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Working Paper

**Soft Money Spending by State Parties:
Where does it really go?**

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Summary

In this study we analyze campaign expenditures by state political parties from the 1992 through 1998 elections, which includes disbursements of soft and hard money. We find evidence to support a more complex reality about how soft money is used by parties than is typically conveyed in the news media. While party spending on issue ads increased dramatically in 1996 and 1998, so did party-building activities, such as voter mobilization and grassroots, which were encouraged by amendments to the Federal Election Campaign Act in 1979. We also find that Democratic state parties spend more soft money than Republican parties on media-related activities, such as issue ads, probably to compensate for their lack of hard money relative to the Republicans. We conclude with a recommendation that reformers consider some of the positive effects on American elections of party control of campaign resources as they attempt to curb the potential for corruption by restricting or eliminating soft money contributions to parties.

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Introduction

Scarcely a week passes during an election year without news reports of a corporation or wealthy individual making a large soft money contribution to one of the major parties. Election web sites sponsored by nonpartisan organizations and government agencies routinely provide access to data on campaign contributions to candidates and parties. This widespread focus on contributions to and from political committees stems from a genuine concern to expose corruption rooted in the exchange of money. Even without sufficient evidence of corruption, reform advocates continue a single-minded quest to restrict the size of political contributions, without looking at the other side of the equation. What do candidates and their parties do with campaign contributions? Are they spent in ways that encourage or dampen competition? Does party soft money spending generate any public benefits in elections, beyond its intended support for candidates?

A narrow focus on the sources of contributions prevents us from speaking to such questions. In this paper, we try to redress what we see as a one-sided approach to the study of campaign finance, particularly with respect to the soft money issue. We set out to answer a simple question: how do political parties spend soft money? By most journalistic accounts, the conclusion is that parties use soft money to pay for “issue ads” that support the presidential or congressional candidates. Our study demonstrates this partial truth, but also provides evidence to support a more complex reality. In fact, the parties continue to spend a great deal of soft money on traditional party-building functions that mobilize voters through individual contacts.

Why should we care about making such distinctions about party spending? When Congress amended the Federal Election Campaign Act (FECA) in 1979, it made provisions for parties to spend unlimited amounts on so-called party building functions. The earlier version of the FECA in 1974 inhibited state and local parties from participating in the presidential campaign through grassroots activities because of rules limiting contributions to the candidates. The 1979 amendment, which exempted generic party activity from contribution limits for the presidential campaign, was a deliberate effort to increase the party role in American elections. In this study we find that this policy worked. State parties, in fact, increased mobilization and grassroots activities in the 1990s, largely as a result of the 1979 exemption and the increased use of soft money.

It is unlikely, however, that when Congress made changes to the FECA, members understood the role that soft money would play in paying for issue advocacy, the generic media advertising sponsored by parties that often crosses the line into direct candidate support. Reform advocates argue, with merit, that issue advocacy reduces the distinction between hard and soft money spending. By producing campaign ads that bolster a particular candidate in all but name, parties found a way to get around limits on candidate support. So long as the party avoids the electioneering phrase, “vote for,” or something similar, they can pay for these ads with soft money. If parties can use soft money to help their federal candidates, then party contribution limits under FECA are rendered almost meaningless.¹

We find conclusively that national parties exploited an opportunity to help their nominees for federal offices by channeling funds to state parties for the express purpose

of purchasing issue ads. Party-sponsored issue ads increased dramatically in the 1996 and 1998 elections, just when national parties were transferring significant sums of soft money to state parties. We also demonstrate that most media-related spending occurred in states with competitive races for the 1996 presidential and 1998 Senate campaigns.

But our analysis also reveals that party issue ads are only one part of the story. While expenditures on media-related activities surged in 1996, so did spending on grassroots and voter mobilization efforts – the kind of party campaign activity Congress wanted to encourage when it revised the FECA in 1979.

We believe our findings complicate the reform debate considerably. On the one hand, we observe parties violating the spirit, if not the letter, of the law when they pay for issue ads with soft money that help federal candidates. And yet, we also notice that soft money has been used to bolster party activities that citizens, elected officials and political scientists view as positive for democracy. The increased use of soft money is associated with greater spending on political rallies, bumper stickers and yard signs, as well as voter identification and get-out-the-vote programs.

Another healthy sign, especially from the perspective of political scientists, is that state party organizations appear to be growing stronger, if somewhat more reliant on national organizations. Our findings demonstrate that infusions of soft money have augmented activities at party headquarters, as evidenced by increased spending on staff salaries, rent, computers, telephones and other organizational maintenance necessities. For several generations, scholars have worried about the demise of party organizations that formerly played a key role in nominating candidates and pulling together coalitions.

¹ One important distinction is that when parties sponsor issue ads they presumably have some control over the production and message, whereas party contributions to candidates permit the

Weak parties leave the field open to single-issue interest groups and candidate-centered campaigns that tend to fragment the electorate and subsequently increase the difficulty of governing. To the extent that party organizations are increasingly active in campaigns, we take this as a positive sign of party revitalization. Beyond our preliminary analysis, future research should investigate in greater detail the degree to which party activity reflects “pass throughs” of money for specific candidates or support for a collective and unifying form of campaigning, closer to the model of responsible parties outlined by the American Political Science Association.²

We make no assertions about whether soft money strengthens the party system and improves the electoral process. Our findings are merely suggestive. In part, we publish the results of this working paper to give pause to supporters of a ban on soft money from the campaign finance system. By moving too quickly to eliminate party resources, the public may forego potential benefits of stronger parties. Worse, the money that now flows through parties may simply be re-channeled through other, less visible organizations. Experience shows this is not simply plausible but probable. The prospects for effective reform are enhanced through a genuine understanding of the outputs, as well as the inputs, of campaign money.

candidate to control how the money is spent.

² American Political Science Association, *Toward a More Responsible Two-Party System* (New York: Rinehart, 1950).

Some Background

What is soft money?

Soft money is a term developed in the 1980s to differentiate contributions to the party that may be used to support federal candidates directly from those that cannot. Under federal law, the purpose of soft money is for party building and not for direct candidate support. In 1974, when Congress passed amendments to the Federal Election Campaign Act (FECA), it imposed a limit on contributions to the party, and the amount of direct support that parties could provide their candidates, either through cash or in-kind contributions. Individuals could donate no more than \$20,000 to parties, and PACs were limited to \$15,000. In the late 1970s, leaders of state party organizations lobbied Congress and the Federal Elections Commission (FEC) to permit them to extend the use of soft money to generic party activities that included distribution of lawn signs, bumper stickers and activities aimed broadly at mobilizing the vote. They argued that federal laws limiting party support of presidential candidates constrained them from performing generic party campaign activities that broadly benefited both federal and state candidates. Congress responded with amendments in 1979 permitting state and local parties to spend unlimited funds on “party-building” activities, such as grassroots campaign materials and voter contact activities. It is important to note that Congress did not authorize state committees to use

unregulated funds to pay for these activities.³ State parties were required to use funds raised under the rules of the FECA.

In fact, the so-called soft money loophole did not open until the FEC was faced with the dilemma of providing accounting guidelines to state parties where state laws permitted unrestricted contributions from unions and corporations. In response to a query by the Republican State Committee of Kansas about how to allocate federal and nonfederal expenses incurred by party building activities, the FEC declared that the Kansas Republicans could use their nonfederal fund to pay a reasonable estimate of the nonfederal share of costs.⁴ This ruling effectively meant that the party could use a nonfederal fund -- which had no constraints on corporate or union contributions under Kansas law -- to fund activities that benefited, in part, federal candidates. A 1988 U.S. District court order, pursued by reform activists at Common Cause, required the FEC to provide detailed allocation requirements to prevent the parties from abusing their new ability to use soft money in federal elections.⁵ Yet even with the promulgation of specific allocation requirements, the national and state parties continued to seek the advantages of permissive state campaign finance laws to raise and spend nonfederal funds to support their federal candidates through party-building activities.

³ See Anthony Corrado, "Party Soft Money" in *Campaign Finance Reform: A Sourcebook*, eds. Anthony Corrado et al. (Washington, D.C.: Brookings, 1997), pp. 167-224.

⁴ Federal Election Commission, Advisory Opinion 1978-10, "Allocation of Costs for Voter Registration."

⁵ See *Common Cause v. Federal Election Commission*, 692 F. Supp. 1397 (D.D.C. 1988)

Since raising unregulated soft money is easier than federal (hard) money, which has contribution limits, the national parties pushed to expand the definition of party-building so they could spend soft money on more campaign activities. Perhaps the most brazen challenge to the 1974 reforms was when the Republican National Committee argued successfully in 1995 that television advertisements focusing on party themes, even when candidates are mentioned, should be considered party building and therefore payable with soft money.⁶ Once the FEC assented, the major parties crafted television ads, paid for largely with soft money, to help specific federal candidates. During the 1996 presidential election, close observers of the campaigns estimated that \$100 million was spent on issue ads by the parties.⁷

Although the FEC attempted to curtail the use of issue ads and other party activities that crossed the line from party building to candidate support, they were blocked by a Supreme Court ruling, *Buckley v. Valeo*.⁸ In this case, the Justices tried to distinguish between constitutionally-protected free speech and electioneering messages. The ruling demonstrated that the courts would narrowly define “electioneering” to include messages that clearly exhorted citizens to vote for or against specific candidates. Under a narrow definition, parties could safely use soft money for issue ads that helped candidates so long as they avoided electioneering language that constituted “express advocacy” for a candidate. Such language includes use of the words, “vote for,” “oppose,” “support,” and the like.

⁶ Federal Election Commission, Advisory Opinion 1995-25, “Costs of Advertising to Influence Congressional Legislation Allocated to Both Federal and Nonfederal Funds.”

⁷ The estimate was reported in the Committee for Economic Development, “Investing in the People’s Business: A Business Proposal for Campaign Finance Reform” (New York: Committee for Economic Development, 1999) p. 29.

⁸ *Buckley v. Valeo*, 424 U.S. 1, 79 (1976)

One consequence of Buckley was a deliberate party strategy to funnel money to state parties where complex rules permitted them greater use of soft money. In a presidential election year, national committees must allocate hard money to at least 65 percent of administrative costs. The state parties, in contrast, might pay for the same activity with as little as 25 percent hard money, depending on a formula that considers the ratio of state and federal candidates in the election. Much has been written about party efforts to conceal campaign advertising behind the shroud of state party building, but there has been little systematic analysis to demonstrate the extent of this activity. We collected financial data on the 100 state parties over four elections to examine how parties use soft money.

Methods

Our analysis is based on expenditure data provided by the Federal Elections Commission (FEC). Since the 1992 election cycle, parties at all levels have been required to maintain two separate accounts, federal and non-federal. The non-federal account is not reported to the FEC because these funds are applied exclusively to non-federal activities, such as party support for state legislative candidates.⁹ The federal account, however, must include itemized expenditures that potentially benefit a federal candidate, even if the spending also helps state and local candidates as well. The FEC

⁹ State parties do not have to submit non-federal reports, which include expenditures on activities solely related to state and local elections. These reports are filed with state regulatory agencies. Reporting procedures vary widely, making it difficult to make comparisons across states. For this reason, there is little systematic analysis on soft money party spending in state and local races. It would be useful to see how non-federal accounts have been affected by the infusion of soft money. Lacking state level data, however, makes it difficult to assess how soft money has altered patterns of party spending at the state and local level. Nevertheless, party spending in the federal accounts, which includes activity that jointly benefits federal and state candidates, suggests that the party candidates at all electoral levels are getting a

calls this “joint” spending. Party treasurers are required to allocate hard *and* soft money for joint spending to reflect the federal-nonfederal split of benefits to candidates. To limit the discretion of treasurers -- who have an incentive to claim that benefits accrue mostly to state and local candidates so as to avoid using hard money -- the FEC promulgated rules determining the proper mix of hard and soft funds for a given kind of joint activity. For example, administrative costs are allocated according to the ratio of federal candidates to total candidates (state and federal) in the state. We use the federal account data, with its matching hard and soft allocations, to determine how parties spend soft money.

We believe the federal account provides us with the greater part of party expenditures. The non-federal account, according to some estimates, accounts for at least an additional 25 percent in soft money that state parties spend exclusively to benefit state and local candidates.¹⁰ State parties are compelled by federal law to use federal accounts whenever they perform some kind of generic party activity that might jointly benefit party candidates up and down the ticket. This requirement ensures that every expense, from routine office costs to voter identification programs, shows up in the federal account. The federal account also includes itemized expenditures on media that parties call “issue advocacy.” It is precisely because parties claim that issue advocacy reflects party rather than candidate specific themes that they must report this activity as generic (or joint) in the federal account.

boost from soft money. Increased spending on mobilization, for instance, helps candidates across the party ticket.

¹⁰ See Robert Biersack, “The Nationalization of Party Finance,” *The State of the Parties*, 2nd Edition, John C. Green and Daniel M. Shea, eds. (Lanham, MD: Rowman and Littlefield, 1996).

Our study looks at the federal reports submitted to the FEC by the 100 state parties, for election cycles 1992 through 1998. Fortunately, staff at the FEC entered, by hand, each expenditure item in database files from the hard-copy reports submitted by state parties. Using these files, we developed a coding scheme to categorize more than 300,000 itemized expenditure entries in each election cycle. The categories are the following:

Overhead: office related expenses such as rent, salaries, computers, travel, and utilities.

Media: communication expenditures for television, radio and newspaper and production and purchase costs.

Mobilization: costs of contacting individual voters through direct mail, telephone banks, canvassing and voter identification files.

Grassroots: activities that encourage citizen participation in campaigns. Expenditures for rallies, fairs, volunteer precinct walks, banners, slate cards, bumper stickers, and local party support.

Multi-candidate contributions: non-generic in-kind contributions from the party to several candidates, e.g., newspaper ads, that jointly benefit specific federal and state candidates. These are distinct from the direct contributions to candidate committees.

Fundraising: costs associated with joint fundraising for federal, state and local campaigns.

Unidentified: expenditures that could not be determined from FEC reports.

In the following sections, we provide summaries for total soft money expenditures in each of the above categories. We are able to compare the data over four election cycles, 1992 through 1998.

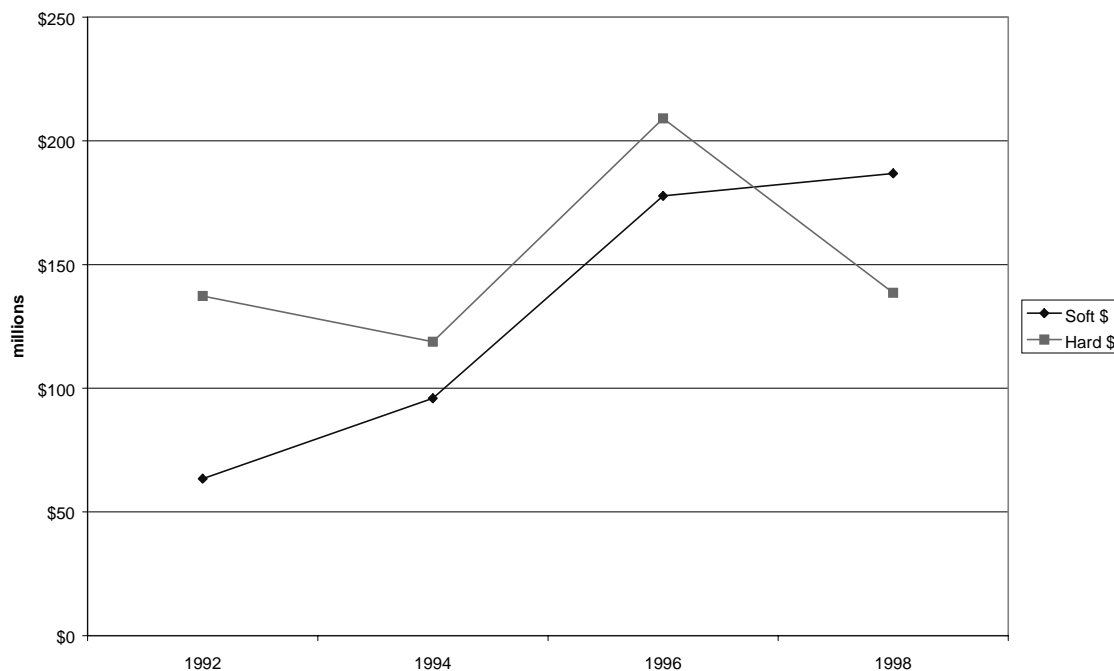
Findings

Are the state parties spending more soft money?

There is little doubt that state parties are more active than ever in election campaigns. Combined soft and hard money spending in the state party federal accounts almost doubled between 1992 and 1996. Undoubtedly, some of this spending is the product of mere “pass throughs,” the transfers from the national to state parties to purchase issue ads and other services in support of federal candidates. But as we demonstrate later, state parties have also increased spending on campaign activities that serve party building functions.

Much of this growth in spending has been spurred by additional use of soft money. In the 1996 presidential election the 100 state parties spent \$178 million, almost triple the amount of soft money spent in 1992. Similarly, between the 1994 and 1998 midterm elections the parties doubled their use of soft money, spending a record \$187 million. Hard money expenditures have also risen but not at the same rate. Since FEC rules require soft-hard matching for each campaign activity, it is not surprising that hard money spending increases with soft money spending. It appears, however, that soft money pays for a larger portion of activities with each passing election cycle. In 1998, for the first time since 1992 when state parties were required to report soft money spending, they spent more soft than hard money in their federal accounts (see Figure 1).

Figure 1. Soft vs. Hard Money Expenditures by State Parties, 1992-1998 Elections



Source: Federal Elections Commission

The apparent shift from hard to soft money is not difficult to explain. Soft money is easier to obtain since there are no limits on contributions to parties, except when state laws regulate party fundraising. A party that wants to preserve its hard money for candidate contributions and coordinated expenditures in federal elections will purchase goods and services with soft money whenever possible. Over the four most recent election cycles, the state parties have learned how to match soft and hard money expenditures to maximize the use of the former. One indication that parties behave this way is that direct state party support for federal candidates, mostly in the form of coordinated expenditures increased from \$5 million in 1996 to \$18 million in 1998.¹¹ We suspect state parties substituted soft for hard money when paying for many kinds of

campaign activities, thereby freeing up additional hard money for direct candidate support.¹²

An important question to ask is whether soft money reported in the federal accounts of state parties is actually controlled by the national parties, whose primary interest is to elect candidates for federal office. To the extent that national party supports the state parties through transfers, we can make the inference that they have some control over state party expenditures. Table 1 gives a sense of how much state parties rely financially on the national parties. The national parties support a larger percentage of state party budgets in 1996 and 1998 than they did earlier, suggesting that they have more influence in state party affairs than in earlier elections. Prior to 1996, national party transfers did not account for more than 14% of the federal accounts of state committees. In the 1996 and 1998 elections, this portion grew to 42% and 31% respectively. Table 1 also illustrates that state parties rely more heavily on national parties for soft money than hard money. National parties provide just under a quarter of the hard money that state parties end up spending, but 65% of the soft money they spent in 1996 and 37% in 1998. It appears that soft money has become a primary means of intra-party support. State parties continue to raise the majority of funds on their own -- indeed, they raise more money independently than ever before -- but they receive significant support from the national parties. In addition to party transfers, some journalistic accounts report that state parties

¹¹ Source: Federal Elections Commission at FECh<http://www.fec.gov/press/ptyye98.htm>

¹² This substitution effect is attenuated probably because most state parties relinquish their authority to contribute to federal candidates to the national committees through agency agreements.

benefit from soft money contributors who are encouraged to donate to state parties by officials of the national party.¹³

Since national parties provide as much as one-third of state party funds, we suspect that portions of soft money from the national parties are targeted to achieve national party goals, which may differ from the priorities of state organizations. These data demonstrate unequivocally that the direction of resource flows between parties has reversed since the 1960s, when national parties had to solicit contributions from state affiliates. Heard (1960) predicted such a change would create opportunities for party integration and growth, even as it augmented tensions among levels of party.¹⁴

To summarize, soft money spending by state parties has risen each year since 1992, and outpaced hard money spending in 1998. FEC matching requirements will ensure that soft money spending does not entirely eclipse hard money spending, but it appears parties exploit allocation rules to spend soft rather than hard money. We should note, however, that state parties raise and spend increasing sums of hard money, funds that meet all the requirements of the FECA. Hard money spending doubled between the 1992 and 1996 elections and the state parties are responsible for raising three-fourths of this money themselves. The prospect of securing soft money from the national parties may spur state parties to engage more effectively in raising hard money, precisely because of the federal matching requirements. We also find preliminary

¹³ Ira Chinoy and Dan Morgan, "DNC Channeled Donations to State Parties, *Washington Post*, January 26, 1997.

evidence that soft money spent on administrative chores frees hard money for contributions and coordinated expenditures in support of federal candidates.

How do state political parties spend soft money?

We now turn to a description of how state parties use soft money in campaigns. As we stated earlier, there is anecdotal evidence, mostly from the news media, describing the use of soft money for issue ads. More systematic scholarly research demonstrates that in key races soft money is invested in the “ground war” of campaigns, through contacts with individual voters using direct mail and telephone banks.¹⁵ Party and campaign finance scholars continue to speculate whether the infusion of soft money in the last two decades has altered patterns of state party activity. Advocates of stronger parties have argued that providing parties with privileged access to campaign resources would reverse the long decline of party organizations. From their perspective, the introduction of soft money into the party system provides an interesting test case for this theory. How will parties behave with this new wealth generated by soft money? Will they spend additional increments to build the party through voter identification programs and grassroots activity? Or will soft money simply buttress candidate-centered campaigns, with the parties serving as pass-throughs to pay for television ads promoting individual nominees?

Our findings will hardly satisfy those who seek support for an opinion that soft money is either good or bad for the party system. In fact, we find elements of what some would consider “bad” as well as “good” spending. On the positive side, we observe that state organizations continue to use funds in ways we traditionally expect of parties: to

¹⁴ Alexander Heard, *The Costs of Democracy* (Chapel Hill: University of North Carolina, 1960).

mobilize voters, provide grassroots paraphernalia like bumper stickers and lawn signs, and, of course, for basic organizational maintenance activities such as paying rent and salaries (overhead) and fundraising. In short, soft money enables parties to spend additional resources on party-building activities.

The election in 1996, however, marked a dramatic shift toward greater spending on media related activities. Whereas the state parties spent just 3 percent of their budgets on media activities in the 1992 presidential election year, four years later this category absorbed more than one-third of their budgets. The shift is more striking in absolute terms: media spending jumped from about \$2 million to \$65 million (see Table 2). The reasons for this shift have been explained in many journalistic accounts of the 1996 and 1998 campaigns.¹⁶ The increase in media spending in 1996 was a result of campaign strategies pursued by the parties and presidential candidates to saturate critical electoral markets with televised issue ads that benefited the candidates in all but name. Dick Morris, the key Clinton-Gore campaign strategist, urged the DNC to begin televising issue ads in the summer and early fall as a way to shore up a faltering Clinton early in the election and undercut the presumptive GOP nominee, Bob Dole. The RNC, in support of the Dole-Kemp ticket, countered with the same strategy right before and after the convention in July. Apparently, both national parties tried to take advantage of the favorable soft-hard ratios available to state parties by delegating responsibility for purchasing the ads to the latter.

¹⁵ David Magleby, ed., *Outside Money: Soft Money and Issue Advocacy in the 1998 Congressional Elections* (New York: Rowman and Littlefield, 2000).

¹⁶ See, for example, Elizabeth Drew, *Whatever It Takes* (New York: Viking, 1997).

Table 2. State Party Soft Money Expenditures by Category, 1992-1998 elections (in thousands \$)

	1992	%	1994	%	1996	%	1998	%
Overhead	42,273	67%	62,742	65%	72,246	41%	107,290	57%
Media	1,879	3%	3,533	4%	64,735	36%	30,171	16%
Mobilization	8,625	14%	14,884	16%	16,026	9%	22,586	12%
Grassroots Party Building	1,204	2%	3,300	3%	8,338	5%	6,397	3%
Multi-candidate contributions	1,461	2%	1,532	2%	382	0%	2,124	1%
Fundraising	4,721	7%	4,835	5%	8,616	5%	9,961	5%
Unidentified	3,261	5%	5,130	5%	7,390	4%	8,293	4%
TOTAL	63,424	100%	95,957	100%	177,733	100%	186,822	100%
N		100		100		100		100

Source: Federal Elections Commission

Ironically, soft money spending on issue ads might be an artifact of the sweeping reforms of 1974 that established a system of public financing for presidential candidates. If a candidate accepts public funding in the primary he faces limits on spending in each state. A competitive race could cause candidates to bump up against these limits rather early in the primary season, especially given the trend toward front-loading of primaries, forcing them to curtail spending severely during the weeks leading up to the convention. Bob Dole, for example, faced several tough and well-funded challengers in 1996. He was forced to spend money fending off Gramm, Buchanan and Forbes.¹⁷ Clinton, in contrast, began using party soft money, as well as primary campaign funds, to attack the GOP and promote his campaign themes for the general election. Dole and the Republicans could only retaliate with party soft money ads, given that the candidate would not receive additional public funds for the general election

until after the convention. The late timing of FEC-released public funds leaves a good part of the summer in which either candidate can harm the other through attack ads. The parties joined in the campaign, in part, to bridge the period between the point at which a nominee effectively, but not officially, wins the party nomination, and the official start of the general election season as determined by the end of the party conventions.

The increasing use of soft money for issue ads may also reflect the inadequacy of a public funding system for presidential campaigns that fails to keep pace with rising media costs. A standard thirty-second advertisement during prime time in a major media market can cost in the range of \$20,000 to \$30,000.¹⁸ Only fifteen years ago, the same ad cost approximately half that amount.¹⁹ Although presidential funding system adjusts for inflation, average media unit costs have risen faster than the average for all other goods and services.²⁰ More importantly, according to one study, campaign strategists rely increasingly on expensive media-related activities, especially television, which drive up the cost of the entire campaign.²¹

During midterm elections, spending on media decreases without the demands of a national campaign. In the 1998 midterm, the amount spent on media related activities by

¹⁷ Wesley Joe and Clyde Wilcox, "Financing the 1996 Presidential Nominations: The Last Regulated Campaign?" in *Financing the 1996 Election*, ed. John Green (Armonk, NY: Sharpe, 1999), pp.37-62.

¹⁸ Figures based on observations of the political files for ABC and CBS affiliates in San Francisco, CA between February 21 – March 6, 2000.

¹⁹ Based on a media unit cost index with 1983-84 as a baseline, in The Direct Marketing Association, *Statistical Fact Book 1999* (New York: DMI, 2000).

²⁰ Media unit costs in 1999 increased 91 percent since 1983-84, the base year for the index. A unit in the various media includes advertising in newspapers, magazines, spots for network, cable and spot TV or radio, as well as direct mail. In contrast, the CPI average increased 63 percent during this same period. See Bureau of Labor Statistics at <http://stats.bls.gov/>.

state parties was cut more than half, to \$30 million from two years earlier. But this amount was ten times as much as party spending on similar activities in the 1994 midterm election. The lessons of using party soft money for issue ads in the 1996 presidential campaign had obviously been passed on for congressional elections. According to a study sponsored by the Brennan Center, party spending on issue ads – which includes both state and national organizations – amounted to \$25.9 million.²² This spending accounted for close to 45,000 ads, reflecting about 20 percent of all campaign advertising.

Our data demonstrate clearly that soft money was transferred to state parties to fund media-related activity that comprised mostly issue ads.²³ But assuming that every dollar transfer produced a dollar's worth of issue ads, the fact remains that state parties spent little more than 55 percent of transfers on issue ads in 1996, and 43% percent on them in 1998. Where did the rest of the soft money go? The answer is that parties used “excess” soft money to increase traditional party activities. In 1996, spending on voter mobilization almost doubled from the previous presidential election, rising from \$8 million to \$16 million. Over the same period, spending on grassroots activities increased sevenfold, from \$1.2 to \$8.3 million.

²¹ See the report, “Use of Media Principal Reason Campaign Costs Skyrocket” by the Committee for the Study of the American Electorate (Washington, D.C.: Committee for the Study of the American Electorate, 1996).

²² Krasno, Jonathan and Daniel E. Seltz, *Buying Time: Television Advertising in the 1998 Congressional Elections* (New York: Brennan Center for Justice at NYU School of Law, 2000).

²³ The Krasno and Seltz figures that include party spending at all levels suggest that our data may overestimate the amount spent by state parties on issue ads. Recall that our category is “media” expenditures, which includes issue ads and *other* communication-related spending.

These figures, of course, are small in comparison to allocations for media-related activity. One reason is that the cost of bumper stickers, or even telephone banks, is considerably less than that of media-purchases in metropolitan markets. At about ten cents per bumper sticker, one million dollars will purchase 10 million bumper stickers. The same amount will provide about forty ads (30 seconds) on network TV in a major media market during prime time.

Importantly, media spending did not crowd out spending on traditional party activities. The portions of the party budget spent on mobilization and grassroots did not change substantially even when media spending soared. In the 1998 elections, Magleby (2000) reports that the parties, particularly the Democrats, emphasized a “ground war” strategy that involved lots of direct mail, telephone banks and other get-out-the-vote activities. It appears, according to Table 2, that parties used additional soft money in 1998 to intensify mobilization efforts, spending nearly the same portion of their budget on such activities as they did in 1992 and 1994.

Additional soft money has also been used to expand party headquarter operations. In 1992, state parties spent \$42 million on overhead, which include payments for salaries, rent and other organizational maintenance costs. By 1998, this total had risen to \$107 million. Certainly, we would want to know the degree to which these rising expenses at headquarters reflect sustained organizational growth or temporary surges in activity for the limited campaign season. An analysis of party budgets during the off-election year should resolve whether these costs reflect enduring investments in the party organization.

At the very least, the rising costs associated with maintaining party headquarters suggests that state party organizations are a locus of increased campaign activity.

Partisan differences?

To see if parties pursue different strategies with soft money we compare them for the 1996 and 1998 elections. The parties appear to spend similar amounts on all activities except for media (see Table 3), which accounts for much of the Democratic lead. In 1996 the Democratic state parties allocated about \$48 million for media, three times as much as the Republicans. The gap for the 1998 midterm election was not as great since neither party spent as much on media, but the Democratic state parties continued to outspend the Republicans at the state level by more than 6 million. We believe these partisan differences exist because the national Democrats, being the relatively poorer party, attempt to exploit soft money for federal races more than Republicans. They do this by transferring soft money to state parties where the spending ratios for soft and hard money are higher, meaning that the state parties can use more soft money than the national parties to pay for the same activity.

Table 3. State Party Spending (in thousands of \$), Democrats vs Republicans, 1996 & 1998 Elections

	1996		1998	
	Democrats	Republicans	Democrats	Republicans
Overhead	36,248	35,998	57,491	49,799
Media	47,917	16,818	18,398	11,773
Mobilization	7,869	8,157	12,303	10,284
Grassroots	5,681	2,657	2,253	4,144
Multi-candidate contributions	373	9	975	1,149
Fundraising	2,484	6,132	3,781	6,180
Unidentified	4,508	2,882	4,887	3,406
TOTAL	105,079	72,654	100,088	86,734
N	100	100	100	100

Source: Federal Elections Commission

The practice of using the state parties for national party goals probably comes at a cost. State parties might dun the national parties for these services by requesting additional transfers of soft money beyond the costs of the services. At the very least, a transfer strategy imposes greater coordination costs on national parties, particularly the Democrats, who appear to do this more often. National parties must monitor the transferred funds to ensure state parties spend them properly. The national Republicans, with a significant advantage in hard money receipts, can more likely avoid this problem by producing and purchasing media services directly, even if they must pay with additional hard money. We suspect that the national committees of the Republican Party outspend their Democratic counterparts on such campaign activities.

The Democratic strategy of transferring soft money to state parties for issue ads is clearly evident from Table 4, which lists states with the highest media-related spending. In each of these states there was a close federal electoral contest. In 1996, Ohio was not

Table 4. Soft Money Spending on Media, Top Ten State Parties, 1996 and 1998 Elections

1996	
OHIO DEMOCRATIC PARTY FEDERAL CAMPAIGN ACCOUNT	\$10,593,269
DEMOCRATIC STATE CENTRAL COMMITTEE OF CALIFORNIA-FEDERAL	\$4,256,879
PENNSYLVANIA DEMOCRATIC PARTY	\$3,128,902
MICHIGAN DEMOCRATIC STATE CENTRAL COMMITTEE/FED ACCT	\$3,106,939
CALIFORNIA REPUBLICAN PARTY	\$2,819,563
WASHINGTON STATE DEMOCRATIC CENTRAL COMMITTEE	\$2,360,739
DEMOCRATIC EXECUTIVE COMMITTEE OF FLORIDA	\$2,286,356
OHIO REPUBLICAN PARTY	\$2,256,738
ILLINOIS DEMOCRATIC PARTY	\$2,043,711
WASHINGTON STATE REPUBLICAN PARTY-FEDERAL ACCOUNT	\$1,752,671
1998	
NEW YORK STATE DEMOCRATIC COMMITTEE	\$2,753,358
NEW YORK REPUBLICAN FEDERAL CAMPAIGN COMMITTEE	\$2,648,528
NEVADA STATE REPUBLICAN CENTRAL COMMITTEE	\$2,513,063
DEMOCRATIC STATE CENTRAL COMMITTEE OF CALIFORNIA-FEDERAL	\$2,358,686
NEVADA STATE DEMOCRATIC PARTY	\$1,981,184
NORTH CAROLINA DEMOCRATIC VICTORY FUND	\$1,896,832
KENTUCKY STATE DEMOCRATIC CENTRAL EXECUTIVE COMMITTEE	\$1,811,467
REPUBLICAN PARTY OF WISCONSIN-FEDERAL COMMITTEE	\$1,256,573
DEMOCRATIC PARTY OF SOUTH CAROLINA	\$1,207,387
REPUBLICAN PARTY OF KENTUCKY	\$1,102,030

Source: Federal Elections Commission

only a key swing state for the Clinton re-election, but also included six close congressional races. The Ohio Democratic Party spent 10.5 million dollars on media-related activities, almost triple the amount of any other state party. Michigan and Illinois were other key states during the 1996 presidential campaign; the latter also contained a key Senate race and several competitive House races. In Washington, there were at least five critical House elections. Neither party was willing to concede California, the state with the most electoral votes, as well as a good number of competitive congressional races. In 1998, the parties were more evenly matched on media spending with the much of it focused in New York, Nevada and Kentucky, the states with highly competitive Senate races.

Conclusion

We began with a question about how parties spend soft money. We speculated that soft money was not simply a resource to fund issue ads, but also a primary means to support party organizations and their traditional campaign activities. Our finding is that parties use soft money in ways that would strike many observers – including those favoring a ban on soft money – as positive. This preliminary study illustrates that parties use soft money to invest in campaign activities that promote party-building and citizen participation. If soft money permits the party to reach additional voters through telephone calls and mail, or generate enthusiasm for political campaigns through rallies and yard signs, then perhaps we are shortchanging American campaigns by cutting off this supply of money. The overemphasis in the news and by public interest advocates on the media strategies of parties obscures the fact that parties do many things with soft money.

Undoubtedly, parties also exploit soft money to fund issue ads through their state organizations. Media-related spending by state parties jumped from just \$2 million in 1992 to \$65 million in 1996. The Democrats appear to take advantage of a state-sponsored issue ad strategy more than the Republicans, probably because they trail the Republicans in raising hard money. Both parties, however, use most of their soft money to expand party headquarter operations during the campaign. Since 1992, they have more than doubled the amount

spent contacting individual voters through various voter identification and get-out-the-vote programs. In the last midterm election, just 16% of soft money went toward issue ads, the same amount that was spent on direct mobilization and grassroots efforts.

Seeing that the lesser part of party soft money goes toward issue ads, we feel compelled to re-examine the question: how is soft money harmful in elections? The obvious answer is that soft money permits candidates, contributors and parties to circumvent federal laws limiting campaign contributions. If party soft money can help a specific candidate by using it to purchase a candidate-tailored advertisement, then corporations, unions or wealthy individuals can simply funnel contributions to candidates through the parties. The potential for the *quid pro quo* exchange between contributor and policymaker escalates with the increasing size of contributions to the party.

But assume for a moment that party money is “clean.” Suppose party money is generated through public subsidies, or raised from contributors in increments that are small enough to prevent corrupt exchanges. Are the spending patterns of parties necessarily harmful in American elections? In this study, we observe that parties spend a significant portion of their cash to build the party as intended by the 1979 amendments to the FECA. It is primarily through soft money that parties have had access to resources that permit them to engage in activities that political scientists, for the most part, view as salutary for the electoral system. If the solution to the problem of corruption is to ban soft money fund raising, then reformers should also consider ways to ensure that parties have access to sufficient resources so they might continue occupying a central role in campaigns.

An earlier set of reforms in 1974 had the effect of weakening party role in campaigns by institutionalizing PACs as legitimate contributors to candidate campaigns. The number of PACs proliferated in the 1970s and early 1980s, providing candidates with an increasing share of their campaign funds. Candidates became more reliant on PACs than on their parties, which encouraged the candidate-centered nature of campaigns. The ever-adaptable American parties exploited the campaign finance regulations to reestablish themselves. Soft money probably helped restore the party role in campaigns, making the candidates less reliant on direct support from PACs. On the other hand, party leaders may now feel beholden to big soft money contributors, a potential problem that should not be overlooked. If the soft money regime encourages interest groups to contribute more frequently through the party leadership, then soft money may simply centralize the corrupt exchange among the most powerful political actors.²⁴ If this is true we should see greater party unity in congressional voting than in the past, particularly for issues that are important to the most generous party patrons.

The type of party spending that concerns many campaign observers is issue advertisements. In our view, party spending on issue ads is not bad, per se, especially if these ads link the candidate closer to party. Scholars who desire responsible parties would argue that party-sponsored messages create more accountability by promoting themes that unify party candidates around a platform. A recent study by Krasno and Seltz (2000) appears to cast doubt on this theory since only 15 percent of the ads apparently mention the party in the text or graphics. On the other hand, these authors acknowledge that cookie cutter issue ads featuring the same graphics and text are

²⁴ For an analysis of soft money contributions see Ray La Raja and Alana Hoffman, *Working Paper: Who Benefits from Soft Money Contributions?* (Berkeley: Institute of Governmental Studies and

common. We believe these generic ads encourage candidates to use similar themes and symbols across districts and states, which would tend to promote party unity and accountability. The problem, then, is not so much the issue ads themselves, but how they are funded.

The fact that party money goes toward television advertising reflects the reality of campaigning in a mass democracy. Party leaders and their consultants believe television advertising is critical to winning elections so they invest in this form of campaigning. By curtailing party resources, we doubt that party candidates will seek less of this kind of campaign activity. In fact, reform laws that cause the depletion of party resources will likely eliminate “good” spending, such as direct voter contacts, rather than “bad” spending, such as issue ads. Parties will employ a triage strategy that emphasizes media advertising over direct voter contacts and grassroots. The first activities to be shorn are those that support long-term party building and encourage volunteer participation, since these are not of critical interest to incumbents seeking re-election.

We also suspect that the placement of party issue ads encourages electoral competition. The vast literature on campaign contributions suggests that parties allocate campaign resources more efficiently than interest groups, preferring to give money to candidates in the closest races. Interest groups tend to pursue a low risk strategy by giving directly to incumbents who face little competition. Indeed, parties solve a collective action problem by moving resources to where they are needed most, since incumbents are often unwilling to transfer money from their campaign accounts to colleagues who may need it more.

Citizens Research Foundation, July 2000).

Campaign resources that flow through parties, therefore, will tend to promote competition more than if resources flow directly into candidate committees, or when money is spent independently by interest groups to promote the election of a favored candidate. Using the Krasno and Seltz data for the 1998 elections, we observe a similar pattern of resource distribution in purchasing issue ads. Table 5 demonstrates that parties place almost 60 percent of their issue ads in competitive House elections, a greater percentage than either candidate committees or interest groups. For Senate elections, which are much more competitive, 92 percent of party issue ads appear in competitive elections, whereas 74 percent all candidate-sponsored ads appear in

Table 5. Number of Ads in Competitive Contests in 1998 House and Senate Elections, by Advertiser

	HOUSE			SENATE		
	Comp	Non-Comp	% Comp	Comp	Non-Comp	% Comp
Candidates	46,434	46,048	50%	95,159	33,673	74%
Parties	10,927	7,581	59%	23,570	2,108	92%
Interest Groups	5,261	7,125	42%	163	0	100%

Source: Jonathan Krasno and Daniel E. Seltz, *Buying Time: Television Advertising in the 1998 Congressional Elections* (New York: Brennan Center for Justice, 2000).

Note: Competitive election is when the winner's and loser's vote percentages are within ten points

competitive elections. Interest groups provided less than one percent of ads in the 1998 Senate election, but all of these ads were placed in competitive campaigns. The relatively low participation of interest groups in Senate campaigns is probably because media costs are prohibitively high except for the wealthiest organizations.

Candidate-controlled advertising continues to dominate the airwaves, but interest groups and parties are more active than ever. The only institutional counterweight to outside spending by interest groups is the parties. As long as the courts prevent the FEC

from regulating issue ads through *Buckley v. Valeo*, there is a danger from unilaterally disarming the parties by a ban on soft money. Candidates risk losing control of their campaigns in some very competitive districts. Fearful of being hit by outside spending of interest groups, candidates will no doubt enlist the support of groups favorable to them. Indeed, there is sufficient evidence in the 2000 elections that this is already occurring.²⁵ The groups most able to produce campaign ads for candidates will likely be the wealthiest, skewing the candidates' obligations toward such groups even more.

We conclude with a policy recommendation that parties retain access to sufficient campaign resources to continue the activities they have pursued with soft money. Our findings suggest that soft funds encourage party-building and party integration, much as Congress desired when it passed amendments to the campaign finance laws in 1979. To reduce the potential for corruption, we recommend that Congress place a cap on soft money contributions or raise the limits on hard money contributions.²⁶ On the other hand, we believe the distinction between soft and hard money is still valuable. Soft money provides an incentive for national parties to transfer funds to state and local parties, where campaign activities have increased substantially. We believe the likelihood of grassroots work is enhanced at lower levels of party, which afford more participation opportunities for amateurs and volunteers. The national parties may be more reluctant to transfer hard money to state parties for party building when they can use this money themselves for direct candidate support and issue ads.

²⁵ Michael Isikoff, "The Secret Money Chase," *Newsweek*, June 5, 2000.

²⁶ See La Raja and Hoffman (2000). We recommend a soft money contribution limit of \$100,000 as a way to limit the influence of large donors, while retaining 90 percent of current party resources.

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