Costs, Spending and Contributions
Literature Review

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What do we know about contributions, expenditures, and the costs of campaigns?

The three main topics of this literature review are covered in order of the attention they have received in academia, in the popular press, and by political observers. Overall, we have paid far more attention to the nature of political contributions because of the belief that donors to political campaigns expect something in return – a quid pro quo for monetary support, even though the evidence to support the existence of such transactions is scant. We have done a much poorer job of understanding just what the money that is raised is used for. The obvious supposition is that candidates for office need to raise money constantly – and from all sorts of entities that could unduly influence them against faithfully representing their constituents – because of the outrageous, and increasing, costs of campaigns. Thus, contributions rise because expenditures rise. We have virtually no understanding of what campaign communications really cost, and suppose that reports of the "rising costs of campaigns" are due entirely to the need to campaign year round and to the great expense of communications mediums even though newer ones (such as the internet and social media) cost considerably less.

Yet, money spent on campaign communications may be more than needed to win elections. Or, compared to other political elements such as incumbency, party registration and economic trends, the money spent in campaigns could have no influence on the outcome at all. Why, then, do candidates raise the amounts they do? This puzzle is at the heart of efforts to regulate campaign money. To see if we can solve the puzzle, we must investigate its constituent parts.

Contributions

In FECA-era parlance, contributions are defined as "anything of value." That covers a lot of ground. Whether a candidate accepts an airplane ride (in-kind contribution) or cash, all contributions must be given a monetary value for reporting purposes. The amount of money given to campaigns, and the types of entities who do the giving, have been at the center of the campaign finance reform movement for over a century. Both present difficult problems for regulators.

Contributions include "gifts of money, goods and services (in-kind contributions), loans (other than bank loans meeting certain conditions), and guarantees or endorsements of bank loans" (FEC 2013). Clawson et al remind us that there is a distinction between contributions and contributors. A contribution is a singular transaction. Each time something of value is received, the campaign entity must record and report it. However, contributors are individuals and groups that make one or more contributions. There are nearly always more contributions than contributors. We should be most interested in the contributors but even with disclosure requirements, many individual contributors do not fill out the "occupation" blank and the FEC can't make them. In addition, nothing prevents people from declaring themselves to be "retired" or a "homemaker" or "philanthropist." This makes understanding how money enters the political arena even more difficult (Clawson, Neustadtl, and Weller 1998, 113, 121). Additionally, Malbin has shown that some contributors make multiple contributions over the course of an election cycle. The aggregate donation totals of an individual contributor should be the unit of analysis (Malbin 2011), although this is a tedious way to arrange the data and therefore is rarely done. **Thus, current estimators of both the number of donors in the system and the sectors that contribute money in politics are estimates at best.** A remedy for this problem is not clear, but it is a stumbling block in the area of contributions.

Who Gives?

The Federal Election Commission classifies major donor types as individuals, political parties, and political action committees, a specialized type of interest group. However, we should start with the donor we consider least: the taxpayers via public funds.

The State

For all our concern about private money's influence in politics, the prospect of government backing of campaigns has never been enticing to the American public. A publicly financed system, where each candidate for office would either receive the same amount of campaign funds or receive funds in proportion to some measure of public support (sometimes performance at a previous election), would in theory remove undue influence from the process. Other proposals have included free communications resources for candidates, such as television air time. Only the partially public funded presidential campaign process used from 1976 to 2008 gave a sense of how the state might administer public funds, but even that was not a true instance of state support.

The American public seems to have no trouble holding the contrary ideas that there is both too much money in politics and that publicly financed campaigns are wrong. Tobin and Rudolph explain that Americans oppose public funding of elections and subsidization of air time and postage for campaign mailings. They find even stronger public support for limiting both overall spending and television advertising by candidates (Grant and Rudolph 2004, 77). La Raja and Schaffner find that people will not tolerate a tax of any amount to pay for elections, even when they think such a move would improve the overall system (LaRaja and Schaffner 2011).

Supporters of publicly financed elections frequently point to American states and municipalities (Levin 2006) and European countries that use such systems, though discussion of the limits of those systems do not receive the same attention. For example, Ingrid van Biezen argues that moderate, establishment parties are greatly advantaged in publicly financed systems to the detriment of smaller parties and newer parties (van Biezen and Kopecky 2007). Kevin Casas-Zamora finds that even where public financing of elections exists, it seems impossible to prevent private money from also entering the system, given democratic values of free speech and participation (Casas-Zamora 2005). In essence, the bright line distinction between private and public campaign finance systems is a fantasy as is the notion that some democracies have "clean" elections while others are ostensibly "dirty."

The partial public funding system we have today exists only for candidates for the presidency, and has not really been in practical effect since the 2004 (or 08) election for even them. The public money designated to underwrite the two major party's national conventions was ended in

2014 through legislation (Gabriella Miller Kids First Research Act 2014). But there has never been any mechanism for public financing of congressional elections, although many legislative attempts have been made to adopt either a matching fund scheme (as with the presidency) or more frequently, vouchers to pay for broadcast communications and postage. Many of the congressional reform proposals from 1973 to 1993 contained provisions to escalate political party funds or contribution limits if self-funded candidates spent excessive amounts. This idea, labeled the "Millionaire's Amendment" was included in BCRA but was later struck down by the Supreme Court in the 2008 case of *Davis v. FEC* (Garrett 2011).

FECA set up two policies for presidential public financing: a nomination matching fund plan for those seeking one of the two major parties' nominations and a fully publicly financed general election grant for major party nominees. FECA also stipulated that there be spending limits for both presidential and congressional races, but in *Buckley v. Valeo*, the Supreme Court ruled that spending limits could be voluntary, but not mandatory. Therefore, public matching funds and general election grants could give presidential candidates an incentive to abide by spending limits. Since there was no provision for public money in congressional elections, spending limits were entirely eliminated in those races. The presidential public finance system was effectively abandoned in the 2008 election and is unlikely to be used again unless some major revision is undertaken (Malbin 2011, 36–38).

The nature of public financing of presidential contests was also unusual. Rather than make a direct appropriation from general tax revenue for this purpose, Americans were asked to check off a box on their personal income tax form asking if they wished to have one dollar (later $3) of their tax bill set aside for this fund. No additional monies were collected, but the public had the opportunity to opt their tax dollar "in."

Some states have experimented with "clean" election laws, where candidates for certain state-level offices (such as the state legislature or governor) would receive a majority of their funding through public funds. The idea of clean elections was to lessen the dependence of candidates on "special interests" and to increase competition by enticing candidates who previously would decline to run due to private fundraising demands. Neil Malhotra argues that competition did increase in Arizona, but not in Maine as a result of clean elections (Malhotra 2008).

Panagopoulos' edited volume considers a number of types of state and municipal public funding systems (Panagopoulos 2011). Although some proposals for using the state to finance campaigns have had broad support, such as voucher-based advertising in the original McCain-Feingold proposal [killed by the National Association of Broadcasters], the state seems unlikely to ever finance congressional elections in any way. Ironically, the strong distaste for state action is precisely what makes congressional elections entirely dependent on the private sector.

Individuals

When we talk about individual donors, many conjure up the image of the average citizen considering whether to make political contributions. In reality, all contributions are from individuals, even the ones made through intermediaries (or agents) such as political parties and interest groups referenced below. However, some individuals are more "interested" than others and some of the literature investigates this.

Why do people give?

The prospect of going out to ask individuals for money to fund one's campaign seems daunting at first. However, it helps if we discuss the donations from individuals in terms of their motivations for doing so. Francia et al. wrote a comprehensive study of congressional campaign donors and based on the responses from their donor survey, grouped the motivations in three categories: investors, ideologues and intimates (Francia 2003). Much of the political science research prior to this assumed congressional donors were solely investors, people with material concerns before Congress (such as taxing or regulating the industry they are employed with) who donated in hopes of achieving meaningful access to lawmakers. But Francia et al. found that most donors actually had no such motivations. Ideologues care deeply about a particular issue or cause and will donate to candidates whose records reflect their beliefs. They are also quite strategic, donating more in close races where the favorable candidate could "make a difference" in their preferred policy outcomes. The "intimates" category presents the most discomfort to those who want to see donations as a means to a policy end. These people are donating for social or personal reasons – to be part of a "cause," to go along at the company's fundraiser, to attend fancy campaign events -- really, just because they enjoy the political scene. Intimates donate all the time because being in the know is what is at stake for their interests.

Even with this understanding, how do candidates even start raising money? According to Feinstein, most congressional candidates will have one or more factors that help them: they can hold current elective office (and thus have established donors), they can be the relative of a well-known elected official thus benefitting from a dynastic element (Feinstein 2010), or they can have a career that finds them already embedded with a donor class (such as law or business).

Investors

What about this group that invests for material interests? These individuals range from the owners and operators of firms to political professionals. These same individuals will be solicited by trade association and industry based PACs as well as the major political parties.

Koger and Victor looked at the individual donations of registered lobbyists from the 2006 cycle. They rely on the Center for Responsive Politics data to give them the names and donations of lobbyists based on occupation and employer information disclosed to the FEC. They ask whether individual lobbyists pursue the same strategies as PACs do (of donating to important members on both sides of the aisle) or something else. They find something else indeed – that nearly all lobbyists (95%) give to either all Democrats or all Republicans based on their prior/current political affiliation (Koger and Victor 2009).

Investor donors are commonly understood to want to further business interests. Ferguson et al. show that both major parties are backed by business interests, though the particular assemblage of firms and backers may differ (Ferguson 1995; Ferguson, Jorgensen, and Chen 2013).

Ideologues

Donors whose motivations are issue positions or substantive representation are likely to tap into a network of like-minded individuals for information on which candidates to support. Of course, they are also likely to donate to ideological (non-connected) PACs and to participate in bundling organizations like Emily's List and Club for Growth. Bertram Johnson finds that ideological donors tend to give small amounts and this small investment makes their contribution devoid of material concerns. He also finds that the more ideologically extreme a candidate is, the more successful they are at attracting small donations (Johnson 2013, 73, 103; LaRaja and Schaffner 2015). Further evidence of solidaristic goals is demonstrated by Cho who finds that Asian donors have disproportionately given to Asian candidates (Cho 2002).

Intimates

It is difficult to identify exactly who these donors are, but without question each candidate has at least some donors who will give as much as they can to that candidate due to personal familiarity, local ties, and social desirability. Certainly, leadership PACs could not exist without intimates. Gimpel and Cho (and coauthors) have found strong geographic dimensions to giving that reveal how residency (and affluence) creates strong local ties around political contributions (Bramlett, Gimpel, and Lee 2010; Cho and Gimpel 2010; Gimpel, Lee, and Kaminski 2006; Tam Cho and Gimpel 2007).

Of course, individual donors have a huge array of choices when choosing to give money to political groups. Lowry looked at individual itemized contributions by congressional district, asking what prompted donors to choose the particular channel for their contribution given that the choice set has grown (candidate committees, leadership PACs, national committees, "hill" committees, ideological PACs, etc.). He found that college-educated, higher income urbanites comprised most of the donor pool (as others before him) and that local political factors greatly conditioned the choice of contribution target. The more competitive their local House race was, for instance, the more likely donors were to give to that race. Also, concurrent state elections depress the contributions to federal committees in favor of local candidates and state or local party organizations (Lowry 2015).

Political Parties

Political parties have a special place in contributions and expenditures. They are permitted to make direct contributions, coordinated expenditures and since 1986, independent expenditures on behalf of their candidates. Direct contributions have constituted less and less of a party's role in congressional campaigns as the limit for those contributions has not been indexed for inflation and thus erodes in buying power over time. Many of the national party committees have stopped making donations entirely. Coordinated expenditures can be made at a significantly higher level and are indexed for inflation. Spending of this type is not a contribution, though sometimes people mistakenly refer to these funds that way. Independent expenditures are campaign efforts run entirely apart from the candidate's campaign. These will be discussed in the spending section.

Political Action Committees

Political action committees are the political arms of interest groups. We normally talk in terms of labor groups, business groups, and ideological groups. PACs can donate $5000 per election per candidate (primary and general usually for a total of $10,000), but usually donate far less than that amount. Lowry finds that PACs receive contributions from individuals who do not otherwise contribute to campaigns – something he says "expands the donor pool (Lowry 2013) ." Even with "small" donations of $1000, PACs are important to candidates for Congress, especially incumbent House members as raising money from PACs is faster and more efficient than raising it from individuals. Also, more than half of incumbent members' receipts come from PACs.

Through political action committees, interest groups have two major ways to influence elections: they can donate directly to candidates or to political parties or they can conduct independent expenditure campaigns (Boatright 2011). There is a widespread belief that most PACs are corporate affiliated political groups that flood Washington with campaign money. However, David Hart finds that not all firms that do business with the government, and do substantial business at that, have PACs. He looks at high-tech firms' PAC formation and finds that while more of them do form PACs over time, it is in response to increased transactions with the government (e.g. sales, regulation, research/development funds) coming from the policy arena, not any concern about the rising cost of campaigns. On average, most PACs in the high-tech sector were rather modest in size. The presence of a national office in Washington DC does explain more in the way of firm success than PACs (Hart 2001).

While there has been an enormous amount of scholarship focused on whether PAC donations buy votes, Hall and Deardorff offer a view of group influence that is largely unrelated to PAC donations. Indeed, they argue that the donations received by politicians from any particular PAC is so low that politicians are almost giving their votes away. Instead, they focus on the legislative labor offered to members of Congress by professional lobbyists stating "Interest groups today spend over a billion dollars a year lobbying Congress, more than they spend in PAC contributions and independent expenditures to congressional campaigns combined" (Hall and Deardorff 2006, 69).

Groser et al. find in both a game theoretic and lab experimental design that single interactions between wealthy interests and candidates yield no policy changes, but repeated interactions (relationships over time) do (Großer, Reuben, and Tymula 2013). Esterling probes further, finding that interest groups contribute more in hard money to members who have significant policy expertise and can craft complex legislation rather than members who support the group's positions in a symbolic manner (Esterling 2007).

Corporations

Many scholars have gone to great lengths to explain business's use of PAC donations to achieve policy ends. Clawson, Neustadtl and Weller argue that business uses many tools to monitor policy activity to achieve their goals. Donations, they believe, should be thought of simply as gifts, not bribes. Gifts, in the same spirit as an individual giving one in response to a wedding invitation (even from a distant acquaintance), "create more dense and enduring social relationships than market exchanges (Clawson, Neustadtl, and Weller 1998, 34).

Gordon and Hafer argue that corporations' political expenditures (either via lobbying or campaign contributions to federal candidates) signal an intent to mobilize if necessary to the bureaucratic regulators of that firm's interests. So, firms with more political expenditures should receive less scrutiny (in terms of hours of inspections) because they signal their willingness to aggressively challenge bureaucratic overreach (Gordon and Hafer 2005). Engstrom and Ewell find that corporate interest in policymaking is manifested in more contributions to majority party members under conditions of unified government. The electoral advantages that accrue to candidates because of their party label are amplified when that party is not only in the majority in the chamber, but when it is in a position to realistically alter policy due to unified control of legislative institutions (Engstrom and Ewell 2010).

Self- Financing and Loans

Sometimes, very wealthy candidates decide to make a run for office without having to bother with the fundraising step entirely. Conventional wisdom holds that self-financed candidates will have a huge advantage over candidates who need to hit the pavement for money because procuring funds takes away precious time from campaigning. Jennifer Steen's extensive study of self-financed candidates blows away much of these assertions. Self-funded candidates do not win very often – in fact they do quite poorly in the voting booth. One reason is that fundraising is not detracting from a successful campaign is that it is a form of campaigning, especially with community opinion leaders. She also finds that if a self-financed candidate is successful, they never self-finance a second time, having learned important lessons about what fundraising can do. Steen did find, however, that the presence or rumor of a self-financed candidate making the race does discourage some candidates from running (Steen 2006). Adam Brown underscores the central problem with candidate as donors in his study of self-financed gubernatorial candidates: "I wrote above that ''investors'' and "ideologues'' are carefully strategic when deciding which candidates to fund. But there is one type of donor that doesn't ever seriously ask herself which candidate to give her money to: The self-financed donor (Brown 2012, 27)."
There is almost no scholarly work on loans to candidates, either from their own resources or from private sources (such as banks). Clyde Wilcox found that in the 1984 cycle, 25% of early campaign receipts for non-incumbent major party candidates were from either self-contributions or self-loans (Wilcox 1988).

Do we know how/when self-loans are made? How about bank loans? And what about loan repayments as a driver of congressional fundraising?
It does seem to matter where the money comes from. Alexander found that there is "good money" and "bad money" when it comes to predicting electoral outcomes. Open seat candidates who received a high volume of PAC contributions and in-state contributions were more likely to win (good money) whereas self-financed candidates and those receiving more money from out of state were less likely (bad money). Far from seeing PAC donations as nefarious, Alexander believes that PACs have better information about individual race dynamics and therefore are more likely to support winners (Alexander 2005).

The literature treats nearly all receipts as coming from individuals or PACs. Very little attention is paid to political party donations, small as they are, and only party scholars tend to consider coordinated expenditures as a source of funds. Some literature addresses self-

funded candidates, but for most analyses, these candidates are excluded. I could find NO studies that focused on loans, self or other, among receipts.

Expenditures

How money is spent in elections, and whether it matters to outcomes, is a vast topic. The definition of expenditure according to the FEC is: "a purchase, payment, distribution, loan, advance, deposit, or gift of money or anything of value made for the purpose of influencing a federal election (FEC 2013, 162)." This is problematic because many transactions that qualify as a distribution (such as a transfer or a pass-through) are counted as expenditures. When expenditures are reported, we really do not know how much was spent to campaign and how much was spent to allow others to campaign. Further, we capture a certain amount of "noise" from campaign committees attached to candidates who do not actually pursue an elected office. Underwood explains in analyzing 2014 House races that the data he found "included candidates that were not actually running for House seats in 2014… at least some candidates that had run in previous cycles still had committees that received or distributed funds even though they weren't running in 2014 (Underwood 2015, 36)." Also, candidates who later run for a different office still have the financial activity of their existing committees included. It makes sense then, when talking about expenditures, to start at the beginning of the cycle.

Cash On Hand

Incumbent officeholders (and a few high quality challengers) almost never start a campaign cycle with a zero balance in their accounts. They are permitted to roll over any cash that remained at the end of the previous cycle. Candidates must report the cash on hand that they have in the beginning of a cycle and the cash they have on hand at the end of the cycle. In 2014, US House candidates began the cycle with a total of $136 million cash on hand and ended the period even richer, with nearly $210 million cash on hand, a gain of $74 million. Cash-on-hand raises two interrelated questions: why don't candidates spend all the money they raise and why do they continue to raise funds (and complain about having to raise funds) when they do not need them?

The first answer, which has been explored in the literature to some degree, is that members/candidates raise money to deter other potential candidates from making the race, the so-called "war chest" phenomenon. If a candidate begins a cycle with a significant amount of cash, then an opponent would begin the race already behind on day one. Squire finds that cash-on-hand at the beginning of a cycle by an incumbent has an almost, but not quite, statistically significant effect on challengers entering the race (Squire 1989). Box-Steffensmeier, using an analysis that incorporates the timing of both war chests and challenger entry, finds strong influence of war chests for deterring high-quality challenger entry in House races (Box-Steffensmeier 1996).

Jay Goodliffe uses cash on hand at the beginning of an election cycle (as Squire does) as his variable "war chest" to assess a candidate's potential to discourage a quality challenger from making the race, finding that war chests have no predictive value on candidate emergence. Further, Goodliffe cautions interpreting the raw dollar figures of cash-on-hand as equally important, arguing that cash left over in a race where an incumbent was unopposed is different from cash left over after a strong challenge generated a huge fundraising windfall (Goodliffe 2001). In a separate study of "war chests" and challenger entrance in US Senate races, Goodliffe finds no relationship between cash on hand funds and challenger entry, arguing that the existence of these early funds are simply a result of "leftover" funds and the continual fundraising of Senators (Goodliffe 2007). Ansolabehere and Snyder agree that "war chests" do not deter challenger or entry or predict the closeness of a particular House race, but they do find that such savings may be for progressive ambition to run for a higher federal office, such as the US Senate. They state that "other motives for saving include retirement income or consumption, accidents, insurance, and ambition (Ansolabehere and Snyder Jr 2000, 21). The option to use these funds for retirement no longer exists (since the 1992 election) and accidents and insurance have to do with the incorrect gauging of challenger strength – weak challengers may cause over fundraising by "accident" while insurance arises out of concern for the incumbent's self-assessment of their vulnerability. When assessing ambition's role, they omitted members in leadership positions (including committee chairs) since they may be using their funds as "conduits of money within the House" (Ansolabehere and Snyder Jr 2000, 25).

While Ansolabehere and Snyder anticipate that members' funds could be used as conduits, they do not investigate the proposition that **aspirational members to the leadership** may be using their funds in the same way, either to pay dues to a congressional campaign committee, donate to other candidates directly, or to subsidize state political party campaign efforts and state and local candidates. **All of these other routine uses of campaign funds are not considered in the study of cash–on-hand.** Also, taking congressional leaders out of the database does not enhance our understanding of progressive ambition, as those leaders cannot be excluded from considering other office. Finally, this question can matter. In 2014, House members raised $915 million and ended the cycle with $210 million cash-on-hand (22.9% of total raised), which is $74 million more cash-on-hand than they started the cycle with.

Transfers

In recent years, several scholars have analyzed the trend of incumbent members of Congress using their personal campaign committee funds or leadership PAC (or both) to transfer or donate funds to their respective party and chamber's congressional campaign committee or to other congressional candidates directly (Cann 2008; M. Currinder 2009; M. L. Currinder 2011; Heberlig and Larson 2005, 2007a, 2012). This practice reflected a new reality that majority status of both chambers was now contentious and that either party could become the majority party at any time. Thus, incumbent members – particularly those who were electorally secure, ambitious for leadership positions or both – should redistribute their campaign funds to assure the elections of others. One theory of why incumbents and/or party committees redistribute funds is to increase party loyalty by the candidate eventually elected due to the redistributive efforts of the donor. However, no studies have proven this link, instead finding that competitiveness is the criteria for targeting of races (Schecter and Hedge 2001). Heberlig and Larson in particular, in a series of articles and a book, show that members in party leadership positions give significantly more campaign money to the electoral fortunes of others through their personal campaign committees directly, to the congressional campaign committees, and through leadership PACs than rank-and-file members. They also found that party centric considerations (majority status) rather than individual-centric considerations (votes for policies) motivate member giving to the party. Heberlig and Larson are among the few who ask if members raise more money than they did before 1996 to fulfill these new financial commitments. They find the answer is a definite yes, and that members are more dependent on business PACs and wealthy individual donors (who can contribute double what they were once able to since the 2002 BCRA) to provide the extra cash. They label this phenomenon "crowding" to indicate that members still need money to campaign on, as well as to leverage leadership positions, with the result being that fundraising takes up more of the legislator's time and attention. Surprising to the authors, members do not retire because of pressures over fundraising and the redistribution demands of the parties. It has become the new status quo (Heberlig and Larson 2012).

Little else has been written about the "crowding" phenomenon in campaign finance, though this term is well established in the study of charitable fundraising. Could it be the case that members amass more funds than they know they will need not as a "war chest" to deter potential challengers, but as investment resources for their political advancement? Surely, this is what motivates the formation of leadership PACs (Deering and Wahlbeck 2006; Heberlig 2003; Heberlig, Hetherington, and Larson 2006; Heberlig and Larson 2007b; Kanthak 2007). Nearly all incumbent members use their personal campaign committees to transfer funds whether they have leadership PACs or not. While this money is well accounted for in models of leadership ambition and partisan like-mindedness, they do not figure in discussions of campaign expenditures or the discourse on the rising costs of campaigns. **Should funds transferred to party committees or donated to other candidates be included in the analyses of candidate expenditure levels for vote shares or any other variable?** Technically speaking, these transfers are expenditures. However, the effect of including transfers this way is to double count the value of that money. One candidate receives funds, sends them to another candidate or committee but the second entity actually spends the funds on campaign activity. The current accounting system counts that one contribution as two contributions and two expenditures. Other current work finds that ideologically extreme members have an easier time raising money than more moderate members. This has important implications for changing the importance of ideology in Congress from moderate to extreme in order to advance to leadership positions (Heberlig, Hetherington, and Larson 2006; LaRaja and Schaffner 2015).

The discussion above only accounts for transfers/donations to federal entities. An analysis of 2014 expenditures by this author finds additional transfers to state party committees, state and local candidates, and political action committees in addition to federal transfers. Only a few scholars have made these federal-state links such as David Parker in his analysis of congressional candidate's relationships to state parties in most of US history and Diana Dwyre in her study of the transfers of soft and hard money between state and federal party committees (Dwyre 1996; Parker 2008). As above, **should amounts transferred to candidates or parties at the state or local level be considered in analyses of candidate expenditures?**

Loan Repayment/Debt Retirement

This is a very small category of spending, yet except for Wilcox (1988) almost entirely ignored. Generally speaking, candidates who take out loans should offset those loans with repayments. While it is probably fine to include loans and repayments as contributions and expenditures, we seem to have left this option out of our theorizing about the use of money in congressional campaigns.

General Campaign Spending

Administration and Overhead

The major expectation is that campaign funds are spent on campaigning. However, the law itself expands the scope of campaign costs borne by congressional candidates to administration and overhead far more than most other established democracies. For example, state and local party committees may only give congressional candidates contributions (cash or in-kind) to a very small limit of $5,000 per election. Parties can spend more in coordinated expenditures, but in House races that only amounts to $94,500 (which is double the originally calculated limit of $47,200 – see Figure One). This means that a congressional candidate cannot establish office space in the district with the party organization unless it came up with the funds to pay for them. Some candidates do this, though most do not. Likewise, incumbent members of Congress may not use their local district offices intended for constituent services for campaign functions. So in addition to needing to pay for office space, furniture, and office supplies, congressional candidates must also pay for their staff. This includes salary and health insurance, which usually is obtained privately. Sometimes candidates run staff expenses through state and local parties to make expenses like health insurance and accounting cheaper, but they must either compensate the state/local party organizations or use coordinated expenditures to cover the costs (the latter option is very commonly done).

One way to think of congressional campaign overhead is through the analogy with a "pop up store." According to Ryu, writing about pop-up fashion stores, "Pop-up retail refers to the practice of opening a transitory, short-term, and often unannounced retail sales space...Pop-up stores may also be operated as promotional events; the purpose of which is to increase brand awareness rather than to make sales (Ryu 2011)." Many campaign offices are set up in empty commercial space without any accommodations made for the comfort of the new inhabitant in order to offer the cheapest price to a temporary tenant. Once the campaigns commence, they tend to vacate the office space almost immediately after an election.

Campaign Communications

The actual means of campaigning include a variety of techniques to communicate with voters. These include broadcast advertising on television or radio (both producing the ads and paying for the airtime), sending mail to potential voters (both producing the mail piece and paying the US postal service for postage), sending email and using social media advertising to attract voters and funds, having canvassers visit potential voters at their homes (payroll, transportation, and food), and holding events to attract press coverage, court supporters, or raise funds. Derek Willis observes that in the case of fundraising events in particular, much is made about the amount of receipts without considering the expenses needed to bring those receipts in (space rental – hotel ballrooms for instance, food and drink) (Willis 2014). Contemporary technology also requires some campaigns to purchase or rent cellular phones or other portable data recording devices for use by their volunteers and employees.

Television advertising

The largest expense in any contemporary campaign is for communications. Competitive races usually rely on television advertising to contact voters. However, television advertising is extremely expensive. Recent research by Gerber et al shows that while political advertising on television has a significant effect on many voters, the effect wears away within a week, making one question the utility of an extended advertising campaign, especially for congressional elections (Gerber et al. 2011) . But television advertising is not appropriate for every campaign, and even some competitive races will use very little. Stratmann points out that the cost of campaign communications is variable given the price discrepancy in different locales (of advertising, labor, etc.) yet studies of campaign spending treat every dollar the same (Stratmann 2005, 140). Ansolabehere and Gerber talk about "mismeasure" in their analysis of congressional spending in the 1990 election. They found that only 58% of challenger receipts and 42% of incumbent receipts were spend on actual campaign communications (Ansolabehere and Gerber 1994). Using actual communication expenditures, Ansolabehere and Gerber find much higher effects on incumbent vote totals than when using total overall expenditures. However, this view suffers from theorizing an average or median expenditure. **In fact, we should expect that any marginal race would have a much larger proportion of their campaign funds spent on campaign communications, and perhaps none for "other" purposes, while secure members (including those in the leadership) should be expected to spend hardly any of their funds on campaign communications.**

Campaign Spending Effects?

There is a very long discussion in the literature about whether campaign spending makes any difference in the outcome of elections. Specifically, the question is around the nature of the incumbency advantage – can challengers mount effective campaigns against incumbents by spending campaign donations, or is the incumbency advantage just too big to overcome? What drives the amount of money spent in congressional races by the candidates themselves? Kim and Leveck argue that candidates in marginal districts, whose median voter is a good distance from the party median, must spend more to explain their individual records and to distance themselves from the party brand (Kim and Leveck 2013).

Gerber explored the debate over whether incumbent spending increases vote share or not by demonstrating that incumbent spending increases the *probability* of winning, though not necessarily by a greater vote share. "Campaign strategy is in critical respects analogous to an insurance purchase. My analysis elaborates the implications of this observation, which follows directly from using maximization of the probability of victory, rather than vote share maximization, as the candidate objective" (Gerber 2004, 560). Consistent with previous studies, Gerber found campaign spending to be much more influential for challengers than for incumbents.

With expenditures, studies assume candidate spending is on campaign communication. Studies of "war chest" effects isolate the non-expenditure of funds in just this scenario. The standard scholarly assumption is that all candidates raise money in their campaign accounts to be spent on their own reelection. If incumbent members are also raising money to realize further political ambition, which is assumed to be captured in their Leadership PACs, even though use of the

PCC has been well-established. Studies of member donations to other members and transfers to party committees have been well-studied as an explanatory variable in leadership or committee ascendancy, but have not been subtracted from candidate expenditures to “adjust” to real campaign spending. Transfers or donations to state political parties and/or candidates have been ignored entirely.

Problems with Understanding Campaign Costs

The perception that campaign costs have risen drives the discussion of campaign spending. However, corporate America is well mobilized and interests seem to get what they want whether they invest in candidate campaigns or not. Tom Mann believes concerns about the costs of elections are both overblown and misplaced. He argues that costs have not risen compared to the size of the economy and the nature of competition in a particular election cycle. Concern should not be placed on limits that are impossible to enforce or sustain, but rather on the consequences of the “money chase” such as time devoted to fundraising, the nature of relationships to contributors, and the decline of competition broadly (Mann 2003, 75).

What do campaigns cost?

There are a number of problems endemic to the reporting of campaign finance figures, especially dating back to 1974 and changes to the regulatory environment that encourage inflated reporting. These include inflation, population growth, and campaign finance accounting practices.

FEC Data Presentation and the Problem of Inflation

FEC numbers are released in nominal or current dollars without correction for inflation. Using current dollars is especially problematic when the FEC releases summary tables over a variety of cycles. The lay reader usually infers that the amounts from 1978 are “the same” as those in the present time. Consequently, it is easy to conclude that campaign spending is at the highest level ever, is soaring out of control, credible campaigns demand more and more money, and that statements such as how many millions of dollars it takes to run an "average" campaign give punch without any historical context. Political scientist Robert Sahr laments, "Many elements of political history involve dollar figures over time, yet news accounts and even scholarly analyses often do not take into account the effects of changes in price levels" (Sahr 2004, 274–5). Worse, it seems the more citizens follow the [mistaken] journalists, the less informed they are about campaign finance costs (Ansolabehere, Snowberg, and Snyder Jr. 2005). Political science studies generally focus on only one or two cycles close in time and do not do any inflation adjustments, or they often pick a baseline year to adjust all amounts.

While the figures for overall receipts and disbursements are not adjusted for inflation, the major campaign finance laws and amendments – FECA and BCRA – stipulate that certain limits be adjusted for inflation. The very fact of even some recognition that costs rise over time in the laws does not square with the lack of adjustments in reporting. By default, the data issued by the FEC will then *have* to result in rising dollar amounts over time when spending limits and public grants are raised.

Inflation adjusted limits for campaign expenditures were part of FECA 1974 for political parties, presidential primary candidates, and presidential general election candidates. The original limits for congressional spending (struck down in Buckley v. Valeo) were also indexed this way. Specifically, FECA sets inflation-indexed limits for political party coordinated expenditures, presidential candidate primary spending to receive public matching funds (by state and overall), political party convention funding, and general election spending for major party presidential candidates using public money by adjusting a baseline figure given in the 1974 legislation pegged to inflation measures from 1974 dollars. BCRA 2002 indexes contribution limits from individuals to all federal candidates based on measures pegged to inflation since 2001 starting for the 2004 election cycle.

COLA: A History

The Cost of Living Adjustment (COLA) is the deflator in campaign finance regulation, written into the 1974 FECA Amendments. In 2002, the BCRA extended inflation indexing to include contributions from individuals to candidates, individuals to national party committees, the individual bi-annual contribution limit, and contributions from "certain political party committees" to U.S. Senate candidates (11 CFR 110.17).

The inflation adjustments are made in odd numbered years and take effect the first day after the next year's general election ends through the date of the next general election. The CPI rates are typically published in the FEC *Record*. The FEC uses the Consumer Price Index (CPI) to determine the COLA. The CPI is calculated and published by the Bureau of Labor Statistics on a monthly basis, and is the most commonly used economic indicator to gauge changes in the national economy and to determine fiscal and monetary policies (Bureau of Labor Statistics n.d.). The CPI measures the changes in the costs paid by consumers for a "representative basket of goods" (http://www.bls.gov/cpi/). To calculate the price changes, the BLS has employees called "economic assistants" visit stores in urban areas on a monthly basis to measure the change in price of certain goods. CPI uses the costs of goods selected to represent the overall variety of choices of goods and services available to the consumer. The BLS publishes two measurements of the CPI, intended to represent two different population groups. The CPI-U (for All Urban Consumers) and the CPI-W (for Wage Earners and Clerical Workers). The FEC uses the CPI-U measurement when adjusting the COLA for both contributions and expenditures. Neither the legislation for FECA or BCRA specify which CPI measurement should be used, so the agency uses CPI-U because it is more comprehensive than CPI-W (11 CFR 110.17(d)). The FEC rounds up adjusted figures to the nearest hundred dollars.

The Problem with Contributions

The limitations imposed for contributions from all sources were not indexed for inflation between 1974 and 2002. The limit on individual contributions to House candidates was set at $1,000 per election, for a theoretical maximum of $2,000 (with primary and general elections considered). PAC contribution limits were $5,000 per election to House candidates in 1974 and were unchanged by BCRA, remaining at $5,000 as of 2016. The result of this asymmetry – that expenditures were unlimited for House candidates, indexed for inflation for political parties, and contribution limits not changed at all – was that **candidates for the US House had to secure an**

increasing larger pool of donors even if they were hoping to hold their spending levels relatively constant. This asymmetry was addressed somewhat in BCRA, one of the few instances where there was bipartisan agreement (Farrar-Myers and Dwyre 2008).

Population

The CPI, FECA and BCRA make a few, but not comprehensive, allowances for population growth. The idea of course is that the more citizens you need to communicate with, the greater the cost. However, most of the FECA limits do not account for population. For example, political party coordinated expenditure limits for House candidates do not adjust for population growth, only for inflation since 1974. This is because in theory, House districts should be about the same size in terms of population. However, when using a state as a campaign unit (for the US Senate and the presidency), the law does allow for population consideration. For example, political party coordinated expenditure limits for Senate races follows the formula of $.02 multiplied by the voting age population (VAP) of the state, multiplied by the biannual COLA. Because of this limited use of population data, the FEC issues estimates of the VAP in each state when it reports the COLAs for the following cycle. Note that VAP is the number of residents 18 years of age or older, and therefore does not indicate the voting eligible population (Mcdonald 2007), the number of registered voters, or trends in voter turnout. Using this figure does, however, give us a general sense of how the cost of communication could influence House campaigns.

FEC Accounting Practices

The FEC has certainly had a daunting challenge over the years. Very often, administrative policy changes happen due to new legislation, court cases, or new practices adopted by some or all of the regulated political actors which makes disclosure more difficult for the FEC to manage. Understandably, as a federal agency, the FEC adopted sound accounting practices to handle "quirks" in the system. The result, on occasion, has been the "double counting" of receipts/expenditures which artificially inflates the amounts campaigns are believed to "spend." In addition, campaigns sometimes spend their money for purposes that are not election communication, in fact are quite counter to the idea of campaigning. Five main categories warrant discussion: administrative fines, charitable contributions, data recording errors, contributions to other federal and state/local candidates, and transfers to political party committees.

Double Counting

Clearly, the FEC itself is aware of the issues around how transfers result in accounting problems: "When using the all candidates summary file you need to be aware of some possible double counting of activity. Some candidates have more then [sic] one committee authorized to raise and spend funds on their behalf. The activity reflected in this file represents the sum of those committees. If they transfer funds back and forth among each other, this activity would be counted twice. Information about “transfers from authorized committees” and “transfers to authorized committees” is included in the file and if there are values in both of these fields it is necessary to subtract these from total receipts and total disbursements to obtain a more accurate value for actual activity" (Federal Election Commission n.d.).

The FEC thus acknowledges that a lot of subtraction must happen to produce anything approaching accurate spending amounts. However, trying to accomplish this reconciliation is all the more difficult because of significant discrepancies between summary data and detailed data files available for download. One watchdog group identified a problem with these files over a decade ago, yet the problem persists (Project on Government Oversight (POGO) 2001). Cho and Gaines explain that reports of in-kind contributions in the 2000, 2002 and 2004 depart from statistical expectations (the Benford Law), raising some questions about both the correct reporting of in-kind contributions and joint fundraising committees: “The origin of the poor fit to Benford’s law could be bad record keeping, new practices in donations that correspond to the checklist of Benford inapplicability, changes associated with the “McCain-Feingold” Bipartisan Campaign Reform Act, or increasing incidence of actual fraud or other irregularity in financial transactions (Cho and Gaines 2007, 221).

Another concern is whether the CPI is an appropriate way to measure the actual costs of campaigning. Ansolabehere et al. argue that CPI “does not reflect the changes in technology and the wealth that creates” (Ansolabehere, Gerber, and Snyder Jr. 2001). They recommend that Gross Domestic Product (GDP) be used to account for inflation because they believe that GDP is a more accurate reflection of both inflationary spending and the size of the population. In their study, Ansolabehere et al. find trendless fluctuation in aggregate campaign amounts. Another potential economic benchmark could be the Personal Consumption Expenditures index (PCE). The PCE puts more weight on medical care and "other goods and services" and much less weight on housing and shelter than CPI. The weights used in the CPIU are based on a household survey, while the weights used in the PCE price index are based on business surveys such as the Census Bureau’s annual and monthly retail trade surveys, the Service Annual Survey, and the Quarterly Services Survey. Future research will explore the utility of alternative measures of communications and business costs that more closely reflect campaign spending.

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Figure One: 2014 Coordinated Party Expenditure Limits

As detailed in the tables below, the 2014 coordinated party expenditure limits are now available. They are:

- A range from $94,500 to $2,755,200 for Senate nominees, depending on each state's voting age population;
- $94,500 for House nominees in states with only one representative; and
- $47,200 for House nominees in all other states.

Please note that these limits apply to general elections held during 2014, including special elections. For additional information on coordinated party expenditures, please consult the *Campaign Guide for Political Party Committees*. [PDF]

Calculating 2014 Coordinated Party Expenditure Limits

Nominee	Amount	Formula
Senate Nominee	See table below	The greater of: $20,000 x COLA 3 or 2 cents x state VAP 2 x COLA 3
House Nominee in State with Only One Representative	$94,500	$20,000 x COLA 3
House Nominee in Other States	$47,200	$10,000 x COLA 3
Nominee for Delegate or Resident Commissioner 4	$47,200	$10,000 x COLA 3

Footnotes:

1 The authorizing committee must provide prior authorization specifying the amount the committee may spend.
2 VAP means voting age population.
3 COLA means cost-of-living adjustment. The 2014 COLA is 4.72469. Limits are rounded to the nearest hundred.
4 American Samoa, the District of Columbia, Guam, the Northern Mariana Islands and the Virgin Islands elect Delegates; Puerto Rico elects a Resident Commissioner.

Source: http://www.fec.gov/info/charts_441ad_2014.shtml#authority

Table One: Adjustments for Inflation and Population in Campaign Finance Law				
Campaign Finance Activity	FECA 1974		BCRA 2002	
Contributions				
Individual Contributions to Candidates for US House	Inflation Adj:	No	Inflation Adj:	Yes
	Population Adj:	No	Population Adj:	No
Individual Contributions to Candidates for US Senate	Inflation Adj:	No	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No
Individual Contributions to Presidential Candidates	Inflation Adj.	No	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No
Individual Contributions to Political Action Committees	Inflation Adj.	No	Inflation Adj.	No
	Population Adj.	No	Population Adj.	No
Individual Contributions to Political Parties	Inflation Adj.	No	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No
Overall Individual Contribution Limit	Inflation Adj.	No	Inflation Adj.	Yes[1]
	Population Adj.	No	Population Adj.	No
Political Party Contribution to US Senate Candidates	Inflation Adj.	No	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No
Expenditures				
Expenditure Limits for Political Parties to US House Candidates (Coordinated)	Inflation Adj.	Yes	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No
Expenditure Limits for Political Parties to US Senate Candidates (Coordinated)	Inflation Adj.	Yes	Inflation Adj.	Yes
	Population Adj.	Yes	Population Adj.	Yes
Expenditure Limits for Political Parties to Presidential Candidates (Coordinated)	Inflation Adj.	Yes	Inflation Adj.	Yes
	Population Adj.	Yes	Population Adj.	Yes
Presidential Primary State-by-State Spending Limits	Inflation Adj.	Yes	Inflation Adj.	Yes
	Population Adj.	Yes	Population Adj.	Yes
Presidential General Election Spending Limits	Inflation Adj.	Yes	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No
Major Party Nominating Convention Grants (ended as of April 2014)	Inflation Adj.	Yes	Inflation Adj.	Yes
	Population Adj.	No	Population Adj.	No

[1] This limit is now removed due to McCutcheon v. FEC.

Coordinated Party Expenditure Limits for 2014

Under 2 U.S.C. 441a(c), the Commission must adjust the expenditure limitations established by 2 U.S.C. 441a(d) (the limits on expenditures by national party committees, state party committees, or subordinate committees of state party committees in connection with the general election campaign of candidates for Federal office) annually to account for inflation. This expenditure limitation is increased by the percent difference between the price index, as certified to the Commission by the Secretary of Labor, for the 12 months preceding the beginning of the calendar year and the price index for the base period (calendar year 1974).

1. Expenditure Limitation for House of Representatives in States With More Than One Congressional District

Both the national and state party committees have an expenditure limitation for each general election held to fill a seat in the House of Representatives in states with more than one congressional district. This limitation also applies to those states and territories that elect individuals to the office of Delegate or Resident Commissioner.[1] The formula used to calculate the expenditure limitation in such states multiplies the base figure of $10,000 by the difference in the price index (4.72469), rounding to the nearest $100. *See* 2 U.S.C. 441a(c)(1)(B) and 441a(d)(3)(B), and 11 CFR 109.32(b) and 110.17. Based upon this formula, the expenditure limitation for 2014 general elections for House candidates in these states is $47,200.

2. Expenditure Limitation for Senate and for House of Representatives in States With Only One Congressional District

Both the national and state party committees have an expenditure limitation for a general election held to fill a seat in the Senate or in the House of Representatives in states with only one congressional district. The formula used to calculate this expenditure limitation considers not only the price index but also the voting age population (''VAP'') of the state. The VAP of each state is published annually in the **Federal Register** by the Department of Commerce. 11 CFR 110.18. The general election expenditure limitation is the greater of: The base figure ($20,000) multiplied by the difference in the price index, 4.72469 (which totals $94,500); or $0.02 multiplied by the VAP of the state, multiplied by 4.72469. Amounts are rounded to the nearest $100. *See* 2 U.S.C. 441a(c)(1)(B) and 441a(d)(3)(A), and 11 CFR 109.32(b) and 110.17. The chart below provides the state-by-state breakdown of the 2014 general election expenditure limitation for Senate elections. The expenditure limitation for 2014 House elections in states with only one congressional district[2] is $94,500.

SENATE GENERAL ELECTION EXPENDITURE LIMITS—2014 ELECTIONS

State	Voting age population (VAP)	VAP x .02 x the price index (4.72469)	Senate expendi- ture limit (the greater of the amount in column 3 or $94,500)
Alabama	3,722,241	$351,700	$351,700
Alaska	547,000	51,700	94,500
Arizona	5,009,810	473,400	473,400
Arkansas	2,249,507	212,600	212,600
California	29,157,644	2,755,200	2,755,200
Colorado	4,030,435	380,900	380,900
Connecticut	2,810,514	265,600	265,600
Delaware	722,191	68,200	94,500
Florida	15,526,186	1,467,100	1,467,100
Georgia	7,502,458	708,900	708,900
Hawaii	1,096,788	103,600	103,600
Idaho	1,184,355	111,900	111,900
Illinois	9,858,828	931,600	931,600
Indiana	4,984,875	471,000	471,000
Iowa	2,366,384	223,600	223,600
Kansas	2,169,865	205,000	205,000
Kentucky	3,381,291	319,500	319,500
Louisiana	3,512,513	331,900	331,900
Maine	1,067,026	100,800	100,800
Maryland	4,584,292	433,200	433,200
Massachusetts	5,298,878	500,700	500,700
Michigan	7,650,421	722,900	722,900
Minnesota	4,141,269	391,300	391,300

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SENATE GENERAL ELECTION EXPENDITURE LIMITS—2014 ELECTIONS—Continued

State	Voting age population (VAP)	VAP x .02 x the price index (4.72469)	Senate expendi- ture limit (the greater of the amount in column 3 or $94,500)
Mississippi	2,253,775	213,000	213,000
Missouri	4,646,486	439,100	439,100
Montana	791,184	74,800	94,500
Nebraska	1,404,168	132,700	132,700
Nevada	2,128,531	201,100	201,100
New Hampshire	1,052,337	99,400	99,400
New Jersey	6,877,222	649,900	649,900
New Mexico	1,577,747	149,100	149,100
New York	15,411,151	1,456,300	1,456,300
North Carolina	7,562,455	714,600	714,600
North Dakota	560,705	53,000	94,500
Ohio	8,920,978	843,000	843,000
Oklahoma	2,903,541	274,400	274,400
Oregon	3,072,459	290,300	290,300
Pennsylvania	10,058,156	950,400	950,400
Rhode Island	837,524	79,100	94,500
South Carolina	3,695,041	349,200	349,200
South Dakota	636,918	60,200	94,500
Tennessee	5,004,401	472,900	472,900
Texas	19,406,207	1,833,800	1,833,800
Utah	2,004,283	189,400	189,400
Vermont	503,929	47,600	94,500
Virginia	6,395,870	604,400	604,400
Washington	5,375,611	508,000	508,000
West Virginia	1,472,626	139,200	139,200
Wisconsin	4,434,937	419,100	419,100
Wyoming	444,979	42,000	94,500

Limitations on Contributions by Individuals, Non-Multicandidate Committees and Certain Political Party Committees Giving to U.S. Senate Candidates for the 2013–2014 Election Cycle

For the convenience of the readers, the Commission is also republishing the contribution limitations for individuals, non-multicandidate committees and for certain political party committees giving to U.S. Senate candidates for the 2013– 2014 election cycle:

Statutory provision	Statutory amount	2013–2014 Limit
2 U.S.C. 441a(a)(1)(A)	$2,000	$2,600.
2 U.S.C. 441a(a)(1)(B)	$25,000	$32,400.
2 U.S.C. 441a(a)(3)(A)	$37,500	$48,600.
2 U.S.C. 441a(a)(3)(B)	$57,500 (of which no more than $37,500 may be attributable to contributions to political committees that are not political committees of national political parties).	$74,600 (of which no more than $48,600 may be attributable to contributions to political committees that are not political committees of national political parties).
	$35,000	$45,400.