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Nr. 6 / 2007

Financing the 2008 Presidential Elections

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- American presidential elections are very expensive by international comparison due to three major facts: a) the long duration of campaigning, b) missing party discipline, and c) the decentralized nature of American campaigns.

- During the primary elections, candidates raise and spend money to help win votes from their own partisans. As the parties remain neutral, the candidates have to raise money on their own. Most of the funding in the primaries comes from individual contributions.

- During the general presidential elections, the candidates of the two parties compete against each other in raising funds. Despite being backed by their parties, the candidates wish to control their messages and remain largely independent from party structures. Different kinds of support groups engage in fundraising and campaigning by various measures.

By the fall of 2007, it is already evident that the presidential elections will be the most expensive in history. During the first six months of 2007, Hillary Clinton raised approximately $50 million for her primary election campaign – more than twice what her husband had raised in his successful 1992 campaign, with most of the serious fundraising to come. This remarkable total left Clinton in second place in the Democratic money chase, behind Senator Barack Obama, who raised more than $350,000 per day for the first six months of 2007.

American presidential elections are very expensive by international comparison. This is true for several reasons. First, candidates frequently campaign for a year or two for their party's nomination. By January, 2007, many candidates were raising money and crossing the country making speeches and building organizations, even though the first ballots would not be cast for a year. Second, because American parties are not disciplined, candidates must convey more information. It is not enough to say that you are a Democrat or Republican, you must also convey what your specific issue positions are, and what kind of leader you will be. American campaign consultants typically tell candidates that they need to spend more on polling, advertising, and other activities whether there is much chance that this will help them or not. Finally, the decentralized nature of American campaigns, including the sequence of primaries and the electoral college, mean that candidates cannot simply mount national campaigns, but must instead campaign intensively in a number of specific states. Finally, the Supreme Court has barred any laws limiting spending by candidates as a violation of free speech, so there are no legal limits to how much a candidate may spend.

Presidential candidates in the U.S. engage in two sets of elections – the first within the party, and the second between the parties. During the first phase, candidates compete in a series of primary elections and caucuses in each state, with the goal of winning enough delegates to secure the nomination at a convention held in the summer of the election year. Candidates who win their party's nomination can spend any unused funds on the general election campaign, but frequently candidates spend all that they can raise to help win the nomination. In the general election, the two major party candidates sometimes compete with minor party candidates, who may be on the ballot in some but not all states.

The rules governing presidential finance are incredibly complex. The original law, the Federal Election Campaign Act (FECA) of 1974, has been modified by Supreme Court Rulings, by various regulations, and by the Bipartisan Campaign Act of 2002. Tax law also affects the way that interest groups are involved in the campaign. Campaign professionals aggressively test the limits of the law, and may even challenge the law in the Courts.

The Primary Election Campaigns

During the primary elections, candidates raise and spend money to help win votes from their own partisans. Often the policy differences between the candidates are small, so campaigns must spend substantial sums on polling data to help steer their campaign, on media advertisements to persuade voters, on voter contact to get voters to the polls, and on frequent travel to early primary election states such as Iowa and New Hampshire. Because these states hold the first primaries and caucuses, victory in at least one of them is essential for a candidate to win the nomination. In 2007, however, many states have sought to change the dates of their primaries and caucuses to compete for attention from the candidates.

Sources of Funds

During the primary elections, the political parties are generally neutral. This means that candidates must raise money on their own, and seek to win support from various party factions and interest groups. Most of the money in presidential primary elections comes from individual contributions, which are limited by law to no more than $2300 per candidate. This amount is indexed to inflation.

The limit does not apply to the candidate or their spouse, thus allowing wealthy candidates to give unlimited amounts to their own campaigns. In 2004, John Kerry loaned his own campaign large sums before the Iowa caucuses, and then later in the primary season. These loans were converted into contributions when he lost the general election. In 2008, the possibility that wealthy candidates such as Mitt Romney could tap into their personal fortunes is an important possibility. New York mayor Bloomberg has also announced that he is considering seeking the presidency, and might spend very large amounts of his own money.

In past elections, candidates raised individual contributions in one of two ways. First, campaigns sponsored events such as dinners where the cost of admission was a large contribution – frequently the largest allowed by law. Nearly ¾ of all presidential funds raised in the first half of 2007 were in contributions of $1000 or more.

Generally campaigns recruit a group of fundraisers, and develop a pyramid of solicitors who each ask others to give, and to solicit still others. The top fundraisers for a campaign usually earn special titles – George W. Bush called his top fundraisers Pioneers in 2000, and Rangers in 2004. Although businesses cannot give directly from their treasuries to candidates, executives and their families can attend an event together and thereby sponsor a table. Top fundraising events can raise millions of dollars, and the contributions are usually solicited in person.

Candidates can also raise money in smaller amounts from less affluent donors. This is usually done through impersonal solicitation such as direct mail letters, telemarketing, or internet solicitations. It takes many of these smaller contributions to amount to serious money, but campaigns can solicit preexisting lists of members of interest groups, and past donors to campaigns. The internet has changed the financial logic of small contributions, because direct mail and telemarketing are costly enterprises but e-mailed solicitations are quite inexpensive.

Candidates can also accept federal funds, which match the first $250 given by any individual. This is especially useful for small contributions, since it essentially doubles the value of a gift. But candidates who accept matching funds must abide by spending limits in each of the individual states, and overall during the campaign. In 2000, George W. Bush became the first major presidential candidate to refuse matching funds, thereby enabling him to raise far more money than his rivals. In 2004, Democrats Howard Dean and John Kerry also refused matching funds. In the 2008 campaign, the leading candidates in both parties are refusing matching funds.

Interest groups also contribute to candidates through political action committees (PACs). Although PACs are an important source of funds for congressional candidates, they are usually less important in presidential nomination contests, because groups may not want to take sides among several candidates who they might want to support later in the general election.

Loopholes

There are several loopholes for the contribution limits in primary campaigns. Most important in 2007 has been state level political action committees (PACs) sponsored by candidates. In many states, there are no limits to the amount that individuals or interest groups can give to PACs. Although state level PACs cannot directly be involved in presidential elections, they can pay the salaries of consultants and otherwise help the campaign.

Candidates can also form non-profit foundations, issue groups, and other organizations that can assist their campaign in a number of ways. These creative campaigning tools are especially useful early in the campaign, when candidates are often not well known across the country, and can therefore convert large contributions from supporters into campaign cash.

The General Election

During the general election, presidential candidates are eligible for public funding, which obligates them to abide by a general election spending limit. The size of the grant for 2008 is not yet determined, but in

2004 both presidential campaigns received nearly $75 million. Third parties that received at least 5% of the vote in the last presidential election are eligible for partial public funding in the next election. No third party will receive funds in 2008.

Presidential candidates could refuse the public grant and raise money with no spending limit. In 2004 both the Bush and Kerry campaigns considered refusing the general election grant, but to date no major party candidate has done so. If a presidential candidate did refuse the public grant, they could solicit funds from individuals up to $2300 for the general election, and from PACs of up to $5000.

Political parties can contribute to presidential campaigns, but more importantly they can spend unlimited amounts to help their candidates win. Parties produce and air media ads on television and radio, contact voters by phone and mail, and hire field operatives to build voter mobilization campaigns. There are often coordination problems between parties and presidential campaigns, however, since the candidates wish to control their own messages.

Interest groups can help in the general election in a variety of ways, depending on how they are organized under tax law. Non-profit charities can help inform voters of issues, register voters, and urge citizens to vote, so long as they do not endorse candidates. Groups such as League of Women Voters hold public debates between candidates and issue voter guides, others like Rock the Vote encourage young people to vote, and churches may inform their members of issues in the campaign. In recent years, a number of groups have registered as non-profit organizations but have engaged in activities that appear partisan. The Internal Revenue Service investigates the tax exempt status of groups.

Other types of groups can campaign on issues and endorse candidates, but not run campaign ads. In the past few years, 527 committees (named after the section of the tax code that governs them) have run ads that purport to merely inform voters, but which are obvious aimed at persuasion. The “Swift Boat Veterans for Truth,” for example, ran ads that claimed that John Kerry lied about his war record. Because the ad did not say explicitly to vote for or against any particular candidate, it was not considered a campaign ad. “Move On.Org” aired TV ads, but was especially noted for creating innovative internet advertising, often developed by members or supporters of the group with little or no professional assistance.

In 2002, Congress tried to limit such advertisements to prior to the official start of the campaign, and to ban such ads paid for from corporate profits and labor union dues. But a recent Supreme Court ruling has left the precise limits of such ads in doubt, and this will doubtlessly encourage a number of groups to be very involved in the 2008 campaign.

Because 527 committees do not officially engage in campaign ads, the sources of their funding, and their spending, is not disclosed to the Federal Election Commission, which monitors campaign funding. These committees do file reports with the Internal Revenue Service, but these are done after the campaign and are difficult to access. Thus 527 committees limit the transparency of the campaign finance system.

In 2004, 527 committees were especially organized to help John Kerry. Republican party officials did most of the voter contacting and mobilization directly within the party, but a coalition of labor, environmental, feminist, and civil rights groups formed 527 committees and did this for the Democrats. It is likely that this division will continue in 2008, since the GOP has better developed capacity for voter mobilization. In the 1990s, Republican party organizations were better funded than Democrats, and they used this money to develop an extensive intra-party mechanism to identify and contact potential voters within 72 hours of the election. Democrats were less concerned with developing this capability, since unions and other groups have long performed this chore for them.

Thus in the general election, there will be three very different types of campaigns, run by different people and governed by different rules. The candidates will spend money on polling, advertisements, travel, and other tasks, perhaps funded by the public grant. Political parties will run a parallel campaign, and will especially focus on contacting and mobilizing voters. And interest groups will run still a third campaign – but one that is only partially coordinated and in many ways unpredictable.

October 18th, 2007

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