.

Examine an issue advertisement paid for by the AFL-CIO during the 1996 elections:

[L]ast fall, Congressman James Walsh voted with Newt Gingrich to cut \$270 billion from medicare to pay for tax cuts for the wealthy Call James Walsh and tell him not to destroy medicare. Tell him this time we're watching.

No magic words of express advocacy (e.g., "vote for," "vote against," or "reelect") were used, but surely this communication was designed to influence an election. Nonetheless, the sponsors of this type of advertisement have successfully avoided FECA's contribution limits and disclosure requirements. □

Inside the Pipelines

In order to reform campaign finance law effectively, it is important to understand not just the routes through which money travels in the political process, but also the amounts that flow from each source through each route. The data for this section come from the Center for Responsive Politics (see Larry Makinson & Joshua Goldstein, *Open Secrets: The Encyclopedia of Congressional Money and Politics* (1996)); several reports issued by Common Cause; and Federal Election Commission (FEC) data from the 1996 elections. The totals accompanying the headings of this section reflect the amount of money that flowed through each pipeline in the 1996 election cycle.

Pipeline #1: Candidate Committee Money (\$626 million)

As discussed above, congressional candidate committees receive money from individuals, PACs, and the candidates themselves.

Individual Contributions (\$330 million). Senate candidates receive 63% of their funds from individuals. House candidates receive 55%. In 1994, 81% of the money that individuals contributed to congressional candidates was in amounts of \$200 or more.

Who writes checks to candidates? In 1994, fewer than 900,000 individuals — one third of 1% of the nation's population — wrote campaign checks of \$200 or more to congressional candidates. 94% of all adults have never made any political contribution of any size to any candidate for any office. The residents of one zip code on New York's Upper East Side (10021) contributed more money to congressional candidates during the 1994 elections than did all the residents of each of 21 states.

As for contributors' professions, in 1994 lawyers were the largest political donors, contributing over \$34 million, followed by physicians (\$13 million), securities brokers (\$9.6 million), and insurance agents (\$9 million).

According to the Center for Responsive Politics, these funds are raised from "[t]he economic elite of the candidate's home district or state, and executives of the same industries and interest groups that supply PAC checks." The Center further notes that "most House Members' large individual contributions come from within their own district. Senators tend to get a much larger share from out of state."

As for "bundling," businesses traditionally are the most successful at using this device. The nation's leading business bundler is MBNA Corp., a Delaware-based securities firm. In 1994, employees of MBNA gave over \$868,000 in candidate contributions. Among the top 50 bundlers there are 12 securities firms, 13 law firms, and almost all of the nation's largest telecommunications and insurance companies.

In recent years, however, ideological organizations have become prodigious bundlers. EMILY's List — an organization supporting pro-choice women Democratic candidates — has become the nation's leading bundler just ten years after its inception. Each election cycle EMILY's List bundles millions of campaign dollars (\$8.2 million in 1994) by sending its 34,000 members a list of the candidates it has endorsed, along with an EMILY's List return envelope. Checks are then written by members for individual candidates, mailed to EMILY's List, and promptly turned over to their recipient campaigns in bundles.

In 1994, 21 Senators and 29 House Members each had at least one bundler who collected more than \$20,000, and four Senators each had a \$100,000 bundler. Senator William Roth of Delaware in 1994 set the record for the largest business bundle with \$143,339 from MBNA.

PAC Contributions (\$201 million). The role of PACs has exponentially increased since their proliferation in 1974. PACs contributed \$12.5 million to candidates in 1974 and \$201 million in 1996, an increase of over 400% after adjusting for inflation. The number of PACs has also increased dramatically. 608 PACs were registered with the FEC in 1974, compared to 4,033 in 1996.

It is convenient to divide PACs into three varieties: business, labor, and ideological. Business PACs are far and away the biggest contributors to candidates (\$131 million in 1994), followed by labor PACs (\$42 million), and ideological PACs (\$26 million). In 1996, 200 PACs contributed more than \$230,000 each to candidates, and 36 each gave away more than \$1 million. The National Education Association gave candidates \$2.3 million in 1996, making it the nation's largest contributing PAC.

PACs are risk averse. In 1996, 68% of PAC contributions went to incumbents: House incumbents received seven times more than challengers and Senate incumbents held a 5:1 advantage over challengers. Press reports critical of PACs have had some effect. 24 House Members and three Senators refuse PAC contributions. On the other side of the spectrum, two House Members and seven Senators received more than \$1 million each from PACs in 1994.

Candidate Contributions (\$95 million). The increased cost of running for Congress (between 1976 and 1996 campaign expenditures increased 300% after inflation) and the decreased value of FECA-regulated contributions (as dis-

cussed above, a \$1,000 contribution in 1974 is worth approximately \$300 today) have significantly lessened the pool of individuals able to run for Congress. Unless a candidate is extraordinarily proficient at raising \$1,000 contributions, he can wage a competitive campaign only if he is wealthy.

In 1996, 12 Senate candidates each spent over \$1 million of their personal money on their campaigns. For the House, 10 candidates each spent more than \$500,000 of their own money. Wealthy candidates produce wealthy officeholders. While millionaires make up less than 1% of the U.S. population, they made up 14% of House Members and nearly 30% of Senators in the 104th Congress.

Pipeline #2: Political Party Coordinated Expenditures (\$25 million)

In the 1996 elections, the Democratic and Republican Parties spent over \$25 million in coordinated expenditures for their House and Senate nominees. The Republican Party spent over \$7 million (\$300,000 on Senate candidates and \$7 million on House candidates). The Democratic Party spent \$18 million (over \$12 million on Senate candidates and over \$5.7 million on House candidates).

While the next section will explain in detail how campaign expenditures have sharply increased, it is important to note here how this escalation has diminished the role of the political party coordinated expenditure pipeline. Because FECA's formula for how much parties can spend in coordination with candidates is based on inflation, and campaign spending has escalated at more than three times the rate of inflation, the degree to which parties can help candidates through this pipeline has been severely diminished. In 1976, the amount parties could spend represented 12.5 % of the average cost of a winning House campaign. In 1996 it equaled only

4.7%. Accordingly, if campaign expenditure growth continues to outpace inflation, the help political parties can provide candidates through this pipeline will continue to suffer a proportional decline.

Pipeline #3: Political Party Soft Money (\$272 million)

One reason the soft money spending of the 1996 elections is receiving unprecedented attention is because it has expanded enormously. The Democratic and Republican Parties raised \$45 million in soft money in 1988 and \$92 million in 1992. 1996 soft money contributions reached \$272 million: \$150 million for the GOP and \$122 million for the Democrats. Soft money spending is now almost half the size of candidate committee spending, and it is more than seven times larger than the regulated money parties spend for their nominees. The role of soft money may soon eclipse that of funds raised according to FECA's contribution limits.

Soft money contributors tend to donate in very large sums. 126 contributions over \$250,000 were gathered in 1996 — 56 by the Democratic Party and 70 by the GOP. Each party received two contributions over \$1 million. The largest soft money contributor was Philip Morris Inc., which overall donated almost \$3 million: The Republicans received \$2.5 million of this contribution, an amount twice the size of any other contribution to either party.

Pipeline #4: Political Party Independent Expenditures (\$11.3 million)

The newest money pipeline, created by *Colorado Republican* in 1996, is small in size but large in impact.

For the most part, only the Republican Party

used this new funding mechanism. The GOP's Senate committee had \$9.9 million in independent expenditures, compared to \$1.4 million from the Democrat's Senate committee. Observers offer two reasons, both discussed above, to explain why this pipeline might not expand rapidly. The hard money used to fund independent expenditures is hard to raise. Further, the parties have no pressing need to make independent expenditures for advertisements expressly advocating their candidates as long as they can use soft money to pay for advertisements that convey essentially the same message.

Nonetheless, this was an enormously important pipeline in the 1996 elections. In each election cycle the balance of power for Congress is determined by a handful of competitive elections. By using this pipeline only for those Senate campaigns within their reach, the national political parties greatly expanded their role in determining which party would control the Senate.

In effect, the premier Senate campaigns of 1996 were nationalized. The increased expenditures of the Republican Party in New Hampshire's 1996 Senate race discussed earlier illustrate this phenomenon. Other examples include the 1996 Senate campaigns in Wyoming and Louisiana. Using the coordinated expenditure pipeline, the Republican Party could spend \$61,820 on behalf of their Wyoming nominee and \$191,827 for their Louisiana candidate. Through the independent expenditure pipeline, the Party spent an additional \$1 million in Wyoming and \$1.4 million in Louisiana. Not surprisingly, reformers fear that the targeted use of independent expenditure funds will escalate the real and perceived costs of running for Congress.

Pipeline #5: Non-Party Independent Expenditures (\$11 million)

Because only hard money flows through it,

this pipeline is a genuine financial outlet only for organizations that were able to raise over \$1 million in hard money in 1996 — National Right to Life (\$2.5 million), the National Rifle Association (\$1.7 million), and the League of Conservation Voters (\$1.2 million) — and only 14 organizations raised more than \$100,000.

Even if raising hard money were not difficult, organizations have few incentives to use this pipeline. As noted in the context of party independent expenditures, it is easier for organizations to gather large contributions for issue advocacy advertisements (discussed below) than to toil gathering hard money contributions just so that their advertisements can say “vote for” or “vote against” a candidate.

Pipeline #6: Issue Advocacy Money
(\$200?? million)

“Third party money,” “issue ads,” and “independent expenditures” are among the names the popular press uses for the most rapidly burgeoning pipeline of political money. It is not possible to calculate precisely the size of issue advocacy spending because organizations that are not engaged in express advocacy are not re-

quired to report their activities to the FEC.

Only through boasts of organizations can the issue advocacy pipeline be monitored. In 1996, for example, the leading interest groups favoring the Democratic Party declared it their intention to return the House to Democratic control and subsequently each of these organizations held a press conference announcing how many millions they were ready to spend for this effort. Leading spenders included the AFL-CIO (\$35 million) and the Sierra Club (\$7.5 million).

This spending introduced a new epicenter for competitive House campaigns. No longer did the candidate committee pipeline play the primary role. In many competitive House elections the issue advocacy pipeline put as much money into the political process as did the candidate committee pipeline. In Arizona, for example, the AFL-CIO spent more money attacking a Republican House incumbent, approximately \$1 million, than either candidate spent on his own campaign. This rise in influence of Washington organizations has been roundly criticized by editorial boards, political scientists, and, of course, candidates whose campaigns have been hurt by negative issue advocacy commercials. □

Campaign Spending

A comprehensive understanding of the role of money in campaigns demands more than a profile of aggregate spending patterns. It is also critical to look at candidate expenditures. By analyzing how much candidates spend, and where their money goes, reformers will be able to navigate better the pitfalls of regulating the electoral process.

Unfortunately, federal campaign spending is extremely difficult to analyze. The FEC maintains a computer database for contributions, but not for expenditures. Analyzing campaign spending comprehensively involves collecting the receipts of candidates from the FEC, calling individual candidates for explanations of their spending practices, and creating a database so that this information can be manipulated. Not surprisingly, while contribution data generates extensive press and scholarly analysis, only one publication comprehensively reviews how campaign money is spent --- *Handbook of Campaign Spending* by Dwight Morris and Murielle Gamache (Congressional Quarterly 1994). Compiling this information is so labor-intensive that this book is published over three years after the election cycle it covers, and the authors analyze only the candidate committee pipeline. Accordingly, most of the statistics from this section come from the 1992 congressional elections.

Campaigns expenditures are increasing rapidly. Since 1976 the aggregate costs of House and Senate general election campaigns increased more than sixfold (from \$99 million in 1976 to \$626 million in 1996) while the cost of living went up less than three times. The average winning House candidate spent \$87,200 in 1976 and \$661,000 in 1996. The average winning Senate candidate spent \$609,100 in 1976 and \$3.6 million in 1996.

The Incumbent's Edge

As a group, incumbents vastly outspend challengers. In 1992 House campaigns, the average incumbent spent \$571,000, while the average challenger spent \$173,000. A similar disparity is evident in competitive House campaigns. In races where the incumbent received 60% or less of the vote, challengers spent an average of \$289,000, compared to \$717,000 for incumbents. Even in the 19 campaigns in which incumbents lost in 1992, challengers were outspent by incumbents, on average \$436,000 to \$841,000.

In large part because of the spending differential, only a small proportion of congressional races are genuinely competitive. In the 1992 elections, characterized by the popular press as "revolutionary," more than half of House Members (199 Representatives) had no serious competition in their primary or general elections. Nevertheless, House candidates in safe districts continuously spend enormous sums of money to defeat their opponents. Over 46% of the \$600 million in candidate expenditures in 1992 came from candidates whose elections were never in any doubt. For example, Rep. John Dingell (D-Mich.) was a 36-year incumbent in 1992. His father represented the district for 24 years before him, and his son sat in the state legislature awaiting patrilineal succession. In his prior elections, Rep. Dingell rarely collected less than 60% of the vote. Nonetheless, in 1992 he spent over \$1 million to defeat his opponent's \$5,402 campaign. Similarly, Rep. Jack Fields (R-Tex.) spent \$746,361 for 77% of the vote against a Democrat who spent less than \$5,000.

Obviously, incumbents who engage in such spending have motives beyond simply winning their election. One common motive is to insulate

incumbents from redistricting that could hurt their chances of winning the next election. When a state gains or loses a congressional district, the state legislators re-draw the congressional districts. They tend to leave alone districts that are considered “safe” for either party. If a state is losing or gaining a seat, it is easiest to draw out of existence a district that does not comfortably rest with either party. According to the campaign manager of a safe-seated House Member from North Carolina, “We wanted to make a big push in 1990 to drive up the margin of victory [because] we didn’t want to give Democrats in the state legislature a reason to split up the district.”

A second reason safe incumbents grossly outspend uncompetitive challengers is to help their parties. In 1996, Michigan’s Rep. Dingell spent enormously for a get-out-the-vote operation in a portion of his district that he was sure of winning. The balance of control of Michigan’s House of Representatives hinged on one seat, and Dingell took it upon himself to win this seat for the Democratic Party. Hiring one of the nation’s best get-out-the-vote specialists, Dingell directed his war chest at the relevant part of his district, which raised Democratic voter turnout high enough to deliver Michigan’s House of Representatives to Democratic leadership.

A third reason incumbents outspend uncompetitive challengers has nothing to do with district, or even state, politics. Leaders of both parties in both houses of Congress assume responsibility for providing financial and political assistance to more junior Members and Senators. In 1994, for example, Majority Leader Richard Gephardt (D-Mo.) outspent his rival \$2.6 million to \$197,000. But Rep. Gephardt had no fear of losing his election; his seat was safer than ever. He spent his money outside Missouri to help congressional colleagues at public campaign events and private fundraising affairs all over the

country. Hundreds of plane tickets and a full-time campaign office in Washington, D.C. were among his leading campaign expenditures.

The final explanation for the incumbent-challenger expenditure gap, has to do with a restructuring of our national politics. In the days of Boss Tweed, political machines selected candidates, sent them to Congress, and made sure to deliver voters on election day. With the death of political patronage, candidates have been left to create their own life-support systems. Building such structures is laborious and expensive, and typically a task only incumbents can undertake.

Campaign Spending Deconstructed

To understand fully the campaign finance system one must know the costs of each element of a congressional campaign. Identifying these numbers requires looking at only those races that were truly competitive. Nothing is learned from examining the spending patterns of candidates who trounced their opponents. By understanding the costs of running a competitive campaign, reformers will be better equipped to propose and analyze contribution and expenditure reforms.

The table on the next page presents the average expenditures of 1992 House candidates in “hot races,” which the *Handbook of Campaign Spending* defines as races in which incumbents garnered 60% or less of the vote.

As discussed above, the *Handbook* is the only source that breaks campaign spending down into specific categories, such as legal and accounting services. While the following section draws heavily from the *Handbook*, the reader should bear in mind one methodological criticism of this source. All available statistics confirm that competitive races spend money differently from uncompetitive races. While the *Handbook* de-

Campaign Expenditures of 1992 House Candidates in “Hot Races”

	<u>Incumbent</u>		<u>Challenger</u>	
Overhead	\$168,468	(23.5%)	\$ 62,273	(21.6%)
Fundraising	\$100,575	(14.0%)	\$ 24,631	(8.5%)
Advertising	\$224,048	(31.3%)	\$112,076	(38.8%)
Other Campaign Activity	\$152,296	(21.3%)	\$ 73,602	(25.5%)
Gifts and Donations	\$ 26,515	(3.7%)	\$ 703	(0.3%)
Miscellaneous	\$ 44,790	(6.2%)	\$ 15,342	(5.4%)
TOTAL	\$716,692		\$288,654	

defines a “hot race” as one in which the incumbent garnered 60% or less of the votes, some critics argue that a race in which the winner won by 20 percentage points is not competitive, and that a narrower definition should be used. Unfortunately, no critic has actually conducted a survey using a narrower definition of a competitive election, with the exception of a report, reviewed below, that focuses only on advertising expenditures.

Overhead. In descending order the major elements of overhead costs are salaries, travel, rent, office supplies, and legal and accounting services. Observers call the aggregate of these items “America’s permanent campaign.”

Not surprisingly, incumbents on “hot races” far outspend challengers on staff salaries, more than 2.5:1, although no serious challenger runs without a professional campaign staff. In addition to using their checkbooks, incumbents leverage their electoral power by whom they hire. Although the staff members of legislators are not allowed to work for candidates on office time, they can receive a separate campaign salary for off-hours work.

For example, in 1992 a caseworker in Senator Arlen Specter’s Pittsburgh office received a government salary, plus \$64,362 for campaign work. This type of arrangement allows incumbents to retain campaign employees that understand who the political players are in their districts and how best to gain their support. Furthermore, incumbents can use campaign salaries to reward loyal and hard-working members of their government staffs.

Many incumbents incur extraordinary travel expenses. In 1992 the average House incumbent in a hot race outspent his challenger \$24,311 to \$5,627 for travel costs. Critics allege that candidates use campaign funds to subsidize fancy lifestyles, including flights on corporate jets and stays at luxury hotels. The national political conventions are also occasions for candidates to incur travel expenses. In 1992, House candidates billed their campaigns \$479,940 while attending the conventions, including a \$25,000 hotel bill for Speaker Thomas Foley (D-Wash.) and over \$1,000 in theater tickets for Rep. Albert Bustamante (D-Tex.).

Fundraising. To have met average 1992 expenditures, competitive House incumbents needed to have raised \$982 each day of their two-year terms; Senate candidates needed to have raised \$15,668 each week of their six-year terms. Because FECA's contribution limits demand that candidates raise lots of relatively small contributions, candidates must build sophisticated fundraising operations. These operations demand high overhead costs.

In 1992, incumbents in "hot races" outspent their challengers \$100,575 to \$14,882 in fundraising costs. To understand the scope of these operations consider our hypothetical campaign. If Congressman Power hopes to raise \$500,000 overall, 60% from individuals and 40% from PAC's, his fundraising plan might look as follows:

<u>Individual Contributions</u>			
\$ 1,000	x	200	= \$200,000
\$ 500	x	100	= \$ 50,000
\$ 250	x	50	= \$ 12,500
\$ 100	x	125	= \$ 12,500
\$ 50	x	500	= \$ 25,000
<u>PAC Contributions</u>			
\$5,000	x	40	= \$200,000

This fundraising plan would generate 975 individual and 40 PAC contributions. Now consider response rates. Even if Power hopes for a 10% response rate (an overly optimistic figure), his campaign would have to solicit 9,750 individual and 400 PAC contributions.

Candidates choose among many methods of solicitation. Most have several fundraising programs — personal candidate calls, fundraising events in Washington to raise PAC money, and events in their districts for large and small contributors.

The fundraising expenditures of Rep. Jim Ramstadt (D -Minn.) provide a typical case study of how Members spend money in this category. Rep. Ramstadt was first elected to Congress in 1990, winning 67% of the vote. As a general rule, if a

Member survives his first reelection, he is virtually guaranteed reelection in perpetuity. Therefore, new Members aggressively raise funds, to get over their first reelection hump. Rep. Ramstadt arrived in Congress with \$122,580 in campaign debts. He soon hired a campaign manager and two part-time employees to help raise money. By the end of 1991, Ramstadt lowered his debt to \$21,793 and had \$317,719 in the bank for the 1992 campaign. But the costs were high; 41% of the money he raised was spent on fundraising costs.

Advertising. According to the *Handbook*, incumbents in "hot races" spent twice as much as challengers on average on television and radio advertisements, \$224,048 versus \$112,076. This spending represented 31% of the average incumbent's budget and 39% of the average challenger's budget.

As stated above, critics allege that the *Handbook* fails to capture the spending of genuinely competitive candidates. The Committee for the Study of the American Electorate (CSAE) offers an alternative analysis of candidate advertisement expenditures. CSAE analyzed races in "competitive" races — districts in which between 1976 and 1992 there were at least three races with a margin of victory of 8% or less. In 1992, candidates in "competitive" districts spent an average of \$272,286, or 45.5% of their funds, on television and radio advertisements.

A final noteworthy, although not surprising, aspect to advertising expenditures comes from the *Handbook*: Advertising is the only spending category that is significantly affected by the competitiveness of a race. That is, the budget percentage devoted to advertising rose by 10% if a candidate's campaign was competitive, while the remaining spending categories declined slightly in percentage terms.

Other Campaign Activity. This category covers the costs of direct-mail and grass-roots campaigning. While incumbents do not grossly outspend challengers in this category, \$86,906 to \$73,602 for “hot races,” they quite often are able to outsmart them. For example, targeting absentee voters is a complex exercise, and one that becomes more important each political cycle as voters increasingly cast their ballots before election day. To run an effective absentee program a campaign must identify the constituencies likely to vote absentee (e.g., seniors, students), research when city clerks mail these ballots, and send targeted mailings to these constituencies during the brief window in which most ballots are cast. There is no reason why challengers cannot master these small “other campaign activity” maneuvers. However, because incumbents usually have seasoned campaign employees, they are more likely to run efficient, comprehensive campaigns.

Gifts and Donations. The least conventional campaign spending category is gifts and donations. While challengers spend little money in this category, gifts and donations allow incum-

bents to build their individual political machines by currying favor with neighborhood groups and political clubs. In “hot races” in 1992, incumbents gave away an average of \$26,515, compared to \$730 for challengers.

There is a casualty to asking for money constantly — candidates constantly receive fundraising requests. By classifying these contributions as campaign expenditures, incumbents can be generous without digging into their personal checkbooks. The peculiar result of this process is that contributions often become circular. For example, Susan Rhodes might have a charity, to which Congressman Power donates, which of course provides Rhodes one more reason to be loyal to Power.

Incumbents also like to bestow gifts on constituents — the size and kind of which depend on a Member’s personality. In 1992 Rep. Charles Wilson (D-Tex.) held his annual dominoes tournament, Michigan’s Rep. Dingell spent over \$34,000 on holiday cards, and Rep. Ike Skelton (D-Mo.) spent over \$5,000 taking voters out to dinner, including \$1,414 for a Turkish feast. □

Conclusion

As we have seen, the routes through which money travels into our elections are varied and interconnected. Every change in the flow of one route inevitably affects the flow in the others, or yields new routes. Experts often disagree on the likely effects of any particular change, but they all agree that reformers cannot hope to accomplish their goals by tinkering with one pipeline at a time.

Below is a partial list of reform proposals before Congress. Each is followed by a prediction of its likely impact if the provision were to be adopted in isolation. As discussed above, however, predicting the effects of campaign reforms is a highly imprecise exercise.

Capping Campaign Expenditures. A cap on campaign expenditures will presumably affect only those candidates who could have exceeded the cap by raising funds or by contributing their own funds. If candidates, in essence, have to turn away donors, monied interests who wish to buy access with direct contributions to candidates will need to send their money through other routes and candidates will seek to find other less direct mechanisms by which to promote their candidacies.

Once a candidate approaches the expenditure limit, he would almost inevitably seek to convince his political party to increase the flow of party money into his race. The coordinated expenditure pipeline offers the candidate the greatest amount of control, since he is legally permitted to participate in shaping the spending product. The political party independent expenditure pipeline and the soft money pipeline offers the candidate less control. But one can expect that if a candidate helps raise money for these pipelines the party will make sure that the candidate is happy with how this money is spent.

The best way a candidate can raise the money for these three indirect spending routes is by soliciting the very same donors who would be shut out of contributing to his race because of the expenditure caps. And the donors, who because of the candidate spending limit cannot purchase as much influence directly, are likely to oblige.

It is also possible that a cap on campaign expenditures will send more money flowing through the non-party independent expenditure pipeline and the issue advocacy pipeline. Donors who cannot give directly to the candidate after the candidate reaches the spending limit might wish to curry favor with him by openly spending money to influence his election. Of course, the candidate cannot control this spending, which makes it less likely to materialize than a contribution to a political party.

Experts disagree vehemently on the likely political impact of candidate expenditure caps. Some argue that spending caps will disadvantage challengers who need to spend more in order to overcome the advantages of incumbency, such as name recognition and greater exposure to free media. Others argue that since incumbents so vastly outspend challengers anyway, expenditure caps are more likely to disadvantage incumbents as a group. Adherents to this view often argue that the ratio of spending is far more significant a determinant of electoral outcome than the actual amount spent by each candidate. If this is true, then an expenditure cap, which prevents one candidate from vastly outspending the other, is more likely to hurt incumbents. After all, it is a rare challenger who can outspend an incumbent by a significant ratio.

Lowering Candidate Contribution Caps. Lowering caps on contributions to candidates would have many of the same effects as capping

candidate expenditures. Monied interests seeking influence over candidates, and candidates seeking to raise campaign funds, would be forced to look beyond the candidate contribution pipeline. For the reasons discussed above, the most likely alternative is the political party coordinated expenditure pipeline, followed by the party independent expenditure and soft money pipelines. And just like for the spending limits, candidates and contributors would prefer these pipelines for different reasons: Candidates would seek to have the greatest possible control over funds that benefit their campaigns, and contributors would seek to have the greatest possible influence over candidates with their donations. Accordingly, lowering the candidate contribution limits would cause candidates to ask those individuals from whom they received the maximum contribution to make donations to their political parties.

Abolishing or Constricting the Ability of PACs to Contribute to Candidates. Diminishing the role of PACs would change the relative abilities of business interests, labor unions, and ideological organizations to influence the political process. Specifically, business interests would be greatly advantaged by the decreased power of unions and ideological organizations.

Labor unions and ideological organizations contribute money to candidates through their PACs which, in general, raise small contributions from lots of individuals. In contrast, businesses usually fund their PACs by collecting large checks from a small group of executives. Organizationally, it is easier for a corporation's few executives to write checks directly to a candidate than it is for a union or ideological organization to have thousands of its members write small checks directly to a candidate. Most experts agree that the relative influence of business interests would be greatly enhanced by diminishing the role of PACs.

Broadening the Definition of Express Advocacy. Experts disagree on the impact of broadening the definition of express advocacy. As reviewed above, federal campaign law currently considers a communication to be express advocacy if it includes so-called magic words (e.g., "vote for," "vote against," or "reelect"). Several reform proposals seek to expand this definition to encompass thinly veiled campaign advertisements. One approach is to define as express advocacy any communication that a reasonable person would understand as encouraging voters to support or oppose a candidate. Another approach is to define as express advocacy an advertisement that refers to a clearly identified candidate within a prescribed period before the election.

Either way most experts agree on the short-term impact of such a reform. The demand for political party soft money and issue advocacy funds would decrease dramatically. There would be less reason for candidates to raise soft money funds from which they could not benefit. And organizations that are truly interested in influencing the election are less likely to do so if they are unable to identify particular candidates in their advertisements.

The long-term impact is less clear. Some experts believe an expanded definition would reduce drastically the quantity of political discourse as candidates and political parties would be unable to replace the funds lost by slowing the flow within the soft money and issue advocacy pipelines. The reason these pipelines grew, it is argued, is that candidates had contributors who wanted to exceed the candidate committee contribution caps. If these individuals could not help candidates through the soft money and issue advocacy pipelines, the political discourse funded by these pipelines, approximately \$470 million in 1996, would disappear.

This analysis fails to appreciate the elasticity of the political system, a second group of experts respond. Candidates send funds to the soft money and issue advocacy pipelines because it is the most efficient way to raise campaign money. If candidates were forced to raise only regulated funds their behavior would change. Individual contributors, no longer able to make soft money or issue advocacy contributions, would be asked to reach out to their friends to bundle candidate and political party hard money contributions. Accordingly, the amount of money in the political system would not decrease and discourse would suffer no decline.

Closing the Soft Money Loophole. Barring corporations, labor unions, and wealthy individuals from giving political parties large contributions would send this money to the issue advocacy pipeline. Political scientists argue that this reform would significantly decrease the power of political parties. When candidates circumvent hard money contribution limits by raising funds for their political parties they must maintain close relationships with party leaders to ensure that these funds are spent in the manner candidates prefer. By closing the soft money loophole, it is argued, issue advocacy spenders — labor unions, corporations, and ideological organizations — would replace the role of political parties.

One predictable result is that special interests with strong ties to the parties would abandon their formal affiliations with the parties and set up shop down the street as independent organizations. They would raise large contributions from all sources and spend the money on the same thinly veiled issue advertisements that the par-

ties would have produced with soft money. These organizations could not legally coordinate their spending with the parties, but their employees and advisors would be so attuned to the parties and the candidates that they could readily advance the interests of the parties and the candidates.

* * *

The preceding analysis considers only the impact of changing one rule at a time. But most legislative proposals for campaign finance reform include several changes. Including multiple reforms acknowledges the jello-like aspect of campaign-finance regimes: Touching one end of the system causes an immediate reaction throughout the entire system. For example, if a legislator seeks to lower contribution limits to candidates, his proposal must also include regulations that close the soft money loophole. That is, the legislator must anticipate that the contribution limit will send funds to the soft money pipeline. Accordingly, evaluating legislative proposals for campaign finance reform is a difficult process. Reformers must anticipate the simultaneous reactions, and reactions from reactions, created by each legislative package.

While this paper offers reformers cautions instead of prescriptions, it should not be interpreted as being hostile to changing our campaign finance laws. Rather, reformers should feel emboldened that if the complexities of our campaign finance system are appreciated it is possible to avoid the pitfalls that have plagued prior efforts to diminish the role of money in politics and restore integrity to the electoral process. □