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Who Benefits from Soft Money Contributions?

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Summary

This study examines the entire pool of soft money contributions to the political parties from the 1992 though 1998 elections. Contrary to conventional accounts, we find that small contributors represent, by far, the biggest share of soft money donors. We also note that the share of party soft money provided by "fat cats" does not appear to be growing over this decade of increased fundraising. We also identify partisan differences, finding that Republicans have many more donors than Democrats and receive more money from business groups. On the other hand, the average Republican soft money contribution is half that of Democrats, and Republicans do not rely on large donations any more than Democrats. In the conclusion we discuss the implications of these findings with regard to issues of equity and corruption in the campaign finance system and make a policy recommendation to limit soft money contributions to $100,000.

Introduction

In this working paper we explore who contributes soft money to the political parties. Our primary goals are to extend knowledge about the sources of soft money and to understand which groups, broadly speaking, tend to benefit from this kind of political contribution. Specifically, we are interested in knowing which of the major parties gains the most from soft money, and what kind of donors tend to make soft money contributions.

This study differs from other studies on soft money in two respects. First, we look at the entire pool of soft money donors rather than simply the largest contributors. Several reports on soft money tend to highlight the "fat cats," thereby missing general patterns of donor behavior. Secondly, we explore partisan biases in the soft money system: whether one party appears to have an advantage in raising soft money from particular groups. Other studies tend to assume that the parties are equally successful in raising money and they fail to link fundraising capacity to different sources of party support. We hope that closer scrutiny of soft money contributions provided in this paper will contribute to a better understanding of the pros and cons of various reform efforts.

In sum, we find that party soft money escalated rapidly during the 1990s, yet the biggest donors did not increase their share of total party receipts. In fact, we observe that when soft money receipts are examined incrementally, the largest percentage of soft money is from donors who give less than $25,000. We also find that business interests are by far the dominant contributors of soft money, but their share of total donations has not risen in the last three election cycles. We believe that other groups, such as labor, provide significant in-kind benefits to parties, in addition to cash donations, that make the business advantage appear less impressive. Republicans, who receive most of these business contributions, appear to benefit more than Democrats from a campaign finance system that permits soft money contributions in unlimited amounts. We conclude with a recommendation to limit soft money contributions to less than $100,000 as a way to reduce the potential for corruption, maintain partisan balance and ensure that parties secure sufficient resources to run effective campaigns.

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 widely 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 registration or identification activities. It is important to note that Congress did not permit state committees to use unregulated funds to pay for these activities.[1]

In fact, the so-called soft money loophole did not open until the FEC was faced with the challenge 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 their estimate of the nonfederal share of costs.[2] 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.[3] 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.

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

[1] 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.
[2] Federal Election Commission, Advisory Opinion 1978-10, "Allocation of Costs for Voter Registration."
[3] See Common Cause v. Federal Election Commission, 692 F. Supp. 1397 (D.D.C. 1988).

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.[4] 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.[5]

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*.[6] 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.

Why has soft money become a common form of contribution?

The FEC's broad interpretation of generic party building in combination with *Buckley* made soft money almost as valuable as federal money to the parties because it is easier to raise and because it can be used for a variety of campaign activities. Among

[4] Federal Election Commission, Advisory Opinion 1995-25, "Costs of Advertising to Influence Congressional Legislation Allocated to Both Federal and Nonfederal Funds."

these activities are voter mobilization efforts and political advertising, so long as the ads do not include words that the Supreme Court considers express advocacy. In the soft money regime, donors may give unlimited amounts and are not restricted to contributing through Political Action Committees (PACs) if they choose to give more than the $1000 contribution limit to a candidate or $15,000 to a party. The FECA also prohibits corporations and labor unions from providing direct contributions to parties or candidates from their treasuries. Instead, these institutions are required to form PACs that receive funds from members in amounts not greater than $5000 per year. With soft money, large institutions such as banks or labor unions do not have to employ intermediary PAC organizations to make political contributions. They can simply use general revenue or treasury funds to make donations to parties, effectively eliminating the collective action problem of raising money from individual members for political contributions.

Should we care who contributes?

There are at least two reasons to be concerned about who contributes to parties: the potential for corruption and the issue of equity.[7] With regard to corruption, some groups or individuals may use contributions to gain special favors from elected officials in the form of public policy or patronage. The possibility of a *quid pro quo* exchange is at the heart of most efforts to expand campaign finance regulations. For this reason, contribution limits were included in the FECA to minimize the influence of donors on candidates and elected officials. Reformers argued that low contribution limits would

[5] 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.
[6] Buckley v. Valeo, 424 U.S. 1, 79 (1976).
[7] See Bruce E. Cain and Dan Lowenstein, "Can Campaign Finance Reform Create a More Ethical Political Process?" Public Affairs Report, Vol 31, No. 1 January 1990 (Berkeley: Institute of Governmental Studies).

not only encourage greater donor participation but would also prevent wealthy contributors from providing candidates with a disproportionate share of campaign resources so that, once elected, they felt obligated to the "super" donor.

Political contributions might also undermine political equity. Equality in a democratic system is predicated on some degree of equal political participation among citizens of different socioeconomic groups. The primary method of participation in the United States is voting, under the principle of one-person, one-vote. We know, however, that not all Americans who are eligible to vote do so. In fact, the pattern of voting displays a bias toward the better-educated, more affluent and older Americans. Another form of political participation is making contributions to candidates and parties. The pattern of political contributions displays an even greater bias than voting toward the upper strata of American society. According to one study, the richest 3 percent of Americans, which includes those with family incomes exceeding $125,000, provide 35 percent of campaign contributions.[8]

Although we have not linked demographic data to specific soft money contributions, it is possible to make some inferences about the bias of soft money contributions by comparing contributor patterns to hard money patterns. Given that the average soft money contribution is higher than the average hard money contribution we expect that soft money contributors constitute an exclusive group of well-off Americans – even more affluent, on average, than hard money contributors. Stated this way, the soft money regime appears to intensify differences in political participation among citizens.

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[8] See Sidney Verba, Kay Lehman Schlozman and Henry E. Brady, *Voice and Equality: Civic Voluntarism in American Politics* (Cambridge: Harvard University Press, 1995).

We are also concerned about equity in another sense. We want to know if the soft money system is biased in a partisan way. The vitality of the democratic system depends on the existence of at least two viable and competitive parties. We ask if the soft money system provides considerable advantages to one party, thereby upsetting a healthy partisan balance. In an electoral environment requiring significant cash outlays to communicate with voters, soft money contributions undoubtedly provide an important resource for running effective campaigns. The alleged greediness for soft money by both parties is rooted in the ambition of party members to win elections.

We believe the answers to questions concerning corruption and equity are critical in evaluating the impact of any proposed reforms.

Trends in soft money contributions

Soft Money Total Receipts on the Rise

Since the FEC began requiring the parties to report soft money contributions in 1992, the parties have clearly escalated soft money receipts. The amount of soft money raised by both parties has tripled, leaping from $85.9 million in the 1992 election cycle to $261.9 million in the 1996 election cycle (see Table 1). It also doubled between the midterm years, from $101.6 million in 1994 to $224.4 million in 1998. Although the FEC does not provide data for earlier years, campaign finance scholars estimate that the rate of growth for soft money during the 1980s was significantly lower.[9] Apparently, the value of soft money increased in the 1990s. An assessment of why this occurred is beyond the scope of this paper, but several reasons have been offered. The explanation cited most frequently is that political parties found a loophole that permitted them to use soft money for political advertisements that helped the party's presidential candidate, who was otherwise constrained by federal law to use only public subsidies for the campaign. The use of party issue ads that promoted, in all but name, the presidential campaigns of Bill Clinton and Bob Dole greatly increased the need for party soft money.

Table 1. Contributions to Parties, 1992-1998
(in millions of dollars)

	Federal (hard money)	Non-federal (soft money)	% soft money
1992			
Democrats	89.6	36.2	29%
Republicans	192.1	49.7	21%
1994			
Democrats	77.2	49.1	39%
Republicans	169.1	52.5	24%
1996			
Democrats	128.4	123.8	49%
Republicans	288.0	138.1	32%
1998			
Democrats	96.6	92.8	49%
Republicans	195.6	131.6	40%

Source: Federal Elections Commission
Note: Amounts do not include transfers among committees and reflect national party figures only.

We also suspect that as political campaigns became more expensive in the 1990s, due to the increasing costs of technology, candidates and their parties sought new ways to

[9] Herbert E. Alexander, "Financing the 1976 Election," (Washington, D.C.: Congressional Quarterly, 1979), p. 190; Anthony Corrado, "Paying for Presidents" (New York: Twentieth Century Fund, 1993), p.67.

gather sufficient resources for winning elections.[10] The FECA contribution limits, which are not indexed to inflation, have failed to keep pace with rising campaign costs. Consequently, the pressure to find new sources of income led party leaders to find a seemingly limitless source of campaign funds – soft money. Soft funds are used to help both federal and state candidates indirectly through voter identification and mobilization activities organized and paid for by the parties.[11] By having the parties accrue these costs, usually at bulk rates, candidates save their own resources.

The importance of soft money to the parties is increasing. The proportion of total party receipts coming from soft money increased during the past two election cycles. The Democrats, the relatively poorer party with hard money, appear to rely more on soft money than the Republicans. In 1992, soft money receipts constituted 29% and 21% percent of Democratic and Republican national party receipts, respectively (see Table 1). In the next presidential election cycle, half of Democratic receipts came from soft money, while Republican soft money accounted for one-third of their budget.[12] These early trends suggest that political parties will rely increasingly on soft money contributions for their activities, so long as the campaign finance rules permit. Given the current party balance sheet, a ban on soft money would eliminate significant resources from both parties and probably diminish their capacity to help candidates and participate in

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[10] According to Committee for the Study of the American Electorate, these cost increases are apparently due to the increased reliance of political campaigns on expensive forms of media, such as television, rather than inflation for media costs per se. 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).

[11] See Ray La Raja and Karen Pogoda, *IGS and CRF Working Paper: Soft Money Expenditures by State Parties,* Berkeley: Institute of Governmental Studies and Citizens Research Foundation, July 2000.

[12] This analysis includes the national committees only. For the Democrats, these include the Democratic National Committee, the Democratic Senatorial Campaign Committee and the Democratic Congressional Campaign Committee. For the Republicans, these include the Republican National Committee, the National Republican Senate Committee and the National Republican Congressional Committee.

campaigns. On the other hand, it is likely that soft money would not leave the political system entirely. Political entrepreneurs, working for either party, will seek ways to exploit other loopholes in campaign finance laws to ensure that money finds its way to the most competitive campaigns. Party strategists will probably find alternative institutional means of gathering and dispersing soft money, either through allied interest groups or candidate PACs.[13]

Who contributes?

Business interests have overwhelmingly dominated soft money contributions since the Federal Elections Commission (FEC) instituted disclosure requirements in 1992. In 1993-94, business interests gave a total of $56 million to both parties combined; this figure more than doubled to $122.8 million in 1997-98 (see Table 2). Individuals, the next largest group of donors, contributed $20.4 million in 1993-94, but similarly doubled this amount in 1997-98, giving $52.4 million. Labor contributions during this same period also doubled from $4.8 million to $10.3 million. There are other groups that give soft money, i.e., political clubs, ideological groups, candidate committees, although their contributions to the parties are small compared to business and individual contributions.

While donations from all these sources have increased dramatically in terms of absolute dollars, the percentage of money from each source has remained fairly constant over the past three election cycles. From 1993-1998, for example, business donations

[13] In a meeting with lobbyists from several high-tech organizations Senate Majority Leader, Trent Lott, encouraged them to contact an organization called Americans for Job Security, an obscure group run by veteran Republican consultants that was engaged independently in the re-election effort for Spencer

constituted approximately 63% of total soft money donations. Individuals contributed approximately 25% of the total, and labor money comprised about 5% per election cycle. Fundraising in the 2000 election cycle to date appears to outpace earlier cycles and it remains to be seen whether any of these groups will fall behind because they have been "tapped out." The supply of political money available within a given donor pool may have reached its outer limit. Some business organizations, for instance, decided recently to forego soft money contributions because senior executives wanted to distance themselves from the appearance of participating in corrupt exchanges, and others because they felt they were not getting much in return for the contributions.[14]

Table 2. Contributions by Group, 1994-1998 (in millions of dollars)

	1994	% of total	1996	% of total	1998	% of total
Business	56.0	64%	149.3	62%	122.8	64%
Individuals	20.4	23%	69.1	29%	52.4	27%
Labor Organziations	4.8	6%	9.6	4%	10.3	5%
Political Parties and Clubs	3.0	3%	8.7	4%	1.8	1%
Political Candidate Committees	0.5	1%	0.6	0%	0.9	0%
Other Organizations	3.0	3%	2.9	1%	2.4	1%
Total Contributions	87.8	100%	240.2	100%	190.7	100%

Source: FECInfo at http://www.tray.com/fecinfo/
Note: Figures do not match FEC totals in Table 1 exactly because the above does not include non-itemized (<$200) contributions

The fact that business interests dominate soft money contributions renews a dilemma initially confronted by the Progressive movement at the turn of the century. At that time reformers pressed for legislation to curb the growing political power of the

Abraham in Michigan. See Michael Isikoff, "The Secret Money Chase," *Newsweek*, June 5, 2000, pp.23-25.

[14] Don Van Natta, Jr. "As Political Gifts Set a Record Pace, Some Quit Giving," *The New York Times*, May 2, 2000, p. A1.

emerging corporate wealth. Congress responded by passing legislation in 1907 to outlaw contributions to presidential and congressional candidates by corporations and banks. But this early effort and subsequent legislation during the century failed to stem the flow of corporate money into politics until the passage of the FECA in 1974, which prohibited the establishment of "volunteer" committees to funnel money to candidates, and limited individual contributions to $1000 per candidate per election. These constraints on outside committee and individual contributions encouraged the proliferation of Political Action Committees (PACs) to raise funds from members of the same organization for political contributions. The PAC system appeared to prevent the "fat cats" from giving very large, under-the table contributions since PACs are permitted to contribute just $5,000 per candidate per election, and are required to disclose the sources and uses of their funds. Party soft money, which lacks contribution limits and full disclosure requirements, seems to undermine the goal of preventing corporations and other cash-rich institutions or individuals from using their wealth to influence politics.

Some defenders of corporate contributions might argue that business organizations often compete against one another to gain policies favorable to their specific organizational interests. In other words, businesses do not uniformly prefer one set of policies. If Madison's theory in Federalist 10 concerning factions anticipates the reality of contribution patterns, then the influence of soft money could be a "wash" when the interests of many and varied donors are taken into account. In other words, when parties receive donations from competing interests, they will not be unduly influenced by any set of donors. Still, one would want to feel assured that the interests of a broader collective -- consumers, for instance -- are considered with comparable weight even though they lack organizations contributing soft money to the parties.

The dominance of business over labor money should also be considered in light of labor organizations' heavy involvement in political campaigns through in-kind services to candidates. While labor only gives less than 10 percent of the soft money that business interests provide, labor organizations provide considerable resources to parties in the form of voter mobilization programs which overwhelmingly support Democrats. There are no reliable estimates of how much labor spends in campaigns on their own since they do not have to report all their activities to the FEC. We know, however, that the AFL-CIO spent $35 million in 1996 on campaign activities in key congressional districts, including an estimated $22 million on issue ads.[15] When we add these in-kind sums to the cash that labor organizations contribute to parties, business' dominance appears less striking.

Surprisingly little soft money is donated to the parties from ideological groups. But like labor organizations, these entities are well placed to contact and mobilize members on their own rather than provide cash to the parties. In fact, some of these organizations have more to gain from running campaigns independently because they can tailor messages to suit their particular agenda.[16] For instance, a pro-environmental or anti-tax organization might attempt to shape a presidential campaign around issues that are meaningful to members by placing issue ads in important media markets.[17] Under tax

[15] Committee for Economic Development, p. 29.
[16] For more on outside spending in federal campaigns see David Magleby, ed., *Outside Money: Soft Money and Issue Advocacy in the 1998 Congressional Elections* (New York: Rowman and Littlefield, 2000).
[17] Jim VandeHei, "Gun-control Efforts Trigger Strong NRA Drive for GOP," *The Wall Street Journal*, May 5, 2000, p. A18.

code 527, such organizations are not required to report the sources and uses of campaign money to the Federal Elections Commission.

Election-related spending since 1994 indicates that campaign activity by non-candidate committees increasingly may impact election outcomes.[18] Given this trend and the current legal environment framed by *Buckley v. Valeo*, there is reason to believe that ideological organizations and other non-party or non-candidate organizations will gain more influence if soft money is banned. Lacking soft money, parties may use surrogates to perform many of the campaign activities they now perform themselves. One problem with this arrangement is that voters will not be able to link campaign messages to party candidates since the surrogate organizations often assume unfamiliar or uninformative names. The benefit of partisan labels that provide voters with useful information about candidates will likely diminish the more that outside groups engage independently in federal campaigns.

Are soft money contributions getting bigger?

A concern for reducing the potential for corruption leads us to ask the question whether soft money contributions are dominated by "fat cats." If the parties rely on super donors the incentives for *quid pro quo* are stronger than if party resources flow from many smaller donors. This reasoning is a premise for contribution limits instituted under the FECA of 1974. Contrary to conventional accounts of soft money contributions, we observe that more than 90 percent of soft money contributors in the most recent election gave less than $25,000. In fact, the average soft money donation is just $8,750,

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

approximately half the maximum contribution allowable to parties under the FECA.[19] And while the size of donations is creeping up, there is no indication that contributors at the very highest levels have increased their share of soft money contributions to the parties in the last several election cycles.

Table 3 presents categories for the size of soft money contributions. It demonstrates that the bulk of parties' soft money receipts comes in the form of donations of $25,000 or less, but this money now constitutes a smaller percentage of total receipts than it once did. The percentage of money donated in increments less than $25,000 decreased from 44% of total receipts in the 1993-94 election cycle to 38% in 1997-98.[20] On the other hand, the portion of donations under $50,000 remained at 61% throughout this same period.

Table 3. Soft Money Contributions by Size, 1993-1998

	1993-94	% of total $	N	1997-98	% of total $	N
$200-24,999	$42.9	44%	11,174	$75.1	38%	22,478
$25,000-49,999	$16.6	17%	605	$45.3	23%	1,358
$50,000-99,999	$13.4	14%	239	$35.0	18%	436
$100,000-149,999	$11.0	11%	106	$19.1	10%	186
$150,000-249,000	$4.8	5%	26	$7.9	4%	45
$250,000 +	$9.4	10%	17	$17.0	9%	43
Total	$98.0	100%	12,167	$199.4	100%	24,546

Source: FECinfo at http://www.tray.com/fecinfo/
Note: Figures do not match FEC totals in Table 1 exactly because the above does not include non-itemized (<$200) contributions

[19] The average was computed from data provided by FECinfo. We consolidated contributions for donors who gave multiple times into one overall contribution. We did not include contributions from party organizations and dinner committees since these amounts include donations from several different individuals or organizations. If we included these figures the average is $9,575.

[20] The FEC, according to FECinfo, did not complete data entry of $44 million in receipts in 1997-98 so this part of our analysis remains tentative. A significant portion of these receipts, however, are un-itemized, i.e., below $200, and we believe that the very largest contributions have already been accounted for, so our donor categories for this election cycle are probably not biased in the direction of small donors.

At the top end, the percentage of money raised in contributions above $100,000 is holding relatively steady: such donations comprised 26% of soft money receipts in 1993-4 and 23% of receipts in 1997-98. The overall percentage of money raised in contributions above $250,000 also held steady between 1993-94 and 1997-98 at 10% and 9% respectively. This apparent consistency in the top category masks a partisan difference for large donations. Whereas in 1993-94 Republicans raised 15% of their money through $250,000+ donors, and Democrats only depended such donations for 3% of their soft money, both parties accrued approximately 9% of their money this way in 1997-98. With this recent development, Democrats and Republicans display remarkable parity in the money they receive from "super donors."

These findings suggests there is some "bracket creep," though not at the highest levels of contributions. Indeed, the data in Table 3 suggest that party soft money receipts are not dominated by super donors, nor is there evidence thus far that super donors are increasing their share of party contributions. Instead, we find remarkable consistency in patterns of contributions in two midterm elections when total receipts of soft money doubled. The parties augmented their "take" between 1994 and 1998 but they did not rely more heavily on the $250,000 donor any more than they relied on the donors below $50,000.[21] We point this out to suggest that parties, by increasing the number of contributors in each category proportionally, potentially reduce the influence of any large contributor. In effect, a single $100,000+ donor stands out less in 1998 when there are 274 donors, than in 1994 when there is half that number, particularly if this donation assumes no greater share of total party resources.

[21] We used data from 1994 and 1998 because those were the only years in which FECinfo provided these data.

We do not argue that super donors fail to receive special treatment from the parties. Certainly, stories about generous party contributors staying in the Lincoln Bedroom at the White House and spending holiday retreats with Members of Congress does little to eliminate the public fear that big money provides access to decision-makers and maybe more. Here, we simply suggest that the potential for favoritism should be considered in light of other factors relevant to campaign finance. To the extent that parties are reliant for their resources on super donors, we should be concerned about parties and party leaders being beholden to them. Yet, the evidence for excessive party reliance on super donors is not strong. If we take into account all party receipts during the 1997-98 election (both hard and soft), the portion of funds coming from donors above $100,000 is only 8 percent. For donors greater than $250,000 the portion represents just 3 percent. These figures were essentially the same in the midterm election of 1994.[22] Super donors get most of the media attention as, perhaps, they should, but they do not represent the bulk of party receipts by any stretch. And, in focusing on super donors the news media blurs rather than clarifies the true picture of soft money. Since we do not take lightly the possibility that super donors have an enhanced opportunity to corrupt officials -- certainly they stand out from the donor who gives "merely" $1000 or even $10,000 – we would recommend eliminating soft money above $100,000. Parties would lose less than 10 percent of their funds and the potential for corruption would be diminished.

Some may think a $100,000 contribution is excessive. Consider, however, that the hard money limit on contributions to political parties has been $15,000 from PACs

[22] We compare 1994 and 1998 because they are midterm elections. Data were not available for comparisons between 1992 and 1996 presidential elections.

and $20,000 from individuals since 1974. Adjusted for inflation through 1998, these amounts would be $48,000 and $64,000, respectively.[23] More than 60 percent of the soft money parties receive come in increments below the $64,000 mark, and 97 percent of all soft money contributors meet this standard.[24] What this suggests is that the inflexible contribution limits to parties under the FECA have diminished the capacity of these organizations to raise sufficient hard money for campaign operations. The increasing value of soft money to parties reflects this reality.

Most critics of the soft money system focus on super donations**,** obscuring the fact that there exists a significant pool of resources available to parties in increments below $25,000. By banning soft money, parties would lose access to resources that most likely do not have the corrupting effect of the $100,000+ donations. A recent IGS/CRF Working Paper on soft money expenditures demonstrates that the majority of soft money spent by state parties pays for overhead, voter mobilization and some grass roots activities.[25] These positive benefits of party spending would be foregone or greatly diminished if soft money is banned entirely.

Partisan advantages?

Another concern we raised at the outset is the issue of equity between the two major parties. Does the current campaign finance system, which permits soft money contributions, favor one party over the other? Maintaining a competitive party system

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[23] Consumer Price Index (CPI) data from the Bureau of Labor Statistics, "Table 1. Consumer Price Index for All Urban Consumers (CPI-U): U. S. City Average, by expenditure category and commodity and service group," at http://stats.bls.gov/news.release/cpi.t01.htm. as of May 15, 2000.

[24] Institutional contributors, of course, must also meet other conditions of FECA such as using PACs to contribute these funds.

requires some attention to the electoral regulatory structures that allocate benefits among participants. If soft money provides significant leverage to one party we should be concerned whether this imbalance distorts the legitimate representation of varied interests in the nation. Understanding who benefits the most from soft money also provides insights into prospects for reform. For meaningful reform to proceed, contending parties must reach compromises that account for the consequences of policy proposals. Neither Republican nor Democratic leaders will want to change the status quo, so long as there is considerable uncertainty about how reform proposals will alter the competitive advantage of either party.

Our findings suggest that Democrats might accrue short-term benefits from gathering soft money since it potentially frees up hard money resources that they lack in comparison to Republicans.[26] On the other hand, long-term trends do not augur well for Democrats since the Republicans may be able to seize the advantage of being the majority party in Congress, especially since they traditionally have ties to business groups that provide the bulk of soft money.

The Republicans increased their soft money lead over the Democrats during the 1997-98 election cycle (refer back to Table 1). The Republican resource advantage was not more than $15 million in the two election cycles prior to 1998, but they raised $38.8 million more than the Democrats in the last election. In the 2000 elections, so far, the Democrats appear to be keeping pace with the Republicans, but they have relied on

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[25] See Ray La Raja and Karen Pogoda, "Soft Money Spending by State Parties: How Much Party-Building?" Working Paper Series (Berkeley: Institute of Governmental Studies and Citizens Research Foundation, July 2000.)

[26] In fact, Democrats appear to use soft money more efficiently than Republicans to help their federal candidates in competitive races, probably because they have less hard money than their rivals, so they need to maximize its benefits. See La Raja and Pogoda, July 2000.

President Clinton, a prolific fundraiser, to attract many of these contributions.[27] It remains to be seen whether the Democrats can continue to draw contributions through the summer and fall of 2000 as the presidential candidates eclipse the departing President for public attention.

Why have the Republicans been able to outpace Democrats in raising soft money? The reasons are rooted in the organizational strengths of the parties as well as the different sources of financial support associated with either party. The Republicans traditionally have better fundraising operations as well as a larger pool of affluent donors than the Democrats.[28] It appears they are able to translate these hard money advantages to the soft money fundraising effort. In 1998, for instance, the Republicans had 18,401 soft money donors compared to the 6,145 donors to the Democrats (see Table 4).

Table 4. Soft Money Contributions by Size and Party, 1994 and 1998 elections (in millions of dollars)

	1993-1994					
	Republicans	% of total $	N	Democrats	% of total $	N
$200-24,999	22.5	42%	6,723	20.4	46%	4,451
$25,000-49,999	8.7	16%	322	7.9	18%	283
$50,000-99,999	5.8	11%	100	7.6	17%	139
$100,000-149,999	5.3	10%	51	5.6	13%	55
$150,000-249,000	3.0	6%	16	1.8	4%	10
$250,000 +	8.1	15%	14	1.3	3%	3
TOTAL	53.4	100%	7,226	44.6	100%	4,941

[27] FECinfo, "Latest Soft Money Reported by National Party Committees," April 24, 2000. http://www.tray.com/fecinfo/

[28] For a more detailed explanation of the Republican advantage, see Paul Herrnson, *Party Campaigning in the 1980s* (Cambridge: Harvard University, 1988), and Xandra Kayden and Eddie Mahe, Jr., *The Party Goes On* (New York: Basic Books, 1985).

	1997-1998					
	Republicans	% of total $	N	Democrats	% of total	N
$200-24,999	46.6	37%	17,231	28.5	39%	5,247
$25,000-49,999	29.9	24%	802	15.3	21%	556
$50,000-99,999	21.8	17%	199	13.2	18%	237
$100,000-149,999	11.7	9%	113	7.5	10%	73
$150,000-249,000	4.9	4%	28	3.0	4%	17
$250,000 +	11.4 0.0	9%	28	5.6	8%	15
TOTAL	126.3	100%	18,401	73.2	100%	6,145

Source: FECinfo at
http://www.tray.com/fecinfo/

This gap between the parties widens when un-itemized contributions, which include donors under $200, are taken into account (the party is required only to list those who gave more than $200). There are no estimates for how many donors gave less than $200 to either party but we know that un-itemized contributions in 1993-94 totaled $6.9 million. Assuming the donor gave the maximum amount allowable without requiring itemization then there were at least 34,673 donors who gave $199 to the parties. The Republicans, who gathered $5 million in un-itemized contributions, would have at least 29,648 additional donors, and the Democrats, with $1.8 million, would have at least 5,024 additional donors. The numbers in Table 4 suggest two interesting characteristics about soft money contributions. First, the parties have a lot of soft money donors who give in small increments, and second, the Republicans have a broader fundraising base than Democrats. To the surprise of some, perhaps, the average itemized soft money contribution is considerably smaller for the Republicans ($6,444) than for the Democrats ($14,679), a pattern that is also found for hard money contributions.[29] The Democrats

[29] This average does not include un-itemized contributions. If un-itemized contributions were included, of course, this figure would be much smaller. The data source is FECinfo.

apparently make up for the smaller donor base by seeking contributions in larger amounts.

Table 4 provides evidence that the Republicans have not gained their edge in soft money fundraising by appealing to the biggest donors. In fact, the party distributions for donor size categories are remarkably similar. At each level of contribution, the parties appear to receive the same portion of resources for their respective soft money budgets. The Republicans, however, exceed the Democrats in obtaining more contributions in every category. Although the Democrats trail Republicans in the number of super donations, e.g., those greater than $250,000, the Republicans rely no more than the Democrats on these large contributors. The low average donation for Republicans reflects the significant number of contributions in the range below $1000.

Table 5, however, demonstrates that there are considerable differences between the parties with respect to the donor groups that provide them with soft money. Business organizations tend to contribute more to Republicans, while organized labor favors Democrats almost exclusively. It should be noted that corporations are not using soft money contributions more heavily than hard money contributions to support the Republicans. In the 1997-98 election, corporations contributed 68% of their soft money to Republican Party, the same percentage that corporate PACs gave in hard money contributions to congressional Republican candidates.[30]The soft money regime, so far, does not apparently skew business contributions even more in favor of Republicans, a good sign for the Democrats.

[30] Federal contribution data from the Federal Election Commission, "FEC Releases Information on PAC Activity for

Table 5. Partisan Differences Among Contributors, 1994, 1996 and 1998 elections

	1993-94	1995-96	1997-98
Business			
Democrats	$23,673,849	$62,379,704	$39,639,974
Republicans	$32,353,685	$86,436,151	$83,071,405
% to Republicans	58%	58%	68%
Labor			
Democrats	$4,767,595	$9,358,589	$9,949,093
Republicans	$64,530	$239,985	$390,500
% to Republicans	1%	3%	4%
Individuals			
Democrats	$10,091,251	$36,201,377	$26,072,402
Republicans	$10,275,323	$32,233,875	$25,983,634
% to Republicans	50%	47%	50%

Source: FECinfo at http://www.tray.com/fecinfo/

Another critical reason for the Republicans' domination of soft money receipts is that they are the majority party in Congress. Since the Republicans gained control of Congress in 1994, soft money donors are increasingly likely to support them over the Democrats. This pattern is consistent with past studies that demonstrate interest group support favors incumbents and the party that controls the government.[31] It should also be noted that the Democratic Party's control of the presidency, while certainly beneficial for its fundraising, was not sufficient to alter the business contributions in favor of them. For interest groups seeking particularistic benefits it is probably more strategic to create good will with the individual Members of Congress who oversee the details of legislation than with the President.

1997-98" Press Release, June 8, 1999 at http://www.fec.gov/press/paccln98.htm. Soft money contribution data from FECinfo, "Soft Money Summary," December 28, 1998 at http://www.tray.com/cgi-win/_smrpt.exe.

[31] See for example, Frank J. Sorauf, *Inside Campaign Finance* (New Haven: Yale University, 1992) and Gary C. Jacobson, *Money in Congressional Elections* (New Haven: Yale University, 1980).

As expected, a Democratic advantage exists among labor organizations. In 1998, labor interests made $10.3 million in donations to the Democrats and only $390,000 to Republicans. While labor's contributions to Democrats pale in comparison to business' $122 million, it cannot be overlooked that labor provides considerable in-kind support to Democratic candidates. AFL-CIO leader John Sweeney claimed that his organization and its affiliates spent $35 million directly in the 1996 elections.[32] These activities undoubtedly supported Democratic candidates. This figure probably does not capture the sums spent by many local labor councils to mobilize union members through canvassing, phone banks, and newsletters. Labor expenditures on these activities are not constrained by the FECA limits since they are performed independently of candidate and party committees. Republicans argue, with good reason, that labor activities constitute a considerable chunk of in-kind benefits to Democratic candidates. Indeed, banning soft money would do little to diminish the benefits that Democrats derive from labor campaign activity. For all practical purposes, labor activities are funded by soft money except that labor organizations rather than the parties control how it is spent. For this reason, Republicans argue further that party-controlled soft money helps even up the playing field for Republican candidates.

The parties have achieved parity with respect to the amount of soft money they receive from individual donors. In 1993-94 they both received about $10 million from individual contributors and they raised $26 million from individuals in the 1997-1998 mid-term elections. During the presidential election in 1996, the Democrats pulled in $36 million, just $4 million more than Republicans. We note, however, that Democrats most likely relied on larger contributions among fewer donors to achieve these equal

[32] Julie Kosterlitz, "Firing Back at Labor," *National Journal*, March 26, 1996, p.474.

outcomes. Given that the average Democratic contribution, taking all groups into account, is about $15,000 and the average Republican contribution is half that amount, the Democrats could conceivably be hurt by reforms that permit soft money in relatively small contributions, say, under the Democratic average of $15,000. The Republicans contributor base is four times larger than Democrats for contributions less than $10,000 and only 1.6 larger for contributions above $100,000.[33] This situation suggests that the Democrats might prefer a ban on soft money rather than continuing a soft money regime with low limits, since Republicans have a larger base of small and moderate contributors.

Conclusion

During the campaign season, reports about soft money contributions receive considerable attention. We believe much of what is written fails to consider the broad contours of these political contributions, focusing almost exclusively on the so-called “fat cat” donors. We also are concerned that important issues of equity are displaced by a single-minded focus on the corruption allegedly caused by soft money donations. We offer this working paper as a preliminary corrective. Our findings confirm some of the conventional wisdom about the potential problems with soft money but also raise interesting questions about the dominance of super donors and partisan biases in the system. While it is true that the frequency of large soft money contributions has increased since 1992, these super donations make up no greater percentage of party receipts than in the past. The number of contributions in the smallest brackets continues to increase at the same rate. This is good news in the sense that super donors are not

[33] The number of contributions less than $10,000 is not displayed in the Table 4, but they are 3,750 for Democrats and 15,153 for Republicans.

expanding their market share, which would undoubtedly make them more valuable to party elites and increase their influence.

Our analysis demonstrates, surprisingly, that more than 90 percent of soft money contributions to the parties are no larger than $25,000. This explains why the average soft money contribution is so low even though frequent news stories on campaign finance would lead us to believe that the average is much higher. What this means is that a large pool of donors are participating at levels that are hardly corruption-prone. At a time when Americans appear to use their tax forms less and less to provide public funds for the presidential elections, we cannot ignore the importance of providing candidates with relatively "clean" sources of money.[34] A simple ban on party soft money would eliminate these valuable political resources for the parties and their candidates.

The preponderance of small soft money donors makes us wonder why contributors give soft money rather than hard money if the amount they give is well within federal regulations. A likely answer is that these contributors have already "maxed out" with hard money contributions, and they want to contribute more through soft money. We believe this is an empirical question worth exploring. If this does not explain the behavior of all contributors we might ask whether regulatory burdens impose costs on donors or parties that incline them to forego hard money in favor of soft money contributions. These costs might include paperwork or publicity that donors would rather avoid.[35] In any case, the value of obtaining small contributions should not be overlooked, especially given the low incidence of participation in campaign contributions

[34] See Corrado, "Paying for Presidents," for discussion of public financing of presidential elections.
[35] The FEC requires parties to itemize soft and hard money contributors above $200. A donor might retain her anonymity by giving below $200 in hard money and below $200 in soft money. There may, of course, be other burdens of publicity associated with giving hard money donations that we are not aware of.

among Americans, and the public's ambivalence about providing public subsidies to candidates.

While we make a case for giving more attention to the small contributor, we do not want to minimize the potential danger of permitting very large contributions to parties. Large contributors get more attention from party elites than others, as described in several reportorial accounts of White House visitations and party gatherings. We are gladdened by the fact that the proportion of their donations making up party receipts does not appear to be increasing, but by providing one-quarter of all soft money the $100,000+ donor's potential influence in party circles cannot be overlooked. For this reason, we recommend that soft money contributions be limited to $100,000. In this way, the parties retain more than 90% of the sources of their funds (both hard and soft) and the soft money provisions against direct spending on federal campaigns continue to provide incentives for them to spend a portion of funds on party-building activities.

We also investigated the potential partisan advantages of the soft money system. Given the strength of Republican fundraising operation, their natural affinity with business interests, and their majority status in Congress, we conclude that they benefit more from soft money. This finding would explain their resistance to current reform efforts. The Democrats, by contrast, rely less on cash because they receive considerable in-kind support from labor organizations that conduct their own campaign operations. With public opinion polls favoring a ban on soft money, the Democrats appear to benefit more than Republicans by pursuing legislation to ban soft money.

The Republicans appear to be gaining an edge in raising money from business interests, which provide nearly two-thirds of all soft money to parties. Early in the 1980s, when the Democrats lagged far behind Republicans in hard money receipts, they raised and spent soft money as a strategy to catch up.[36] Indeed, the fact that the average soft money donation to Democrats is larger than for Republicans suggests that Democrats tried to make up for the smaller donor base by capturing larger contributions. Democrats, seeking to earn the mantle of the reform party, may acquiesce to a soft money ban because they believe they can now compete more evenly with Republicans with hard money fundraising, knowing also that they will continue to benefit from in-kind activities of labor organizations.

Certainly, the partisan effects of business soft money contributions cannot be overlooked. The longer the Republicans control Congress, the less business interests appear to be concerned about "hedging their bets" by giving equally to both parties. With each election cycle that the Republicans maintain their control of government, the percentage of business donations directed at the Republican party increases. Along these lines, if the Republican nominee wins the presidency in 2000, we might expect even more Democrats to favor a ban on soft money.

On the other hand, a ban on soft money would make the Republicans feel disadvantaged since labor will continue to support Democratic candidates through in-kind services and campaigning. If there were a ban, it would not be surprising to see Republican party leaders develop strategies to institutionalize non-party campaign activities among its allied organizations, even though few Republican groups have the natural structural advantages for contacting members that labor unions possess. A group

[36] Brooks Jackson, *Honest Graft* (Washington, D.C.: Farragut Publishing, 1990 revised edition).

of Republican stalwarts have already staked out such a strategy in setting up an organization called Shape the Debate in California.[37]

Finally, we asked what groups benefit from donating party soft money? Although it is extremely difficult to demonstrate *quid pro quo* exchanges between contributors and elected officials we assume, for argument's sake, that a dollar contribution is worth a dollar in benefits to the donor. Given this premise, we still run into the problem of sorting out who benefits because many different groups compete for attention with their donations and they often seek opposing policy goals. Nevertheless, based on this analysis it appears that, at the aggregate level, business interests benefit from a soft money regime. They are able to offset some of the organizational advantages possessed by labor organizations simply by providing cash to the political parties instead of in-kind benefits.

Other groups provide contributions to the parties but nothing close to the levels provided by business or individual donors. We suspect that some of these groups increasingly favor the labor strategy of providing in-kind benefits to parties through issue ads or member contacts. Given this trend and the current legal environment framed by *Buckley v. Valeo*, we believe that ideological and other non-parties organizations will gain more influence in electoral politics if soft money is banned from the parties. The sources of these funds have been identified and it is unlikely political entrepreneurs will ignore these donor lists. They simply need to design methods to get these resources into selected campaigns.

[37] John M. Broder, "California Group Attacks Gore" *The New York Times*, National Edition, March 29, 2000.

Given these findings we conclude with a recommendation to limit soft money contributions to $100,000. This policy addresses several problems we raised earlier. First, it reduces the potential for corruption by eliminating the super donors, the 1 percent of those who give more than $100,000. Second, parties retain control of campaign resources, some of which support activities that encourage greater democratic participation, such as voter mobilization and grassroots programs. More importantly, party control of these resources reduces the potential for campaigns to become dominated by outside groups waging independent campaigns. And voters will be able to link party activities with the candidates more clearly than with independent actors who get involved in the campaign. Finally, the $100,000 threshold addresses the realities of partisan politics. Republicans are unlikely to accede to a ban on soft money when they know that Democrats still benefit from labor’s formidable in-kind support. Allowing parties to raise cash through soft money acknowledges the concerns of the Republican Party, which relies more on cash than Democrats, and provides a basis for compromise that encourages partisan equity in the campaign finance system.

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