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Campaign Finance in the United States

BY JAMES GRIFFIN

What factors helped shape the American campaign finance system as it is today?

Who are the actors in campaign finance and how much influence do they have?

How does the U.S. campaign finance system differ from that in Germany?

For many observers, both inside the United States and abroad, the financing of American political campaigns is regarded with skepticism and some disregard as a system which is influenced too much by wealthy donors and special interest groups. The sentiment goes, that political decisions are driven by financing and connections. Somewhat representative of this view are headlines such as "*Millionenschlacht ums Präsidentenamt: Haste Was, Wirste Was*"¹ (loosely translated: "Million-dollar battle for the presidency: if you have something you will be something") and statements like this one from the British newspaper *The Observer*: "The secretive ranks of [Bush fundraisers] expose the huge influence of cash on U.S. policy [...] Their firms win billions of dollars worth of federal contracts. Legislation is shaped to benefit their industries."²

Of course, the reality of American campaign finance is much more complex than such simplified representations. The system reflects a competing set of priorities in American society: on the one hand, the desire for an open, dynamic, and democratic political debate and, on the other hand, a need to reduce the potential for corruption and undue influence.

This Issue Brief seeks to examine and explain American campaign finance for a "non-insider" audience with an interest in understanding how the system functions. Here, some European, and especially German, comparisons will be applied. The Issue Brief is divided into three main sections. Section 1 offers some background on the system, including some basic principles which shape the system and a brief historical overview of campaign finance regulations in the United States. Next, in section 2 the main characteristics of the American campaign finance landscape will be explored, including an overview of the main actors in American federal elections and relevant regulations. Thereafter, statistics from recent elections to illustrate how campaigns work within this system to raise money, and a brief comparison with party finance in Germany will be drawn. The final section will be a discussion of some of the implications of the system and how it may evolve in the future. (*Continued on Page 3*)

Wahlkampffinanzierung in den USA / German Summary

Viele Deutsche verfolgen gespannt den amerikanischen Präsidentschaftswahlkampf. Dabei wundern sich viele über die Art, wie in den USA Wahlkampf geführt wird, und über dessen Finanzierung. Mit diesem Issue Brief versucht der Autor James Griffin und das AICGS die Regeln der amerikanischen Wahlkampffinanzierung zu erläutern und am Beispiel der letzten Präsidentschaftswahl 2004 zwischen George W. Bush und John Kerry zu verdeutlichen. Zugleich wird mit einem Vergleich des deutschen und des amerikanischen Wahlkampffinanzierungssystems versucht, die Unterschiede und deren Begründung aufzudecken.

Das System der amerikanischen Wahlkampffinanzierung hat sich über die zweihundertjährige Geschichte der USA stufenweise entwickelt. Wesentliche Meilensteine waren hierbei der Federal Elections Campaign Act (FECA) von 1971 und die Entscheidung des Supreme Court in *Buckley vs. Valeo* von 1976. Zuletzt wurde das System durch die Verabschaffung des Bipartisan Campaign Reform Act (BCRA) 2002 geändert.

Verglichen mit Wahlkämpfen in Europa sind amerikanische Wahlkämpfe durch eine größere Anzahl von Akteuren gekennzeichnet. In den USA ist der Kandidat, nicht die Partei, das Zentrum des Wahlkampfes, und Kandidaten sind bei der Organisation ihres Wahlkampfes im Wesentlichen auf sich alleine gestellt. Die Parteien konzentrieren ihre Aktivitäten auf ihren Präsidentschaftskandidaten und ein paar knappe, öffentlichkeitswirksame Wahlbezirke. Neben den Kandidaten für ein öffentliches Amt und die Parteien gibt es aber noch andere Akteure, die bei Wahlkämpfen eine Rolle spielen. Political Action Committees (PACs) sind themenbezogene politische Vereine, die Spenden sammeln und an Kandidaten weitergeben, die politische Positionen des jeweiligen PAC vertreten. Sogenannte „527 Organisationen“, wie zum Beispiel der Sierra Club oder die National Rifle Association, sind politische Vereinigungen, die spezifische politische Interessen vertreten aber keine Kandidaten direkt unterstützen oder gar zur Wahl aufstellen. Sie haben zunehmenden Einfluss auf die Wahlkämpfe der USA. Bundlers sind einflussreiche Einzelpersonen oder manchmal Organisationen, die als Fundraiser ihre Beziehungen ausnutzen, um Spenden für ihren Kandidaten von Dritten einzuwerben; sie zu bündeln und an ihren Kandidaten weiterleiten.

Um Korruption einzuhemmen, wurden mehrere Regulierungsmaßnahmen durch das FECA und das BCRA eingeführt. Die wesentlichen Elemente dieser Regulierung der Wahlkampffinanzierung sind Spendenbegrenzungen, Offenlegung von Spenden, das Angebot einer öffentlichen Finanzierung verbunden mit einer Ausgabenbegrenzung. Spendenbegrenzungen gelten für alle Spenden an Kandidaten, Parteien und PACs. Keine Einzelperson darf mehr als \$2300 an einen Kandidaten pro Wahlgang spenden. Gesamtspenden an alle Kandidaten pro Person werden auf \$42.700 und an PACs und Parteien auf \$65.500 pro Jahr begrenzt. Die Finanzen der Kandidaten und der Parteien sind getrennt und unterstehen strengen Veröffentlichungspflichten. Die Ausgaben sowie alle Spenden über \$100 müssen ausführlich dokumentiert und in regelmäßigen Berichten an die Bundeswahlbehörde FEC weitergeleitet werden. Diese Berichte

werden im Internet veröffentlicht, wo jeder Bürger, Politiker oder Journalist Zugang hat. Damit soll die Hemmschwelle bei der Annahme von fragwürdigen Spenden erhöht werden.

Eine öffentliche Wahlkampffinanzierung, wie man sie in Deutschland kennt, spielt in den USA nur eine geringe Rolle. Ausschließlich bei Präsidentschaftswahlen steht eine öffentliche Finanzierung zur Verfügung, die, wenn sie von einem Kandidaten angenommen wird, gleichzeitig mit einer strikten Ausgabenbegrenzung verbunden ist. In den Vorwahlen stellt die öffentliche Finanzierung eine Art Kofinanzierung zu den Spenden an den Kandidaten dar. Für den eigentlichen Präsidentschaftswahlkampf erhalten die Kandidaten eine Pauschalsumme. Kandidaten, die diese öffentliche Finanzierung annehmen, dürfen keine privaten Spenden in der zweiten Wahlphase annehmen und müssen eine strikte Ausgabenbegrenzung einhalten, die der Summe der öffentlichen Finanzierung entspricht und zusätzlich nach Bundesstaaten ausdifferenziert ist. In 2008 beträgt diese Summe \$84,1 Millionen.

Im Präsidentschaftswahlkampf 2004 hat Amtsinhaber George W. Bush insgesamt \$367 Millionen an Spenden eingesammelt, der Herausforderer John Kerry \$328,5 Millionen. Bei Bush kamen 74% dieser Mittel aus privaten Spenden, 20% kamen aus der öffentlichen Finanzierung und 1% von PACs. Das Budget von John Kerry kam zu 69% aus Spenden, 23% aus öffentlichen Mitteln und weniger als 1% von PACs. Die Parteien spielen eine kleinere Rolle als in Deutschland: 2004 hat die republikanische Partei \$120 Millionen für Bush und die Demokraten \$153 Millionen für Kerry ausgegeben. 527s sind auch im Wahlkampf präsent und manche führen ihren eigenen Wahlkampf gegen oder für bestimmte Positionen oder Kandidaten. 2004 haben alle 527s zusammen \$435 Million aufgebracht und ausgegeben.

Neben den Kosten für Mitarbeiter, werden diese Mittel vor allem für Wahlkampfwerbung ausgegeben: zwischen März und November 2004 gaben Bush und die Republikaner \$193 Millionen für Werbung aus, Kerry und die Demokraten \$260 Millionen. Zu den anderen Ausgaben zählten die Kosten für Veranstaltungen, Beratung, eigene Umfragen oder für Fundraising. Für Kandidaten für den Senat oder das Repräsentantenhaus gibt es keine öffentliche Finanzierung. Dafür können die Einnahmen aus PAC-Spenden mehr als 40% des Gesamtbudgets bei Kandidaten für das Repräsentantenhaus ausmachen.

Ein Direktvergleich mit Deutschland ist auf Grund der unterschiedlichen Parteistruktur kompliziert. In Deutschland gibt es keine Spendenbegrenzung und Parteien werden überwiegend durch Mitgliedsbeiträge—die in den USA unbekannt sind—and öffentlichen Mitteln finanziert. Spenden spielen bei der Finanzierung deutscher Parteien eine geringere Rolle, sind aber in ihrer Höhe nicht begrenzt. Spenden unter €10.000 müssen auch nicht veröffentlicht werden.

Wahlkämpfe in den USA sind teuer. Die Kosten müssen jedoch im Verhältnis zur Größe des Landes und seiner Bevölkerung gesehen werden. So kostete der gesamte Präsidentschaftswahlkampf 2004

\$655 Millionen. In der öffentlichen Kritik steht das System der Wahlkampffinanzierung immer wieder wegen des potentiellen Einflusses von Wahlkampfspenden auf Entscheidungsträger. Allerdings haben die Mehrheit der wissenschaftlichen Studien zu diesem Thema keinen Zusammenhang zwischen Spenden und politischen Entscheidungen gefunden. In letzter Zeit ist insbesondere die Rolle der „527 Organisationen“ umstritten, die der Wahlkampfaussicht nicht unterstehen, deren Aktivitäten aber durch den hohen Schutz der Meinungsfreiheit in den USA geschützt sind.

Die amerikanische Wahlkampffinanzierung verändert sich. Kandidaten wie Howard Dean und zuletzt Barack Obama haben Millionen von kleinen Spendern angezapft, statt wie bisherige Kandidaten sich auf wenige große Spender zu konzentrieren. Zugleich ist das System der öffentlichen Finanzierung gefährdet. Die wesentlichen Kandidaten wie

Obama, Clinton, Bush und McCain nehmen das System kaum mehr in Anspruch und stützen sich lieber auf Privatspenden, um später keiner Ausgabenbegrenzung zu unterliegen. Das Internet erleichtert das Sammeln von Kleinspenden und senkt gleichzeitig die Werbe- und Kommunikationskosten im Wahlkampf. Gerade diese Entwicklung wird langfristig zu einer grundlegenden Änderung des Wahlkampfs und seiner Finanzierung führen, nicht zuletzt, weil sich dadurch auch die Bedeutung der klassischen Medien verringert.

Section 1: Principles and History of the Campaign Finance System

Basic Principles

The American campaign finance system is an important feature of American democracy and, at the same time, is a product of that democracy, strongly influenced by American societal values. A brief review of some of them is useful to better understand how the system has developed and what principles lie behind it. The most important of these values include a mistrust of state power, a belief in individual action and responsibility, and the important role of freedom of speech.

Skepticism of the state and of state interference in political affairs is deeply ingrained in American political culture. The American Revolution was more a revolt against taxation and a strong state than it was against a foreign power, as Thomas Paine wrote in his influential pamphlet *Common Sense*: “Government even in its best state is but a necessary evil, in its worst state an intolerable one.”³ This skepticism means that Americans are typically much less willing than Europeans to address problems through state regulation or state authority.

This skepticism of the state is accompanied by a strong belief in individualism, a belief so strong that it was considered by the political sociologist Seymour Martin Lipset to be one of the core American values, a central belief, and part of the so-called “American creed” upon which America was founded.⁴ This individualism also brings with it a certain responsibility to participate in the civic society of the nation through churches, charities, unions, and politics.

Finally, the role and importance of freedom of speech in American political culture can hardly be overestimated, a role which is institutionalized in the position of freedom of speech as the first amendment in the Bill of Rights. The Supreme Court consistently decides for strong protections for the freedom of speech, with political speech receiving the highest level of protection. This high value placed on freedom of speech means that many regulations which

might be possible in Europe are not possible in the United States and makes efforts to regulate political campaigns exceedingly difficult.

Historical Development

The current U.S. campaign finance system has developed over an extended period of time, with periods of stability followed by scandal and reform, which are then followed by longer periods of stability, until the necessity for reform arises again.

For much of its history, the U.S. had no laws regulating the financing of campaigns and no established campaign finance system. The first law regulating the financing of political campaigns was passed in 1867, when a naval appropriations bill prevented federal officials from requesting campaign contributions from navy yard workers. In 1905, the reformer President Theodore Roosevelt called for a ban on all corporate contributions to political parties; two years later the Tillman Act was passed to prevent corporations and banks from contributing directly to federal candidates. In 1910 the Federal Corrupt Practices Act (FCPA) was passed. The FCPA and its 1911 amendments established the first spending limits for House and Senate campaigns and required parties to disclose their contributions. Between 1911 and 1971 some further adjustments were made to campaign finance laws; in 1939 the Hatch Act, and amendments to it passed in 1940, established a contribution limit of \$5,000 per person per election and prohibited federal employees from engaging in partisan activity while on federal business.

Perhaps the most important piece of legislation governing American campaign finance is the 1971 Federal Election Campaign Act (FECA), the first attempt to create a comprehensive national campaign finance regulatory structure. The FECA had three important features: it required strict disclosure of contributions, it limited how much candidates could contribute to their own campaign, and it set limits on campaign advertising. In 1974 the FECA was

amended and the Federal Elections Commission (FEC) was created as the regulatory and supervisory authority for federal campaigns. The 1974 amendments also expanded the limits on advertising spending to include all campaign spending. Limits were also set on campaign contributions and a system for public financing of presidential campaigns was created. Since the early 1970s the FECA and its 1974 amendments have been the backbone of American campaign finance regulation.

The FECA was not without controversy, however, and its opponents soon challenged it in court. In 1976, in its *Buckley vs. Valeo* decision, the Supreme Court ruled limits on campaign spending to be limitations on free speech and therefore unconstitutional. At most, the court ruled, spending limits could only be voluntary, perhaps in exchange for public funding. This ruling, combined with the federal funding system for presidential candidates (implemented by a different law in 1971) became a core element of the financing system for presidential campaigns for almost twenty years.

The most recent change in the U.S. system was made in 2002, to close loopholes in the FECA related to donations to political parties. The Bipartisan Campaign Reform Act (BCRA, also referred to as McCain-Feingold), sponsored by Senators John McCain (R-AZ) and Russell Feingold (D-WI), among others, expanded regulation of campaign financing to include contributions to political parties for organizational activities, thereby including so-called “soft money” (as opposed to “hard” regulated money), which was previously not covered under the FECA.

Actors in the U.S. Campaign Finance System

These pieces of legislation, the *Buckley vs. Valeo* decision, and the American political system have led to an American campaign finance system which differs from most European systems in many ways. One important difference between American and European political campaigns, and therefore campaign finance, is the large number of actors who are involved. These do not only include the candidates and parties themselves, but a number of other types of organizations which may play a role in the campaign and the financing of it. To better understand the function of the system, it is important to have an understanding of each of these actors and their roles.

In the United States, individual candidates, rather than parties, are at the center of political campaigns. Candidates organize their campaigns in the form of campaign committees, a type of legal association formed by key supporters of the candidate. The campaign committee, which must be registered with the FEC, manages all financial aspects of the campaign: it accepts donations on the candidate's behalf, takes out loans, and makes expenditures for staff, advertising, and other costs. The candidate's personal assets must remain separate from that of the campaign committee, although the candidate may donate to the committee in unlimited amounts, make loans to it, or be paid a reasonable salary by it. Campaign committees are required to regularly disclose their donations and spending to the FEC.

Political parties in the United States can play an important supporting role in election campaigns, but do not dominate them to the extent that they do in Europe. Control of the campaign is always in the hands of the candidate, not the party, and while presidential campaigns work closely with the parties, congressional and other campaigns are conducted entirely independently with the parties playing only a very minor role.

Parties in the U.S. are also much more loosely structured than in Europe, with a fundamental difference being their membership structure. Unlike European parties, American parties have no formal membership rules, lists, or dues. For example, to become a member of the Democratic Party, it is only necessary to register to vote as a “Democrat” and switching parties only requires a brief visit to the voters registration office. This leads to a central difference in the financing of European and American political parties: the role of membership dues. Whereas, for example, German parties earn as much as 48 percent⁵ of their income from dues, American parties do not charge dues and must instead rely on voluntary donations.

At the core of each party organization is its national committee: the Republican National Committee (RNC) and the Democratic National Committee (DNC). The national committees collect their entire budgets through donations, which are then used to pay staff and purchase advertising. The national parties usually provide direct financial support only to the presidential candidate of the party, with the rest of their spending going to support the party organizations at the state level. To directly support congressional candidates, each party also has so-called Hill committees which operate similar to the national committees, but are organizationally separate.

In addition to political parties and candidates, several other types of individuals and organizations are important in the American campaign finance landscape. These include political action committees, so-called 527 organizations, and individuals known as “bundlers.”

Political action committees (PACs) are expressly political organizations which are created to support a certain point of view and help elect candidates to political office whose political agenda supports such views. They are usually issue-based and support multiple candidates, typically based on issue-related criteria. There are PACs for virtually all kinds of social and political issues, with participants/contributors coming from all walks of life. Because they are prohibited from making any direct contributions to campaigns or parties, it is standard practice for many corporations, unions, and industry associations to help to set up special kinds of PACs, called special segregated funds (SSFs), to which their staff members may contribute;⁶ these are sometimes known as “corporate PACS.” No direct financial support from corporations, unions, or industry associations may be used to fund candidates, but some in-kind contributions, such as providing meeting venues, free time, and personnel support, may be used to cover the administrative costs of the SSF.⁷ Within this Issue Brief, the term PAC includes SSFs. However, not all PACs are SSFs; instead most are issue-based. Thousands of such PACs exist, ranging from very political issues,

religious and abortion issues (such as the National Right to Life PAC); environmentalist issues (e.g., Sierra PAC) to activities that support a positive business environment in general (e.g., anti-tax PACs) or in specific economic sectors (e.g., the National Association of Realtors PAC). For almost every PAC another PAC exists with opposing views.

527 organizations, named after a section of the internal revenue code which applies to them, are organizations created for political purposes but which may not explicitly call for the defeat or election of any one candidate. They may be so-called "grass roots" organizations, such as MoveOn.org, a Democratic-leaning organization which operated as a 527 until this year and which was very critical of George W. Bush; America Votes, an organization which helps mobilize liberal voters; or the National Rifle Association (NRA), a conservative, pro-gun organization. They may also be funded by distinct organizations, corporations, or wealthy individuals, or, as is often the case, lie somewhere in the middle. Although they are not allowed to coordinate any of their efforts with election campaigns, they are playing a growing role in American politics. 527s are not subject to any contribution limits or disclosure requirements, and

are becoming more controversial as they take a more active role in many campaigns. Many 527s, such as the Sierra Club, also run separate PACs which make direct campaign contributions to candidates.

Finally, "bundlers" can also play a notable role in the financing process. Bundlers use their political or business connections and fundraising abilities to raise money from other people to benefit a specific candidate. Bundlers can be organizations that bundle donations for many candidates, such as Emily's List, which seeks to elect progressive female Democratic candidates⁸ or individuals who only bundle for select candidates. Some individual bundlers raise hundreds of thousands of dollars per candidate, such as George W. Bush's Pioneers and Rangers, each of whom has raised over \$100,000 (Pioneers) or \$200,000 (Rangers) for Bush in one of the last two elections. In 2004, donations organized by such bundlers made up 26 percent of Bush's primary election contributions and 17 percent of John Kerry's.⁹ All candidates made extensive use of bundlers in 2008, including Hillary Clinton, Barack Obama, and John McCain.

Section 2: Campaign Finance Regulation

The actors in the U.S. campaign finance system all operate within a tight legal framework regulating the financing of campaigns, which at present is much stricter than those in many European countries. In the U.S., fundraising for political campaigns is regulated by five main regulatory instruments: limits on contributions to campaigns; strict disclosure by political committees of who has contributed to them; outright prohibitions on certain types of contributions; voluntary spending limits; and public financing which is tied to those limits. In this section, these instruments will be explained with the aim of giving the reader a basic understanding of the regulations which circumscribe the actors' conduct within the campaign finance arena.

Contribution Limits and Prohibited Contributions

In the United States contributions to parties and political campaigns are limited by amount. Such limits are the oldest and one of the most important parts of the regulatory structure governing the financing of campaigns. Donations by individuals, PACs, and parties (party committees) to election campaigns or to other PACs or parties are all subject to contribution limits. Limits for donations to candidates apply per election, with primary and general elections being counted separately, whereas limits to parties and PACs are per year. The primary period lasts until the party has nominated its candidate for the general election (in the case of presidential candidates) or until the primary election has been held (in the case of congressional candidates). These limits are detailed in Table 1. In addition, no one individual may donate more than \$108,200—\$42,700 to candi-

dates and \$65,500 to PACs and parties—within a two-year period, as stipulated by law.

Bundling is not prohibited by campaign finance law, because the bundlers do not make the contributions to the candidates themselves, but rather convince other individuals to donate. Some limits are adjusted for inflation every two years.

The main logic in limiting the amount of contributions is to avoid "the appearance of corruption." This view is expressed well by the Supreme Court in its ruling on *Buckley vs. Valeo*: "Congress was justified in concluding that the interest in safeguarding against the appearance of impropriety requires that the opportunity for abuse inherent in the process of raising large monetary contributions be

Table 1: Contribution Limits

Donor		Recipient			
		Candidate committee*Committee*	National party committee**	State or local party committee**	other political committee**
Individual	Individual	\$2,300	\$28,500	\$10,000†	\$5,000
	National Party Committee	\$5,000	Unlimited	Unlimited	\$5,000
	State, District & Local Party Committee	\$5,000†	Unlimited	Unlimited	\$5,000†
	Multicandidate PAC‡	\$5,000	\$15,000	\$5,000†	\$5,000
	PAC(not multicandidate)‡	\$2,300	\$28,500	\$10,000†	\$5,000
	Campaign Committee	\$2,000	Unlimited	Unlimited	\$5,000

Source: Federal Election Commission <http://www.fec.gov/pages/brochures/contriblimits.shtml>

* per election **per calendar year † combined limit, i.e., to all organizations of this type

‡ A multicandidate PAC is a PAC which has at least 50 donors and which gives to five or more candidates.

eliminated.¹⁰ Contributions from certain sources are banned completely. These include direct contributions from businesses or labor unions; contributions from non-U.S. citizens who are not legal residents of the U.S.; donations in the name of others; and anonymous donations over \$50.

Public Disclosure

The second and most important major element of the campaign finance regulatory structure is disclosure. In the United States, information about who contributed how much to whom is public record and is available on the website of the FEC (http://www.fec.gov/finance/disclosure/disclosure_data_search.shtml) as well as the websites of “watchdog” institutions such as the Center for Responsible Politics (www.opensecrets.org) and on sites such as www.campaignmoney.com. Every three months candidates, parties, and PACs are required to file reports with the FEC, or in the case of Senate candidates, with the Secretary of the Senate, detailing total amounts raised and spent, and, for individual donations over \$200, the amount, date, name, and address of the donor, his or her employer, and similar information. All contributions from party committees, PACs, and other candidates¹¹ must be itemized regardless of size. These data are then entered into the FEC database and made available on the website within days of the report being filed. The purpose of disclosure is clear: to increase public faith in the system by promoting transparency, and at the same time to dissuade candidates from accepting questionable donations by subjecting them to public scrutiny and pressure. In contrast, contributions to German political parties need only be disclosed if they exceed €10,000 in the course of a year; donations of over €50,000 must be disclosed as soon as possible after being received.

Spending Limits and Public Funding

Spending limits, which were long a part of the U.S. system and which had first been implemented as part of the 1910 Federal Corrupt Practices Act, were largely abolished by the Supreme Court in the *Buckley vs. Valeo* decision. In its decision, the court declared that:

“The First Amendment denies government the power to determine that spending to promote one’s political views is wasteful, excessive, or unwise. In the free society ordained by our Constitution it is not the government, but the people—individually as citizens and candidates and collectively as associations and political committees—who must retain control over the quantity and range of debate on public issues in a political campaign.”¹²

The only way to impose spending limits, the court declared, would be if these were voluntary, although it would be acceptable to tie these benefits to some sort of public funding. Today, spending limits only apply to presidential candidates who receive public funding: If they accept such public funding, they are limited to spending \$42.5 million in the primary election and \$84.1 million—the amount of their public funding grant—in the general election,

with break-downs for spending in each state.¹³ Public funding and the limits that are attached to it are completely voluntary. The candidate can choose to accept public funding for both phases of the election, for either one of the two phases, or for neither of them. Congressional campaigns are not eligible for public funding and are therefore not subject to any spending limits.

Public funding plays only a secondary role in U.S. political campaigns, in contrast to Germany where it makes up as much as 37 percent¹⁴ of the funding of political parties. First proposed by President Theodore Roosevelt in 1907, public financing of campaigns was discussed for decades before the current system was passed in 1971 and further strengthened in 1974.¹⁵ Public funding takes three forms: in the primary elections, public funds match private contributions up to the first \$250 of each donation received, meaning that candidates who accept public funds accept and spend a mixture of private and public money. In the general election, each major party candidate receives a flat grant amount, which is adjusted for inflation; in 2008 this grant totals \$84.1 million per major party candidate. Candidates who accept this grant cannot accept private contributions for the general election and are therefore totally dependent on public money. Finally, public money also helps cover the costs of party conventions. In 2004, public funding paid \$74.9 million to each candidate in the general election and contributed \$14.9 million to the party conventions.¹⁶

Other than the fact that accepting public money makes the recipient subject to overall spending limits, public money may be spent just like private money and no distinction is made between the two for spending or disclosure purposes. The system is funded through a voluntary check-off on federal income tax returns in which taxpayers can direct three dollars of their federal taxes to the public presidential campaign fund. In 2008, Senator Barack Obama declared that he will not accept public funding for the primary or general elections, meaning he is not subject to any spending limits. John McCain has agreed to accept \$84.1 million in public funding for the general election; he can therefore not spend more than this amount in the general election and will not be able to raise private money for the general election.¹⁷

The System in Operation

Having reviewed the actors and the principal regulatory characteristics of the U.S. campaign finance system, the following section will examine how the system works in operation: how candidates raise their money, and how they spend it “on the campaign trail.” The primary basis for this comparison will be the 2004 Bush and Kerry campaigns, the most recent presidential election for which complete fundraising figures are available. However, because U.S. presidential campaigns only represent a part of the U.S. campaign finance landscape, this comparison will also be supplemented by data from congressional campaigns, the funding of which differs significantly from presidential campaigns. Finally, the figures from the United States will be compared with data on the sources of party financing in Germany.

American campaigns consist of two phases: the primary campaign in which the candidates within a party compete against each other for the party nomination, and the general election. Primaries are possible in all federal elections. These two types of campaigns are considered to be separate elections for regulatory purposes, and donors may donate to both (see Table 1). However, the candidates can and do carry over the funds raised in the primary campaign to the general campaign.

In a continent-spanning country of 300 million people, presidential campaigns are quite expensive. For both phases of the 2004 election combined, the Bush campaign raised \$367.2 million and spent \$345.3 million; for Kerry these figures were \$328.5 million and \$309.7 million, respectively.¹⁸ Advertising in general and television advertising in particular are the most expensive aspects of a campaign and make up the largest share of this spending, up to 40 percent of costs. For example, from March to November 2004 the Bush campaign and the RNC (in coordinated expenditures) together spent \$183 million while the Kerry campaign and the DNC (again, coordinated spending) spent \$161 million on radio and television ads, as depicted in Table 2.¹⁹ Note that these figures include spending by the campaigns and parties and do not include spending on newspaper advertisements or direct mailing. Other large spending categories for the campaign committees include staff and administrative costs (approximately 40%); campaign events, consultants, and research (approx. 14%); and fundraising (approx 8%).²⁰

Table 2: Presidential Campaign Advertising March 1- November 2 2004, by Source

Campaign/Organization	Amount (millions)
Bush and RNC*	\$183
RNC**	\$10
Pro-Bush Groups	\$36
Kerry and DNC*	\$161
DNC**	\$99
Pro-Kerry Groups	\$98

Source: LA Times

<http://articles.latimes.com/2004/nov/02/nation/na-ads2>

*Coordinated Expenditures

** Independent Expenditures

These funds are raised in a variety of ways, which are detailed in Table 3. Individual donations make up the largest percentage of the funds raised, accounting for 74 percent of the funds raised by the Bush campaign for the 2004 election, and for 69 percent of the funds raised by the Kerry campaign. The most common way these funds are raised is through direct, targeted requests over the telephone, or more often by e-mail and direct mail. Campaigns and parties trade and buy lists of party supporters and previous donors, who they contact directly. They also solicit donations from supporters who register on party or candidate websites. Non-targeted requests for donations, such as general appeals for donations, are also used.

Candidates also raise money through fundraising events, which may be organized by the candidate themselves, by the party, by

bundlers, or by others. Because the specific fundraising method does not need to be disclosed, it is difficult to make generalizations about what method is most popular. In general, however, larger donations are made at fundraising events, whereas smaller donations are raised through the internet, direct mail, and other efforts.

The second major source of funding for presidential campaigns is public funding, which in 2004 made up 20 to 23 percent of each candidate's financing. As explained earlier, public funding is based on certain formulas and is tied to restrictions on campaign spending. In the 2004 election, public funding was equally divided between the two larger candidates, with each receiving \$74.6 million in public funding for the general election but refusing public funding for the primary. As previously mentioned, McCain will receive \$84.1 million in public funding for the 2008 general election; Obama has chosen not to take public funding.²¹

Finally, the parties also play a role in indirectly financing the presidential campaigns. While the parties are limited in their ability to make direct contributions to the candidate's campaigns, they can coordinate their advertising with the candidate and directly advocate his election—or attack his opponent. The amount which can be spent on such coordinated expenditures varies from \$40,900 for some representatives to up to \$2.28 million for some Senate candidates and \$19.1 million for the presidential candidate.²² Parties spend the large majority of their campaign funding in presidential campaigns, and in 2004 both of the large parties spent heavily on campaign advertising, either in direct support of their presidential candidate or their party in general: \$153.4 million by the Democrats and \$120.4 million by the Republicans.

Table 3: 2004 Bush and Kerry Campaign Financing

Source	Bush	Kerry
Individual Contributions	\$271.8 (74%)	\$227 (69%)
Contributions by amount:		
<\$200	32%	31%
\$200-\$2300	19%	34%
>\$2300	49%	35%
Public Funding	\$74.6 (20%)	\$74.6 (23%)
PACs	\$2.9 (1%)	\$0.3(< 1%)
Total Raised by Candidate	\$367.2	\$328.5
Party Spending in support of the candidate	\$120.4	\$153.4

Figures are rounded and in millions.

Sources: Center for Responsive Politics, FEC

In addition to the amounts spent by the campaigns and parties, other groups and organizations are active in the elections. This is where 527 organizations become influential, participating mostly through advertising in which they make political statements without directly calling for a candidate's election or defeat. In the 2004 elections, they raised and spent approximately \$435 million and were

believed by many to have had an impact on the race.²³ For example, the 527 organization Swift Boat Veterans for Truth raised \$27 million and ran very aggressive but effective advertisements attacking Kerry's record in Vietnam; Kerry's status as a decorated Vietnam veteran was an integral part of his appeal as an experienced leader. The ads were credited by many observers with damaging Kerry's campaign in the final stretch of the 2004 election.²⁴ Democratic-leaning 527 groups also ran advertisements against the Republican candidate.

Donations from PACs make up a relatively small percentage of the money raised by presidential campaigns and made up 1 percent and less than 1 percent of the total funds raised by the Bush and Kerry campaigns, respectively.

Congressional campaigns differ from presidential campaigns in a number of ways. The first is, of course, size. Elections for the Senate and House typically are much less expensive than presidential races. In 2006, the average winner of a campaign for the House of Representatives spent \$1.25 million and the average winner of a Senate race spent \$9.63 million.²⁵ This amount varies depending on the competitiveness of the election and the size of the state.

Like presidential candidates, the majority of the funds raised by congressional candidates are in the form of individual donations (see Table 4). However, contributions of over \$200 make up a much larger share of donations to congressional candidates than to presidential candidates. Furthermore, the second largest source of funding for congressional candidates is PAC contributions; PACs play a more important role in congressional elections than in presidential races, with House candidates from both parties getting over 40 percent of their funding from PACs in 2006. In 2006, the top twenty union and business PACs (SSFs) made \$35.5 million in contributions to congressional candidates;²⁶ a list of the top ten of these is available in Table 5. Bundlers are active in congressional races just as they are in presidential races, albeit at a proportionately smaller scale.

The degree to which parties and organizations engage in congressional races is determined largely by the competitiveness of the race. Usually, the major parties, through their congressional committees and 527 organizations, concentrate their efforts in a small number of key races which have the potential to influence control of Congress. However, high-profile candidates, such as the Speaker of the House, may be targeted by the opposing party.

Table 4: Sources of Funding for House and Senate Candidates by Party, 2006

	Democrats		Republicans	
	House	Senate	House	Senate
Contributions Over \$200	42%	39%	39%	42%
Contributions Up to \$200	10%	20%	9%	11%
PACs	42%	14%	43%	24%
Personal Funds	0%	3%	2%	1%
Other	3%	8%	4%	8%

These data are averages of all campaigns in that category.

Source: Center for Responsive Politics

Personal funds sometimes play a small role in congressional elections and are used exclusively by challengers or candidates for open seats. Once elected, incumbents are able to raise enough money to avoid having to use personal funds.

Due to the frequency of House races (every two years), fundraising, networking, and strengthening contacts with potential donors of all types, including PACs, consumes a considerable portion of Representatives' time.

Table 5: Top 10 Union and Business PAC (SSF) Contributors to Candidates, 2007-2008

PAC Name	Total	To Dem	To Rep
Operating Engineers Union	\$2,612,560	86%	14%
National Association of Realtors	\$2,289,750	59%	41%
Intl Brotherhood of Electrical Workers	\$2,286,550	98%	2%
AT&T Inc	\$2,065,200	36%	64%
American Assn for Justice	\$1,904,000	95%	5%
National Beer Wholesalers Association	\$1,856,500	52%	48%
Machinists/Aerospace Workers Union	\$1,840,300	97%	3%
American Bankers Association	\$1,818,520	39%	61%
International Assn of Fire Fighters	\$1,787,600	75%	25%
National Auto Dealers Association	\$1,696,000	35%	65%

Totals include subsidiaries and affiliated PACs, if any. PAC names have been simplified for clarity. Source: Center for Responsive Politics <http://www.opensecrets.org/pacs/toppacs.php>

A Comparison with Germany

A comparison with other fundraising systems can be helpful to better understand the American system and its reliance on donations. At the same time, the funding structure of political activities can be much different from country to country, which makes direct comparisons difficult. In this context, a brief comparison with the German system will be drawn.

In Germany, parties are funded through a mixture of public funding, membership dues, and donations. Funding for parties is not raised separately from campaign funds, with all party administration and campaign operations paid out of a single treasury. This means that for our comparison, we must look at the sources of party funding as a whole, not just at campaign funding. The absolute and relative amounts of three sources—membership dues, public funding, and donations—in 2005, the most recent year for which figures are available, are provided in Table 6.

As the table illustrates, membership dues provide by far the largest share of party funding for all German parties except for the FDP, which relies more on donations than the other parties. In comparison to the United States, party membership in Germany is more

structured and members are required to pay membership fees which are based loosely on income. Holders of political offices also pay higher dues.²⁷ Dues make up almost half of the funding of the Left Party, and about 40 percent of the funding for the Social Democrats, Christian Democrats, and Greens.

Table 6: Sources of Party Financing in Germany, 2005

	SPD	CDU	CSU	Greens	FDP	Left Party
Membership Dues	€71.16 (42.1%)	€60.9 (38.3%)	€13.17 (31.7%)	€10.91 (41%)	€8.09 (24.9%)	€10.87 (48.4%)
Donations	€14.17 (8.4%)	€35.59 (22.4%)	€9.35 (22.5%)	€4.43 (16.7%)	€11.75 (36.2%)	€2.23 (9.9%)
Public Money	€43.77 (25.9%)	€45.24 (28.4%)	€10.55 (25.4%)	€9.55 (35.9%)	€9.59 (29.5%)	€8.52 (37.9%)
Other	€39.98 (23.6%)	€17.48 (10.9%)	€8.44 (20.4%)	€1.72 (6.4%)	€3.03 (9.04%)	€0.87 (38%)

Figures are rounded and are in millions of euros. Source: Deutscher Bundestag Drucksache 16/8180

The next largest category is public funding, comprising around 25 percent of the funds raised by the parties. Public funding is based on the number of votes the party received in European, federal, and state elections, with the first 4 million votes for a party earning that party €0.85 each and each vote thereafter €0.70. Donations to the party are also matched by public funds to the rate of €0.38 for every euro donated. In 2005, the CDU received the largest amount of public funding, €45.24 million, whereas the Left Party received the least, €8.52 million.

Private donations make up the final and smallest category, a marked difference from the United States. In Germany, no contribution limit exists, individual donations under €10,000 do not need to be disclosed, and donations by corporate interests, unions, and others are not prohibited. Furthermore, donations are also eligible for tax credits for 50 percent of the value of the donation for donations up to €3,200. In this sense, Germany has less stringent donation and disclosure laws than the United States and actually encourages donations to political parties. Nevertheless, such donations play a less important role than in the United States—except for the FDP, all parties derive less than 25 percent of their funds from donations and the SPD and Left Party each less than 10 percent.

Criticisms of the U.S. System

The American campaign finance system is not without its domestic critics and continues to be a topic of debate in the media and in Congress. One frequently cited criticism is the high cost of American elections. For example, as noted, in 2004 the Bush and Kerry campaigns together spent a total of \$655 million. However, a comparison with other figures can help put this amount in perspective: For example, \$655 million is actually less than Americans spent on two popular movies in 2004, Shrek 2 and Spider Man 2, which together sold more than \$800 million in tickets in the United States.²⁸ In this light, the amount spent on federal campaigns may seem much more reasonable. Furthermore, some experts contend that campaign spending, rather than creating public mistrust in the system instead increases public information and awareness of the candidates and national issues, and is therefore beneficial in itself.²⁹

A much more serious concern is the question of whether and to what degree candidates are influenced by campaign contributors. A 2002 survey showed that 55 percent of American respondents believed that campaign contributions had a great deal of impact on political decisions and that an additional 23 percent believed they had some impact.³⁰ It is not clear whether this is the case. Many empirical studies have been conducted which show no relationship between contributions and voting behavior,³¹ and the argument is often made that donors tend simply to donate to candidates who share their views.

In this discussion, the strong role of PACs in funding congressional campaigns is of particular concern. Many researchers maintain that there is little or no correlation between PAC donations and legislators' votes, and that one-on-one lobbying plays a far more important role than campaign contributions in affecting votes.³² At most, this line of argument maintains, the PACs are gaining access to legislators by "buying time," but are not purchasing positions on legislation itself;³³ if they are influencing votes, these are often of little interest to the general public.³⁴ However, some other studies have shown that contributions may influence roll-call votes,³⁵ and that this influence is stronger in the House of Representatives than in the Senate. This would correlate to PACs' larger role in the funding of House campaigns.³⁶ Thus, the ultimate impact of PAC money is certainly a topic for further research.

Lastly, the role of 527 groups has also come under criticism in recent years. 527s have been increasingly successful at raising money and raised \$434 million in 2004, more than four times the amount raised in 2000. Much of the criticism of 527s is based on the argument that they provide a conduit for abuse of the system because they are not subject to contribution limits and disclosure requirements. Some 527s have also engaged in campaign activities which were later ruled illegal by the FEC. In 2006, the FEC penalized three 527 organizations—the League of Conservation Voters, Swift Boat Veterans for Truth, and MoveOn.org—a total of \$629,500 for acting as political committees instead of 527s.³⁷ Regulating 527s would be difficult, but not impossible, due to free speech protections. The argument used by the Supreme Court to justify the regulation of donations to candidates, i.e., to avoid the appearance of corruption, may not apply to 527s, as they are citizen groups not tied to any one candidate.

Section 3: Future Developments

The U.S. campaign finance system is not static, but rather continues to evolve with American society and political culture. While such evolution may occur through legislation, it is even more likely that, in the near future, changes will occur instead through changes in society or through the behavior of the campaign actors, as has been noticeable recently.

In respect to legislative initiatives, it can be said that, generally, a consensus exists that campaign finance regulation is, for the most part, functioning well and that a waiting period is necessary to assess the impact of the BCRA of 2002. There is also a sense that the limits of the current forms of legislative regulation have been reached.³⁸ Nevertheless, some adjustments are to be expected. In the last two years, the House of Representatives has twice passed measures to regulate 527 organizations as political committees, but the issue has not been taken up by the Senate and passage before the end of 2008 is highly unlikely. Current legislation under discussion in the Senate would require Senate candidates to file their disclosure reports electronically, not just per hard copy as is currently required. However, while these changes are debated the system is undergoing more fundamental changes which are unrelated to legislative action.

The internet is having an increasing impact on the nature of American campaigns. It has dramatically lowered the financial threshold of political involvement, not just for candidates but also for citizens. Candidates, private citizens, and outside groups can produce and distribute videos on YouTube for a tiny fraction of the cost of airing television ads. With the party conventions in their entirety on the internet and with the general election just beginning, Obama has already posted over 1100 videos on YouTube which have been viewed 15 million times, while McCain has posted over 250 videos which have been viewed 1 million times. It has often been debated whether television stations should be required to offer candidates free advertising time; the rise of YouTube and other video sites seem to be making this question irrelevant.

Blogs, online social networks, and other communications technologies such as e-mail and text messaging are also becoming more important, as the influence of newspapers and traditional media declines. Campaigns are both adapting to and utilizing these new forms of media—both campaigns use blogs and e-mail dispatches to keep in close contact with their supporters. Obama's MySpace page lists 459,000 friends; he announced his running mate by text message. However, outside groups also use these technologies to promote their viewpoints and affect the campaign. Even relatively simple websites, such as the Drudge Report,³⁹ which broke the Monica Lewinsky affair, can exert an incredible influence on the process. The Drudge Report alone registers 3 million hits per month.⁴⁰

At the same time that these technologies are lowering the financial threshold for participation, they also make it easier for candidates to raise money from smaller donors than ever before. Howard Dean

was one of the first candidates to tap into the power of small donors in 2000. Since then, all of the candidates have had some relative success in this type of fundraising, but it is Obama who has proven particularly adept at raising millions of dollars—49 percent of his total donations—through 187,000 contributions of less than \$200 each.⁴¹ As Obama has said: "We have created a parallel public financing system where the American people decide if they want to support a campaign, [and then] they can get on the Internet and finance it. And they will have as much access and influence over the course and direction of our campaign [as] has traditionally [been] reserved for the wealthy and the powerful."⁴²

This shift toward small donors not only represents a shift away from previous methods of securing larger donations from relatively few big contributors, but could also be said to represent a grass-roots democratic development of the campaign system. The extent to which this trend is merely due to the personal appeal of Obama or whether this truly represents a sea change in the American system is not yet clear.

An additional major development which has so far been overshadowed by the drama of the 2008 campaign itself is the weakening of the public finance system, leading Brookings Institution scholar Thomas Mann to call the public financing system "irrelevant."⁴³ In 2008, except for John Edwards, all major candidates in both parties refused public financing—and the spending limits that go with them—in the primary. While McCain has accepted public funding in the general election, Obama has already announced that he will not. In a highly competitive fundraising environment, such as the one that has existed since 2000, candidates are now faced with the classic prisoner's dilemma, in which they must either accept public funding and hope that their opponent does so as well, or raise as much money as possible without public support.

These trends—the growing strength of outside actors, driven by the internet; the rise of small donors; and the weakness in the public funding system, combined with acceptance of strict disclosure and other legal requirements—suggest that the American campaign finance system, despite the challenges it faces, continues to be dynamic. If anything, it is becoming more distinctly American, based strongly on individual initiative, an arms-length distance to the state, and characterized by a free, open, and at times even shrill debate protected by freedom of speech.

In addition, it is also important to keep in mind that, while this Issue Brief focuses on campaign fundraising, money alone is not a determinant of success. The candidate's message, political positions, persona, and campaign strategy are, in the end, all just as important as his or her financial standing. For example, John McCain won the Republican primary despite the fact that two of his opponents, Rudy Giuliani and Mitt Romney, raised significantly more money than he did.

The differences between the American political and campaign

finance systems and those in Europe are complex and substantial, yet are rarely explained to the public. A lack of awareness of these differences, when combined with the considerable public interest in American elections on the part of Europeans, can lead to misunderstandings and disappointment when the system produces unexpected results. It is therefore important that interested Europeans remain aware of these characteristics of the American political system, including how America organizes its political campaigns.

NOTES

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- In that context one would hope that campaign finance, with all its benefits and criticisms, is seen and interpreted on its specific, ever changing cultural, societal, and political background. Programs and activities to inform and educate a "non-political" or foreign constituency about the different systems can go a long way toward reducing such misunderstanding and should be encouraged. We certainly hope that this Issue Brief contributes to that end.
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With this Issue Brief, AICGS is providing insight into an important—and often misunderstood—aspect of American political campaigns: campaign finance. The current U.S. campaign finance system is a result of both cultural and legal factors, including a wariness of state intervention, debates about freedom of speech, and regulatory legislation. These factors have created a system of public disclosure, optional public funding and spending limits, and multiple actors. Today, individuals, corporate political action committees (PACs), issue-based PACs, and other organizations may all contribute to the funding of the democratic process.

Still, this system is not without its limitations and concerns often arise regarding undue influence in what is becoming an increasingly expensive endeavor. The regulations that exist, it is argued here, are useful in providing for an equitable and ethical system of campaign finance.

How the current system of campaign finance in the U.S. will evolve with new technologies and trends remains to be seen. Certainly 2008 has been a remarkable year, with John McCain winning the primaries without raising the most money, and Barack Obama able to secure so many smaller sum donations through the internet that he has turned down public funding. It is our hope that this Issue Brief will contribute to both the understanding and discussion of campaign finance in the U.S. and we welcome your feedback to it.

James Griffin is the Coordinator of the Humboldt Institution on Transatlantic Issues (HITI) in Berlin. Previously, he has held positions at the Checkpoint Charlie Foundation in Berlin, at the German Embassy in Washington, and as an Advisor in the United States Congress. He can be reached at james.griffin@uv.hu-berlin.de.

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Campaign Finance in the United States

AT JOHNS HOPKINS UNIVERSITY
1755 Massachusetts Ave., NW
Suite 700
Washington, D.C. 20036 - USA
T: (+1-202) 332-9312
F: (+1-202) 266-9531
E: info@aicgs.org
W: www.aicgs.org

