

The New Campaign Finance Sourcebook

Chapter 3

The Flow of Money in Federal Elections

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Campaign finance laws are primarily designed to regulate the flow of money in the electoral process. These statutes determine the permissible sources of funding and the amounts that may be solicited from these sources. They determine who may participate financially in elections, the methods of participation, and the types of transactions that may occur among various participants. They also set boundaries that distinguish regulated funding and unregulated funding.

This chapter describes how campaign finance regulations direct the flow of money in federal elections by discussing how funds were raised and spent in the 2000 election cycle. It provides a window on the effects of the law by detailing the basic financial patterns that characterize the current system. In doing so, it offers a context for understanding how the flow of money might be altered if the major provisions of the Bipartisan Campaign Reform Act (BCRA) are upheld by the Supreme Court and put into effect during the 2004 election cycle. This new law will undoubtedly have a major effect on the financial practices that defined the financing of the 2000 elections.

Any discussion of the financing of federal elections is necessarily limited by the scope of federal disclosure laws. Consequently, no definitive summary of political financing in the 2000 election cycle exists. The Federal Election Commission (FEC)

collects, processes and reports on all funds required to be disclosed by federal law. The agency issues separate press releases that summarize financial activity in presidential and congressional elections, as well as the finances of political parties and political action committees (PACs). But the FEC does not issue a final summary report that presents all of these data in a format that fully accounts for the flow of money in federal elections. As a consequence, various groups and individuals do their own calculations, producing estimates for total spending in the 2000 federal elections that range between \$2 billion and \$3 billion.¹

Some of the variation in estimates results from the different financial transactions that occur -- contributions, receipts, expenditures, loan repayments, and transfers – and the increasing political sophistication of political actors in creating new organizational structures and engaging in complex transactions that facilitate the movement of funds among various accounts and organizations. Some is due to the failure to correct for double counting of receipts and expenditures. Some is a consequence of using FEC summary figures as opposed to aggregating unadjusted FEC data at different points in time. But by far the largest source of uncertainty is spending on federal-election-related campaigning that is not reported to the FEC. This undisclosed activity includes, most importantly, candidate-specific issue advertising by interest groups and exempt electioneering by labor unions and corporations that is aimed at their own members.

The complexity of the transactions that take place within the federal campaign finance system can be discerned from a schematic of money flows developed by Joseph Cantor of the Congressional Research Service.² In this conceptualization, the left side of the figure represents flows of federally regulated money (hard money), while the right

side traces non-federally regulated money (soft money). The former activities are reported to the FEC, much of the latter is not.

The schematic outlines the multiple sources of funding available to most of the actors involved in federal elections and the various ways each source can disburse its monies. For example, political parties can raise hard money from individuals and interest groups and use those funds to finance direct contributions to candidates, coordinated expenditures on behalf of candidates, or independent expenditures that expressly advocate the election or defeat of candidates. They can also use these funds to pay for party expenses, such as administrative and fundraising costs, or they may transfer sums to state or local party committees to finance the federal share of such activities as issue advocacy advertising. Furthermore, it is sometimes the case that a disclosed transaction is but the start of a series of transactions. For example, an individual may make a contribution to a PAC, which in turn may donate funds to a national party committee, which then transfers funds to a state party committee, which may use the money to sponsor issue advocacy advertisements. In this instance, the contribution reported by the FEC, the contribution to the PAC, is but the first step in a series of transactions.

Yet, even this complex diagram fails to capture all of the transactions that are employed in federal campaign finance. Although candidates are principally recipients of campaign contributions, a growing number of candidates also serve as donors of campaign money, contributing funds from their campaign coffers to other federal candidates and to national party committees. A significant number of federal officeholders also sponsor PACs, commonly known as leadership PACs, which they use as a source of contributions to candidates and party committees. Candidates also form

joint fundraising committees with party organizations to raise both hard and soft monies that are used to pay for candidate campaign activities or generic party activities that can benefit the candidate involved, such as voter mobilization programs and issue advocacy advertisements. So, in many instances, the money flows that are depicted as unidirectional in the diagram can be multidirectional, which further complicates the federal money picture.

[Cantor Diagram About Here]

Sources of Funding

Most of the money in the campaign finance system comes from individual donors. During the 2000 election cycle, individuals contributed \$822 million to federal candidates, \$558 million to PACs, and \$889 million to political parties (\$712 million in hard dollars, \$177 million in soft). The total, \$2.3 billion, does not include non-federal contributions to groups or state and local parties for voter mobilization programs or issue advocacy designed to influence federal elections.³

Other direct sources of money include personal funds of the candidates, in the form of gifts or loans (\$216 million),⁴ and the U.S. Treasury, which provided matching public funds to ten presidential primary candidates (\$61 million) and general election public grants to three presidential candidates (\$148 million). The Treasury also provided \$29 million in public funding to three party committees to subsidize the cost of presidential nominating conventions.⁵

Corporations (profit and nonprofit) and unions are prohibited from participating directly in the hard money arena of federal elections. They can finance (but need not disclose) the administrative and fundraising costs of their PACs, which are organized as separate segregated funds that solicit voluntary contributions from their restricted classes. Corporations and unions can also draw on funds from their treasuries to support partisan or nonpartisan internal political communications with their members. The funds spent on partisan internal communications are exempt from federal contribution and spending limits, and only need to be reported to the FEC if these communications expressly advocate the election or defeat of a federal candidate and total more than \$2,000 per election.⁶ These entities can also spend unlimited amounts on nonpartisan

communications to members, including issue advocacy messages and voter registration efforts. In addition, prior to the passage of the BCRA, corporations and labor unions could make soft money contributions to political parties (\$318 million in the 2000 cycle)⁷ and support electioneering communications that did not meet the Supreme Court's test of express advocacy. With the exception of soft money contributions and a small share of internal communication costs, no public accounting is available for these activities.

The two intermediary funding organizations, PACs and parties, spend only a portion of their receipts directly on behalf of federal candidates. Of the \$558 million in PAC receipts from individuals during the 2000 election cycle, \$247 million was contributed to federal candidates, \$29 million was given to the federal accounts of political parties, and \$21 million was spent on independent expenditures for or against federal candidates.⁸ Some of the \$261 million in receipts not accounted for in these contribution and independent expenditure figures went for fundraising and administrative costs of non-connected PACs. These PACs, which constitute about a quarter of all PACs, are not affiliated with a parent organization, and thus must finance their overhead and fundraising costs out of the monies they raise from donors. Other parts of the balance can be traced to contributions to candidates running for office in future years, to debt retirement for candidates in past cycles, and to cash on hand at the end of 2000.

Political parties spend a much smaller fraction of their hard money directly on candidates. They reported receiving in their federal accounts \$712 million from individuals and \$29 million from PACs during the 2000 cycle.⁹ Yet only about \$62 million was spent directly on behalf of federal candidates (approximately \$7 million in contributions, \$51 million -- over half in the presidential election -- for coordinated

expenditures, and \$4 million for independent expenditures).¹⁰ Another \$134 million was transferred from national to state and local federal accounts, presumably in support of campaign activities paid for by state parties that can be financed with a combination of hard and soft dollars. That leaves more than \$500 million in hard money to support fundraising, administration, political expenditures not attributable to individual candidates, and activities financed with both hard and soft dollars and paid for by the national parties. How much of this half billion dollars should be counted as disbursements for federal elections cannot be estimated from federal disclosure reports; the assignment of any figure would be entirely arbitrary.

The national parties also raised \$495 million of soft money for their nonfederal accounts. Over half of this amount (\$274 million) was transferred to state and local party nonfederal accounts. Another \$125 million was spent on joint federal/nonfederal activities, which include joint national and state party fundraising efforts, voter registration programs, issue advocacy communications, and other generic party activities. Most of the remaining soft money was used for expenses at national party headquarters that could be financed with soft money. Only \$19 million, or less than 4 percent of the total amount raised, was contributed to state and local candidates.

Tracing the flow of funds through the political parties is complicated by the huge transfers among committees and by the difficulty of determining precisely what share of these hard and soft money expenditures and transfers to state and local parties are used to finance non-express advocacy campaign communications (television, radio, print ads, direct mail, telephone banks) for or against specific federal candidates, or voter registration and mobilization programs designed to benefit specific federal candidates.

Unweaving the web of relationships involving national and state parties, hard and soft dollars, transfers and expenditures, interest group expenditures and election-oriented issue advocacy is not an easy task given current federal disclosure rules. Attaching precise numbers to many of these flows and activities is impossible.

The final and most important component of the campaign finance system is the money raised and spent by the candidates. During the 2000 election cycle, candidates for the presidency, Senate and House reported receipts of \$1.48 billion (from individuals, PACs, the U.S. Treasury, personal funds and parties) and expenditures of \$1.6 billion. Expenditures totaled \$605 million for presidential candidates, \$434 million for Senate candidates, and \$540 million for House candidates.

This review of financial activity in the 2000 cycle reveals how election law regulates (or fails to regulate) the flow of money. It also demonstrates the complexity and uncertainty in accounting for money in federal elections. The current regulatory regime, renowned for its full and timely disclosure of campaign finance activity, provides at most partial transparency. Contributions and receipts are substantially higher than reported expenditures by or on behalf of candidates. The financing of much campaign activity in specific presidential, Senate and House races is not included in official tabulations of spending in these contests. Party transfers and spending constitute a maze of accounts that ensure much more confusion about the uses than the sources of party funding. Campaign expenditures by interest groups apart from their PACs – for so-called issue advocacy and internal communications – can only be estimated through independent observation of the activities themselves. The new law was written partly to improve upon this record.

With this understanding of the incompleteness and ambiguity of the numbers representing financial activity in federal elections, the rest of the chapter will present a more detailed view of the various elements of the campaign finance system.

Growth in Campaign Spending

The cost of running for the House and Senate has increased dramatically over the past quarter century. In 1976 the FEC reported \$60 million in total expenditures by House general election candidates, with a mean expenditure per candidate of \$73,316.¹¹ By 2000 the comparable figures were \$505.4 million and \$682,952.¹² The difference represents an increase of 741 percent in total expenditures, and 832 percent in mean expenditure per candidate. Statistics on Senate spending show an even more rapid rate of growth. In 1976 Senate general election candidates spent a total of \$38.1 million and a mean of \$595,449 per candidate.¹³ In 2000 those figures reached \$371 million and \$5.7 million respectively.¹⁴ The percentage increases were 1,206 percent and 1,203 percent respectively.

What is one to make of these figures? First, the struggle for control of the House and Senate was especially intense in 2000, which contributed to a major jump in spending over 1998. And two open seat Democratic senatorial candidates, Jon Corzine of New Jersey (\$63 million) and Hillary Rodham Clinton of New York (\$30 million), together raised the mean expenditure by \$1.3 million. However, even if Corzine and Clinton are excluded from the 2000 totals, spending since 1976 is still up by about 880 percent. Second, the figures are nominal, not adjusted for inflation. The Consumer Price Index rose 203 percent between 1976 and 2000. Adjusting for inflation, the real

increases in total spending were 178 percent in House elections, 331 percent in Senate elections. Third, some scholars argue that the figures should be adjusted by the growth in the Gross Domestic Product (GDP), a measure of all goods and services sold in the U.S. economy.¹⁵ In this perspective campaign spending is viewed over time in terms of its share of national income. Nominal GDP increased 439 percent between 1976 and 2000. Total campaign spending relative to national income increased roughly 56 percent in House elections and 142 percent in Senate elections. From this latter perspective, the growth of spending in congressional elections has been much less precipitous than it initially appears. (At the same time, congressional candidates have had to raise these increasing amounts of money without any adjustment in the contribution limit set in 1974. It is no surprise that many seem caught in an endless money chase.)

But the story gets more complicated. Overall levels of spending tell us nothing about how money is distributed across races in states and congressional districts and among incumbents, challengers and open seat contestants. Money flows to competitive open seats and to races in which incumbents are threatened. The volume of those flows could well have increased more rapidly than the summary figures suggest. In 1976, the twelve House challengers who defeated incumbents spent an average of slightly less than \$145,000. In 2000, the six successful challengers spent on average \$1.98 million.¹⁶ That is an increase of 351 percent when adjusted for inflation and 153 percent relative to growth in GDP. Comparable increases occurred in seriously contested open House seats. The cost of winning an initial Senate election has also increased markedly, but not relative to the overall increase in spending in Senate elections. In 1976, the nine Senate challengers who defeated incumbents spent on average \$1.16 million. In 2000, the six

Senate challengers who defeated incumbents had a mean expenditure of \$8.84 million.¹⁷ That is an increase of 151 percent adjusted for inflation and 41 percent relative to growth in national income. The pattern is similar for contested open seat races, once the Corzine and Clinton candidacies are removed.

In 1976 virtually all of the campaign spending done in connection with House and Senate elections was reported to the FEC. Besides the expenditures by House and Senate candidates, party committees made some expenditures and PACs and organized groups disbursed about \$877,000 for independent expenditures.¹⁸ By 2000 targeted Senate and House races were flooded with resources not included in candidate spending reports. Some of the candidates involved in these contests sponsored PACs, commonly known as leadership PACs, that raised money that was used to finance some of the costs of the candidate's political activities. Twenty-one Senate candidates created joint fundraising committees with party committees, which allowed them to raise and steer soft money contributions to their state parties for campaign activities (including issue advocacy) on their behalf. In all, these committees helped Senate contenders raise almost \$18 million in soft money.¹⁹ The congressional party campaign committees also raised large amounts of soft money, more than \$212 million,²⁰ that helped finance hard-hitting broadcast ads and ground war activities for candidates in hotly contested races. Outside groups often ran parallel ads in the same districts. None of these outlays are included in the candidate expenditure figures. David Magleby and his associates traced millions of dollars of such expenditures in key races.²¹ It is not inaccurate to characterize the pattern of spending in the very small number of targeted races as an arms race.

Because of the voluntary spending limits in place for candidates who accept public funds, expenditures in presidential elections have grown much less rapidly than in congressional elections. Spending limits in presidential nominations are adjusted for inflation, as are the full public grants for the general election. In 1976, the first election in which public funding was available, candidates who accepted subsidies were limited to a little more than \$13 million of spending during the nomination campaign and about \$22 million in the general election. By 2000, these limits had grown to more than \$40 million for the nomination campaign and \$67 million for the general election.²² Change in real spending in the nomination phase is therefore a function of the number of serious candidates in each party and of the number of candidates who decline public financing and are not constrained by the spending limits. In 2000, intense competition for the nomination in both parties and the decision by both George W. Bush and Steve Forbes to forego public funds led to a substantial jump in spending (\$326 million in 2000, as compared to \$234 million in 1996). Prior to 2000, total spending barely kept pace with inflation and fell well short of matching the growth in national income. Real increases in general election spending have occurred only when there is a significant independent or third party candidacy. Direct spending by major party nominees has been frozen in real terms and fallen well behind the rising cost of campaigning and the growth of GDP.

Direct expenditures by presidential candidates tell only part of the story, however. Parties are permitted to make coordinated expenditures on behalf of their candidates, but these are limited in size and restricted to hard money. The limit for each of the two major parties in 2000 was \$13.7 million. Since the 1980s the national parties have also used soft money to help finance grassroots activities that boost their presidential candidates.

Much more significantly, the 1996 and 2000 presidential campaigns featured major party-sponsored television ad buys, both before and after the party nominating conventions, financed in large part with soft money under the guise of issue advocacy. While no precise figures are available for these outlays, at least one analysis based on party advertising expenditures in the top 75 media markets has estimated that parties spent more than \$50 million on issue advertisements in connection with the 2000 presidential race.²³ These funds were supplemented by tens of millions of hard and soft dollars used to pay for voter registration and turnout programs that were designed to influence the outcome of the presidential race.

Individual Donors

As illustrated above for the 2000 election cycle, individuals (contributing directly or indirectly) provide the lion's share of funding in federal elections, dwarfing public funds, candidate self-financing, and interest group treasuries. Yet a very small slice of the citizenry provides this funding. Under federal law, contributions in amounts up to \$200 to candidates, parties and PACs need not be itemized, so there are no firm statistics on the number of small donors. The Center for Responsive Politics reported that approximately 780,000 people contributed \$200 or more to candidates and parties in the 2000 cycle, of which 340,000 gave \$1,000 or more.²⁴ Small donors, who gave \$200 or less, contributed \$550 million in hard money to candidates and parties, while those who gave more than \$200 contributed \$912 million.²⁵ Even though small donors provided only 38 percent of the \$1.5 billion in hard money contributions to candidates and parties (and a relatively small share of the \$177 million in party soft money funds from

individuals), they nonetheless number in the millions. Millions of additional small donors, including members of labor unions, professional associations, and trade organizations, contribute to PACs.

Individual donors to candidates and parties are not all independent actors. Some political committees, such as Emily's List, are structured to bundle individual contributions on behalf of specific candidates. These committees solicit individual contributions for particular candidates and group these contributions together for delivery to a candidate's campaign committee. This allows the committee to make, in effect, donations to individual candidates beyond the limits imposed on their PACs. Company executives and organization members also often coordinate their individual contributions to increase their group's donation to individual candidates. Lobbyists and other individuals actively involved in fundraising are also expected to act as fundraising brokers in many instances. In this role they are asked to make generous personal contributions and to secure additional contributions from their parent organizations, allied interests, or personal associates. Campaigns sometimes formalize the role of such brokers in an effort to raise large sums of money. One notable example of such an arrangement is that of the Bush Pioneers in the 2000 presidential contest. This group, which grew to more than 180 members, was composed of individuals who each raised at least \$100,000 in individual gifts of \$1,000 or less for George Bush's presidential campaign.²⁶ In an effort to provide some sense of the collective dimensions of the thousands of individual donations made in each election cycle, the Center for Responsive Politics regularly aggregates individual contributions based on an individual's employment to construct profiles of giving by industry and interest group.

Candidate Contributions

One class of individual donors that is unique among the millions who give to political campaigns is that of the candidates themselves. Candidates can donate an unlimited amount of their own money to their campaigns (except in the case of publicly funded presidential candidates who are limited to \$50,000). Recent elections have featured a number of high-profile examples of self-financed candidates, including H. Ross Perot and Steve Forbes in the presidential race, or Jon Corzine in the 2000 Senate race in New Jersey, each of whom spent tens of millions of dollars out of their own pockets to finance their bids for office. This self-financing typically takes the form of a loan made by the candidate to the campaign committee, rather than an outright contribution. By making a loan rather than a contribution, a candidate retains the option of having the campaign committee repay the sum at a later date. This can be particularly important for those candidates who put smaller sums, relatively speaking, into their campaigns and are not so wealthy as to be able to forego any repayment without incurring some personal financial disadvantage.

The role of personal money in federal elections varies from election to election, depending on the number of wealthy individuals who decide to seek office and the extent of their willingness to spend large sums of money on a campaign. Overall, in House races, the sums provided by candidates have risen in correspondence with the growth in campaign spending, making personal funding an important part of the financial picture in every election since the late 1980s. During this period, contributions or loans made by candidates have represented, on average, about 10 percent of the total funds received by

House candidates. In the 2000 cycle, House candidates deposited \$66 million of their own resources into their campaign coffers, representing about 11 percent of the total monies raised in House contests.²⁷ Dozens of congressional hopefuls gave money to their campaigns, with many adding \$50,000 or \$100,000 to their campaign war chests in an effort to meet the financial demands of their campaigns.

The role of self-financing has been even more prominent in Senate races, since these more expensive contests have tended to attract a larger number of wealthy candidates willing to spend large sums. As a result, the share of Senate campaign funding that comes from the pockets of candidates has grown from about 7 percent in the late 1980s to 20 percent in the late 1990s, and jumped to 25 percent in 2000. Generally, most of the personal money in Senate races comes from a few challengers who spend substantial amounts. This was certainly the case in 2000. Democrat Jon Corzine spent an unprecedented \$60 million in personal resources on his successful U.S. Senate race in New Jersey. His spending represented more than half of the record \$107 million in candidate self-financing in the 2000 Senate contests, which was about double the \$53 million and \$56 million in self-financing in 1998 and 1996 respectively.²⁸ Other notable self-funders in the 2000 Senate races included Democrat Mark Dayton, who put almost \$12 million into his victorious bid against incumbent Republican Rod Grams in Minnesota, and Democrat Maria Cantwell, who spent \$10 million to edge out Republican Slade Gorton in Washington.²⁹

Personal money is an especially significant source of revenue for non-incumbents. Because most individual donors and PACs tend to favor incumbents, challengers or those seeking open seats are increasingly relying on their own resources to generate the monies

needed to wage a viable campaign. In 2000, one out of every five dollars received by challengers in House elections came from the candidates' own pocket.³⁰ In contrast, less than 2 percent of the monies generated by incumbents came from personal resources. Self-financing represented an even larger share of the monies spent in open seat races. In these contests, candidates were the source of almost one out of every three dollars spent. On a partisan basis, 34 percent of the money available to Republican contenders and 25 percent of the money available to Democrats came from contributions or loans made by the candidates themselves.³¹

Political Action Committees

PACs became an important part of the federal campaign finance landscape in the 1970s and 1980s. The number of PACs grew from 608 in 1974 to a peak of 4,268 in 1988, thereafter leveling off and then dropping to 3,907 in 2000.³² PAC contributions to congressional candidates grew rapidly between the mid-1970s and the late 1980s, from roughly \$12 million to \$150 million, but then remained on a plateau for the next decade, until the highly competitive 2000 election boosted their contributions to \$248 million.³³ The share of funding for House candidates provided by PACs grew from 17 percent in 1974 to 40 percent in 1988; by 2000 it had fallen to 31 percent.³⁴ The pattern was similar for Senate candidates, although their reliance on PACs was consistently lower than in the case of House candidates. The share of funding for Senate candidates provided by PACs grew from 11 percent in 1974 to 22 percent in 1988; by 2000 it had fallen to 13 percent.³⁵

In both houses, however, incumbents typically receive much larger sums from PACs than do challengers. Consequently, current officeholders rely on PACs to a greater extent than do their challengers. For example, Democrats serving in the House raised 45 percent of their funds from PACs in 2000; the comparable figure for Republican challengers was 13 percent. Similarly, House Republicans received 39 percent of their revenues from PACs, as compared to 17 percent for their Democratic challengers.³⁶

These aggregate figures, however, fail to capture the significant variations that characterize the PAC community. PACs come in many types and sizes and display distinctive objectives, partisan leanings and giving strategies. Many PACs spend hardly any money at all. For example, in the 2000 election cycle, about a third of the committees registered with the FEC, or slightly more than 1,500 PACs, each spent less than \$5,000 during the entire election cycle. Most of these committees made no contributions in 2000, and there were 865 committees, about 20 percent of all PACs, that made contributions to federal candidates that totaled less than \$5,000.³⁷ The majority of PAC donations come from a relatively small number of very active, well financed PACs. In 2000, about 5 percent of all PACs (222 committees) were responsible for almost 60 percent of the money contributed by PACs to federal candidates.³⁸ This disparity among committees in their levels of financial activity is typical of other recent election cycles.

Some large, well-funded PACs also seek to capitalize on their resources and extend their influence by independently spending funds in support of federal candidates. Because independent expenditures are not limited by federal law, a PAC can provide substantially greater assistance to a favored candidate by using this tactic than is possible with a direct contribution. In 2000, the relatively small group of PACs that made

independent expenditures disbursed \$21 million to support or oppose specific candidates, with most of these expenditures targeted to influence the outcome in a small number of contests or states. Most of this amount, more than \$16 million, was spent by 125 committees in support of federal candidates. The remaining sum, less than \$5 million, was spent by 38 committees to oppose federal candidates. These committees spent money independently to influence elections at every level, including \$6 million in connection with the presidential election, \$7 million in Senate races, and almost \$8 million in House contests.³⁹

PACs are also distinguished by varying contribution patterns. Different types of committees allocate their contributions in ways that reflect their diverse ideologies or objectives. Labor PACs are commonly among the largest PACs and represented 6 of the top 10 and 24 of the top 50 PACs in the 2000 cycle. The 350 labor committees active in this cycle contributed \$50 million, and showed an overwhelmingly preference for Democratic candidates. Less than 10 percent of their contributions, about \$4 million, went to Republicans. Unlike the other connected PACs, however, they did direct a significant share of their donations (20 percent) to challengers.⁴⁰

Corporate PACs, numbering 1,725 and contributing close to \$86 million in the 2000 congressional elections, have adopted a much more pragmatic giving strategy. They donate almost exclusively to incumbents, with an edge to those in the majority party. Less than 5 percent of their contributions are given to challengers and just over 10 percent are given to open seat candidates.⁴¹

Membership PACs, the third type of political action committee connected to a parent organization, include a more diverse set of interests and organizational forms, but

their overall pattern of giving is similar to that of corporations. In 2000, there were 900 membership PACs, which contributed \$68 million to congressional candidates. They too invest heavily in incumbents, with an advantage to those in the majority party. Only about 7 percent of their contributions in 2000 went to challengers and another 13 percent to those contesting open seats.

The final major category includes those PACs without any connection to a parent organization. Numbering 1,362 and contributing \$36 million to congressional candidates in the 2000 cycle, these nonconnected PACs are free from the constraints of satisfying the interests of a corporate sponsor or group members. They are often created by political entrepreneurs and pursue ideological agendas. As a group, they divide their contributions fairly evenly between incumbents and challengers/open seat contestants, and between Democrats and Republicans. In 2000, these committees gave \$20 million to incumbents and \$16 million to challengers and open seat candidates. In partisan terms, they favored Republicans, giving a total of \$21 million to members of the majority party, as opposed to \$14 million to Democrats.⁴²

An important and growing subset of nonconnected PACs are known as leadership PACs. Most of these PACs have been created by members of Congress or aspirants for their party's presidential nomination. In the former case, they are means for members to build support within the party caucus and advance their personal careers. Members with leadership PACs can receive and contribute larger sums to other candidates (\$5,000 per election) than the amount permitted through their campaign committees (\$1,000 per election). They can also use the PAC to cover the administrative expenses of their personal political organizations, including the costs of political travel and organization-

building conducted in advance of a formal bid for the presidency. At least 129 members of the House and Senate in 2000 were sponsors of leadership PACs. These committees collectively raised millions of dollars and contributed more than \$16 million to candidates, with about \$11 million contributed to Republican candidates and \$5 million to Democrats.⁴³ In recent years some politicians have registered leadership PACs as 527 organizations under the Internal Revenue Service. This has permitted them to raise and spend nonfederal or soft money funds to advance their broader political interests. The new campaign finance law outlaws this practice by federal officeholders.

Political Parties

Contrary to what many analysts expected as a consequence of the 1974 amendments to the FECA, political parties have become major players in the financing of federal elections. Federal (hard money) receipts of the major party committees have steadily increased over the past two decades, growing in midterm election cycles from \$110.9 million in 1978 to \$445 million in 1998, and in presidential election cycles from \$206.7 million in 1980 to \$741 million in 2000.⁴⁴ In the early years under the FECA, Republicans enjoyed a massive advantage over the Democrats in party fundraising, usually exceeding the Democrats by a margin of between 3 and 5 to 1. In more recent elections, with nonfederal (soft money) receipts included, that ratio has dropped below 2 to 1, although the hard dollar advantage for Republicans was \$125 million in 1998 and \$190 million in 2000.⁴⁵

Within each of the two major parties, federal funds are raised by the national party committee, the Senate and House campaign committees, and various state and local

party committees. In the 2000 cycle, the national committees raised about 45 percent of the \$741 million total, the congressional committees 32 percent, and state and local committees 23 percent. The national party committees transferred almost a third of the federal funds they raised to state committees, swelling the latter's accounts by over \$150 million.⁴⁶

The national parties also raised funds in their nonfederal accounts, without any restrictions on the source and size of contributions. The FEC did not require public disclosure of party soft money until the 1992 election cycle; consequently, only rough estimates of this financial activity are available for the elections that took place in the 1980s. The amounts are modest: \$19 million in 1980, \$22 million in 1984, and \$45 million in 1988.⁴⁷ Soft money receipts reported to the FEC in subsequent elections reveal a precipitous increase that highlights the dramatic growth of this form of funding: \$86 million in 1992, \$262 million in 1996, and \$495 million in 2000. The recent midterm election cycles reveal a similar growth pattern: \$102 million in 1994 and \$224 million in 1998.⁴⁸

This steep rise in soft money revenues has characterized the financial activity in both parties, although the growth has been more rapid among the Democratic committees. Republican party soft money receipts have grown from \$50 million in 1992 to \$138 million four years later to \$250 million in 2000. Democratic committee receipts have increased from \$36 million in 1992 to \$124 million in 1996 and reached \$245 million in 2000.⁴⁹ The Democrats have therefore raised slightly less soft money than Republicans, but have shown a faster rate of growth. This growth has been spurred by the emphasis the national parties' congressional campaign committees have placed on

soft money fundraising. Even though these committees are established to elect candidates to federal office, both parties have made soft money fundraising a priority in recent election cycles, since this funding can be used to finance voter turnout programs and issue advocacy advertisements that can benefit federal candidates in their efforts to win office. The Democratic congressional committees (the Democratic Senatorial Campaign Committee and Democratic Congressional Campaign Committee) solicited less than \$5 million in soft money in 1992, but by 1996 their receipts rose to \$26 million and in 2000 spiked to \$120 million. The Republican congressional committees (the National Republican Senatorial Committee and National Republican Congressional Committee) raised \$15 million in soft money in 1992, \$48 million in 1996, and \$92 million in 2000.⁵⁰

The latter point underscores the party difference in soft and hard money fundraising. Democrats have been competitive with Republicans in raising soft money but continue to trail them in hard money raising. In the 2000 cycle, nonfederal money made up 47 percent of the total party receipts for Democrats but only 35 percent for Republicans. The pattern is even more pronounced among the congressional party campaign committees, where the Democrats in recent years have invested most of their energy and realized most of their fundraising success with soft, not hard money. Indeed, in 2000, the Democratic senatorial and congressional campaign committees became the first national party committees to raise more soft money than hard money, with the Senatorial committee receiving 61 percent of its funding in soft dollars and the congressional committee 53 percent.⁵¹ When the ban on soft money goes into effect, the Democrats will have the more challenging task in raising only federal funds.

One last point about party fundraising. Party leaders do not only court individuals and PACs to raise federal funds, and corporations, unions, and wealthy individuals to raise non-federal funds. They increasingly encourage their colleagues in Congress, especially those representing relatively safe seats, to transfer funds from their personal campaign committees and leadership PACs to candidates in tight races and to the party campaign committees. This encouragement has recently taken the form of specific guidelines to members suggesting how much they should contribute to the party. Federal election law permits unlimited transfers from members' campaign committees to party committees. In the 2000 election cycle, 15 percent of the hard money receipts of the House party campaign committees came from member contributions.⁵² According to estimates developed by the Center for Responsive Politics, at least 356 members of the House made contributions to party committees in 2000 that totaled more than \$25 million. Similarly, 54 members of the Senate made contributions to party committees.⁵³ Members also use their leadership PACs to make soft money contributions to party organizations, and also broker soft and hard money contributions from others to party and candidate committees.

The flow of funds from party committees to campaign activities is much more difficult to track. As discussed above, a very small portion of the hard money goes directly into candidate campaigns, in the form of contributions, coordinated expenditures or independent expenditures. Insofar as national party committees do continue to engage in these types of transactions, the bulk of the funds devoted to these purposes are spent in conjunction with the presidential campaign. Recently, the congressional campaign committees have been scaling back their already modest coordinated expenditures as part

of a strategy to rely on issue advocacy electioneering financed in large part with soft money. In 2000, the Democratic Senatorial Campaign Committee spent less than \$250,000 on coordinated and independent expenditures, while transferring \$63 million (\$24 million in hard money and \$39 million) to state and local party committees for campaign activities designed to help federal candidates. Similarly, the National Republican Senatorial Committee made no coordinated expenditures and spent only \$267,000 independently, while transferring almost \$32 million (\$11 million in hard money and \$21 million in soft money) to the state and local level.⁵⁴

The transfers among party committees and the numerous hard and soft money transactions that now take place during any given election cycle make tracking the rest of the party money flow more art than science. Figures are available on transfers of hard and soft money from national to state and local party committees, and these committees file reports with the FEC on disbursements made from federal and nonfederal accounts in connection with a federal election. Coding and interpreting the ultimate purpose of these expenditures is a source of some disagreement in the scholarly community. Most everyone agrees, however, that a significant share of the hard and soft money transferred is used to finance candidate-specific election communications under the guise of issue advocacy.

Some idea of the scope of party issue advertising in the 2000 elections can be gleaned from estimates of party advertising expenditures developed by the Brennan Center for Justice at New York University School of Law. Their analysis of media spending in the top 75 media markets found that party committees spent an estimated \$163 million on advertising during the 2000 calendar year, including an estimated \$81

million on the presidential race, more than \$37 million on Senate contests, and about \$43 million in House elections.⁵⁵ The party committees, however, only disbursed a total of \$55 million on coordinated and independent expenditures. So even if all of these funds were used to purchase broadcast time, which was not the case, and all of these expenditures were made in the top media markets, these hard money expenditures would represent only about a third of the Brennan Center's \$163 million estimate for total party media spending. This would suggest that the parties spent at least twice as much on issue advocacy advertisements as they did on hard-money-financed communications.

Disputes also arise over the spillover effect of national party transfers on state and local party building and the extent of their investment in grassroots activity. Available estimates suggest that state and local party committees now spend a small share, perhaps 10 to 15 percent, of their soft money receipts on voter mobilization efforts and grassroots campaign paraphernalia.⁵⁶ Whether spending on administration and overhead should be included in assessments of party-building or grassroots activity is a matter of some debate. What is certain is that parties are spending much more now than they did ten years ago on party electioneering efforts and that much of this spending is fueled by soft money. In recent elections, parties have shown a preference for issue advocacy advertising over other alternatives, and this preference has encouraged the transfer of increasingly large sums of money to state and local committees, which are allowed to spend more soft money on party activities under FEC regulations than can the national committees. The new law will have a significant effect on these patterns of party funding, since it prohibits transfers from national to state committees, and redefines what constitutes "federal election activity" to include ads that feature a federal candidate, as

well as many aspects of voter mobilization programs. It also requires that these activities be financed with hard money.

Conclusion

The flow of money in federal elections is determined by the regulatory boundaries established by the FECA, and most of the money used for financing campaign activity continues to follow the course anticipated by the law. Individual donors provide most of the financing for federal election activities through direct, limited contributions to candidates, parties, and PACs. Parties and PACs rely on regulated monies to pay for the vast majority of their federal-election-related activities. But over the past two decades, the types of transactions that characterize campaign finance have evolved and become increasingly complex and sophisticated. New entities, including leadership PACs and 527 organizations, have provided candidates and organized groups with new vehicles for raising and spending campaign money. New forms of financing, most importantly the advent of party soft money and the spread of issue advocacy electioneering, have provided parties and political actors with methods of accessing and utilizing unregulated monies that were not anticipated when the FECA was adopted. These changes have expanded the number of political actors directly involved in the financing of federal elections and the amounts of money that flow through the political system. As these new channels have developed, increasingly large sums of money have flowed into them, creating pools of political money that are difficult, or impossible, to trace. Consequently, the most notable trend in recent elections has been the growing role of unregulated and undisclosed funding in federal elections. The Bipartisan Campaign Reform Act was

adopted in large part to reverse this trend and reestablish regulatory boundaries so that citizens can once again follow the money flow. While the law does not encompass all of the forms of funding now found in the federal system, it changes many of the ways in which campaign funds are raised and spent, and thus will produce financial patterns that are significantly different from those witnessed in the 2000 election cycle.

Notes to Chapter 3, “The Flow of Money in Federal Elections”

¹ See, among others, Joseph E. Cantor, *Campaign Finance in the 2000 Federal Elections: Overview and Estimates of the Flow of Money* (Library of Congress: Congressional Research Service, March 16, 2001); Candice J. Nelson, “Spending in the 2000 Elections,” in David B. Magleby, ed., *Financing the 2000 Election* (Brookings Institution Press, 2002), pp. 22-34; Larry Makinson, et al., *The Big Picture: The Money Behind the 2000 Elections* (Washington, The Center for Responsive Politics, 2001), p. vi; and Anthony Corrado, “Financing the 2000 Elections,” in Gerald M. Pomper, *The Election of 2000* (Chatham House Publishers, 2001), p. 92.

² Cantor, *Campaign Finance in the 2000 Federal Elections*, p. 6. Many of the figures in Cantor’s report, which was prepared in March 2001, several months before the official FEC election cycle totals were released, differ marginally from those included in FEC summary reports and other sources cited in note 1 above. None of these differences materially effect the representation of the flow of money presented in this chapter.

³ Cantor, *Campaign Finance in the 2000 Federal Elections*, pp. 7-10.

⁴ According to figures available from the FEC, Senate candidates used \$107 million of their own money, House candidates a total of \$66 million, and presidential candidates \$43 million.

⁵ Based on data available from the FEC. See also FEC, “FEC Announces 2000 Presidential Spending Limits,” press release, March 1, 2000, available at www.fec.gov/press/preslimits2000.htm (viewed December 12, 2002), and “Reform Party to Receive Additional Funds for Nominating Convention,” press release, May 25, 2000, available at www.fec.gov/press/addrfconv.htm (viewed December 12, 2002).

⁶ 11 C.F.R. §104.6. For a discussion of the rules governing corporate and labor internal communications, see FEC, *Campaign Finance Guide for Corporations and Labor Unions* (Washington, March 1992).

⁷ Cantor, *Campaign Finance in the 2000 Federal Elections*, p. 11.

⁸ *Ibid.*, pp. 7-8.

⁹ *Ibid.*, p. 9.

¹⁰ FEC, “FEC Reports Increase in Party Fundraising for 2000,” press release, May 15, 2001, available online at www.fec.gov/press/051501partyfund/051501partyfund.html (viewed 12/12/02).

¹¹ Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 1993-1994* (Washington, DC: Congressional Quarterly, Inc., 1994), p. 75.

¹² Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 2001-2002* (Washington, DC: American Enterprise Institute, 2002), p. 87.

¹³ Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 1993-1994* (Washington, DC: Congressional Quarterly, Inc., 1994), p. 79.

¹⁴ Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 2001-2002* (Washington, DC: American Enterprise Institute, 2002), p. 93.

¹⁵ Stephen Ansolabehere, Alan Gerber, and James M. Snyder, Jr., “Corruption and the Growth of Campaign Spending,” in Gerald C. Lubenow, ed., *A User’s Guide to Campaign Finance Reform* (Rowman & Littlefield, 2001), pp. 25-45.

¹⁶ Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 1993-1994* (Washington, DC: Congressional Quarterly, Inc., 1994), p. 83.

¹⁷ Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 2001-2002* (Washington, DC: American Enterprise Institute, 2002), p. 96.

¹⁸ Herbert E. Alexander, *Financing the 1976 Election* (Congressional Quarterly Press, 1979), p. 180.

¹⁹ Common Cause, “Senate Joint Fundraisers Rake in \$17.8 Million in Soft Money During 1999-2000,” press release, March 16, 2001.

²⁰ FEC, “FEC Reports Increase in Party Fundraising for 2000,” press release, May 15, 2001, available online at www.fec.gov/press/051501partyfund/051501partyfund.html (viewed December 12, 2002). See, in particular, the tables on nonfederal party accounts: “Democratic Nonfederal Accounts,” available at www.fec.gov/press/051501partyfund/tables/nonfeddem2000.html (viewed December 12, 2002), and “Republican Nonfederal Accounts,” available at www.fec.gov/press/051501partyfund/tables/nonfedrep2000.html (viewed December 12, 2002).

- ²¹ David B. Magleby, ed., *Election Advocacy: Soft Money and Issue Advocacy in the 2000 Congressional Elections* (Provo, UT: Brigham Young University, Center for the Study of Elections and Democracy, 2001), and David B. Magleby, ed., *The Other Campaign* (Lanham: Rowman & Littlefield, 2003).
- ²² Anthony Corrado, *Paying for Presidents* (New York: Twentieth Century Fund Press, 1993), p. 102, and FEC, "FEC Announces 2000 Presidential Spending Limits."
- ²³ Anthony Corrado, Sarah Barclay, and Heitor Gouvea, "The Parties Take the Lead: Political Parties and the Financing of the 2000 Presidential Election," in John C. Green and Rick Farmer, eds., *The State of the Parties*, 4th ed. (Lanham: Rowman & Littlefield, 2003).
- ²⁴ Makinson, *The Big Picture*, p. 2.
- ²⁵ Ibid.
- ²⁶ Elizabeth Shogren, "Campaign 2000: Focus Shifts from Voters to Donors," *Los Angeles Times*, March 15, 2000, p. A16.
- ²⁷ FEC, "FEC Reports on Congressional Financial Activity for 2000," press release, May 15, 2001, available online at www.fec.gov/press/051501congfinact/051501congfinact.html (viewed December 12, 2002). See, in particular, the table on financial activity of all U.S. House candidates, 1988-2000, available at www.fec.gov/press/051501congfinact/tables/allhouse2000.html (viewed December 12, 2002).
- ²⁸ Ibid. See, in particular, the table on financial activity of all U.S. Senate candidates, 1988-2000, available at www.fec.gov/press/051501congfinact/tables/allsenate2000.html (viewed December 12, 2002).
- ²⁹ Ibid.
- ³⁰ This figure is based on the authors' calculation. In 2000, Democratic and Republican House challengers raised \$125.4 million. Of this amount, \$26.6 million, or about 21 percent, came from candidate contributions (\$2.4 million) or personal loans (\$24.2 million) to their own campaigns.
- ³¹ These figures are based on the authors' calculations. In 2000, Democratic and Republican candidates in open-seat House contests raised \$119.3 million. Of this amount, \$36.4 million, or about 31 percent, came from candidate contributions (\$3.4 million) or personal loans (\$33 million). Of the \$75.5 million raised by Republicans, \$25.7 million came from personal funds. Of the \$43.8 million raised by Democrats, \$10.7 million came from personal funds.
- ³² FEC, "FEC Issues Semi-Annual Federal PAC Count," press release, January 25, 2001, available at www.fec.gov/press/012501count.htm (viewed December 12, 2002).
- ³³ FEC, "PAC Activity Increases in 2000 Election Cycle," press release, May 31, 2001, available at www.fec.gov/press/053101pacfund/053101pacfund.html (viewed December 12, 2002).
- ³⁴ Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 2001-2002* (Washington, DC: American Enterprise Institute, 2002), Table 3-8, pp. 99-105.
- ³⁵ Ibid.
- ³⁶ FEC, "FEC Reports on Congressional Financial Activity." See, in particular, the table on financial activity of all U.S. House candidates, 1988-2000.
- ³⁷ FEC, "PAC Activity Increases." See, in particular, the tables entitled "PACs Grouped by Total Spent," available at www.fec.gov/press/053101pacfund/tables/pacsp00.htm (viewed December 12, 2002), and "PACs Grouped by Total Contributions to Candidates," available at www.fec.gov/press/053101pacfund/tables/pacbyc00.htm (viewed December 12, 2002).
- ³⁸ Ibid.
- ³⁹ Ibid. See, in particular, the table that provides a summary of PAC independent expenditures, available at www.fec.gov/press/053101pacfund/tables/pacie00.htm (viewed December 12, 2002).
- ⁴⁰ Federal Election Commission, "PAC Activity Increases." See, in particular, "PAC Contributions to Candidates," available at www.fec.gov/press/053101pacfund/tables/paccln00.htm (viewed December 12, 2002).
- ⁴¹ Ibid.
- ⁴² Ibid.
- ⁴³ This total is based on the leadership PACs associated with members of the House and Senate that were identified by the Center for Responsive Politics during the 2000 election cycle and were listed at www.opensecrets.org/pacs/industry.asp?txt+Q03&cycle+2000 (viewed December 5, 2002). The Center's list also includes 29 PACs associated with former members of the House and Senate or state politicians. In all, 158 leadership PACs are identified by the Center. The contributions made by these committees in the 2000 cycle total \$16.7 million.
- ⁴⁴ FEC, "FEC Reports Increase in Party Fundraising."

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Anthony Corrado, *Campaign Finance Reform* (New York: The Century Foundation Press, 2000), p. 70.

⁴⁸ FEC, "FEC Reports Increase in Party Fundraising." See, in particular, the table entitled, "Nonfederal Summary, 1992-2000," available at www.fec.gov/press/051501partyfund/tables/nonfedsumm2000.html (viewed December 12, 2002).

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ In 2000, the Democratic Senatorial Campaign Committee raised \$40.5 million in hard money and \$63.7 million in soft money. The Democratic Congressional Campaign Committee raised \$48.4 million in hard money and \$56.7 million in soft money.

⁵² Michael J. Malbin and Anne H. Bedlington, "Members of Congress as Contributors, When Every Race Counts," Paper prepared for delivery at the 2002 Annual Meeting of the American Political Science Association, Boston, August 29-September 1, 2002.

⁵³ Makinson, *The Big Picture*, p. 25. According to the data included in this report, candidate committees contributed \$35.3 million to party committees, including \$15.7 million contributed by Democratic candidates and \$19.6 million by Republicans. This report also notes that 356 House incumbents gave \$25.4 million to party committees. The amount contributed by members of the Senate to the senatorial committees is not specified.

⁵⁴ FEC, "FEC Reports Increase in Party Fundraising."

⁵⁵ Craig B. Holman and Luke P. McLoughlin, *Buying Time 2000: Television Advertising in the 2000 Federal Elections* (New York: Brennan Center for Justice, 2001), p. 40.

⁵⁶ Ray La Raja, "Sources and Uses of Soft Money: What Do We Know?" in Lubenow, ed., *A User's Guide to Campaign Finance Reform*, p. 100. Cf. Brennan Center for Justice at New York University School of Law, "New Study Finds That Parties' Voter Mobilization Efforts Are Not Dependent on Soft Money," press release, July 3, 2001. Available at www.brennancenter.org/presscenter/pressrelease_2001_070301.html (viewed December 12, 2002).