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It's the Spending, Stupid!
Understanding Campaign Finance in the Big-Government Era

by Patrick Basham

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Proponents of new restrictions on campaign finance often argue that the United States spends too much money on campaigns and elections. That proposition is difficult to sustain since the nation spends so little of its wealth on campaigns.

Advocates of new regulations also decry increases in overall spending on elections. Such spending has increased in nominal terms over time and especially in recent decades. However, the increases should be seen in perspective. General inflation accounts for a significant part of the rise in campaign spending; Americans now spend more on everything than they did in the past.

The increase in election spending should also be seen in the light of five other "mores": more elections are held, more wealth is available for politics, more voters take part, more advertising must be bought, and more campaign finance regulations must be honored.

The most important factor driving campaign finance upward is "more government." Taxes and regulations on society have increased the ambit of government at all levels. Increasing government activity leads to more efforts to influence political decisions including spending on campaigns, a relationship confirmed by scholarly studies.

Efforts to restrict or ban campaign spending will be futile. The only sure way to lower campaign spending would be to restrict government to its constitutional powers.

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Introduction

Rep. John Lewis (D-Ga.) recently said, "There's too much money in the campaign system."[1] That view is quite common among campaign finance "reformers" and respondents to public opinion polls.[2] If there is too much money in elections, the reasoning goes, Congress should pass new regulations that reduce spending and restrict fundraising.

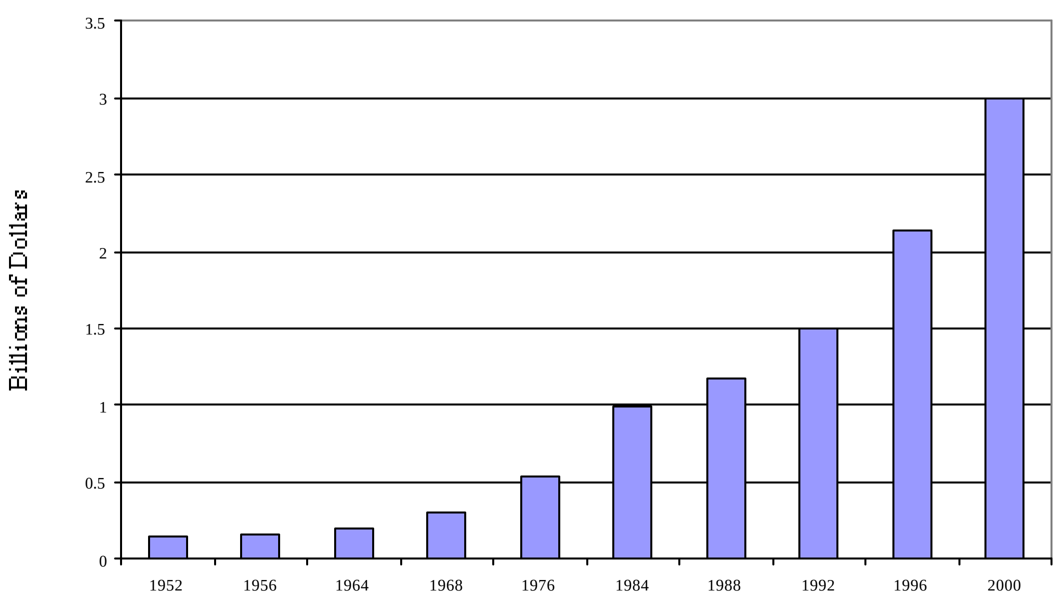
Opponents of such new regulations generally deny that the United States spends too much on elections. After all, the nation as a whole devotes far less than 1 percent of gross national product to campaigns. At most, that means the nation lays out $15 per eligible voter to fund elections and campaigns. Looked at another way, the United States spends more on either potato chips or batteries than on elections.[3] Put in perspective, the worry that "there's too much money in the campaign system" seems wildly wrong.

This paper addresses a different but equally important question: why has campaign spending gone up? An episode of NBC-TV's liberal series *West Wing* suggests an answer. Fictitious White House Communications Director Toby Ziegler explains to a staffer that, because the State Department has no serious spending or regulatory power, it has no powerful domestic constituency, and thus few lobbyists offer members of the Senate Committee on Foreign Relations the tantalizing carrot of campaign contributions. The committee, Ziegler notes, attracts few members of Congress. What self-interested politician would waste his or her time pursuing so selfless an exercise? The *West Wing* episode indicates the real reason for rising campaign spending: big government. Simply stated, the growth of government spending fosters the growth of campaign spending.

The Growth of Campaign Spending

The 2000 election cycle saw total spending by parties and candidates at all levels

Figure 1
Campaign Spending at the Federal Level



Sources: Federal Election Commission; Center for Responsive Politics; Common Cause; and Herbert E. Alexander, *Financing Politics: Money, Elections, and Political Reform* (Washington: CQ Press, 1992).

reach $3 billion (Figure 1), including the $301 million spent by the respective presidential campaigns of then-governor George W. Bush and then–vice president Al Gore. The two major parties raised 90 percent of the total spent in the last election as a combination of so-called hard (regulated and limited) and soft (unregulated and unlimited) money. Unregulated funding, or soft money, so detested by Sens. John McCain (R-Ariz.) and Russ Feingold (D-Wis.), has increased over the past decade.[4]

Economist Alan Reynolds recently reminded us that "one of the avowed purposes of reform was to cheapen the cost of campaigns."[5] Judged by that standard, campaign finance reform has been a failure. Nonetheless, "reformers" continue to cite rising spending as a justification for restricting contributions and placing limits on campaign finance. They argue that rising campaign spending reflects private efforts to corrupt public officials. Restrict or ban campaign contributions, they continue, and you will end corruption. Increased spending on elections, however, is not a morality play filled with people wearing white and black hats. Spending on campaigns has risen for complex reasons, all of which should be understood before Congress enacts onerous new restrictions on campaign finance.

Some Perspective on Campaign Spending

We can best understand electoral spending by studying the history of campaign finance and applying a more precise measurement of political spending. In *Unfree Speech: The Folly of Campaign Finance Reform,* a comprehensive and refreshingly unconventional treatment of the history of campaign finance regulation, Federal Election Commission member Bradley A. Smith identifies the major influences behind the rise in campaign spending.

First, there is inflation. Looking at nominal sums from the 1970s, much less the 19th century, tells us little about real trends in campaign spending. Taking inflation into account, the rise in spending over the past century has been much gentler than contemporary Capitol Hill rhetoric suggests. If one compares 20th-century campaign spending with 19th-century political spending, the former appears less profligate. For example, in 1876 Republican Rutherford B. Hayes and Democrat Samuel J. Tilden each spent the equivalent of $11 million today on their respective presidential campaigns.

The pinnacle of 19th-century political fundraising, however, came in the 1896 presidential election during which Republican aspirant William McKinley spent a then-record nominal sum of $7 million on his successful campaign against Democratic candidate William Jennings Bryan. Given that a turn-of-the-20th-century dollar was worth about $20 by the end of the century, the McKinley campaign raised an amount equivalent to $145 million in 1999 dollars (comparable to the funds raised by the 2000 Bush campaign).[6] Economic historian Niall Ferguson makes a similar point about recent history:

> Those . . . figures from the FEC are rather less impressive when allowances are made for inflation and economic growth. Adding together presidential campaign receipts and the disbursements of congressional candidates, the nominal cost of the federal electoral process has indeed doubled since 1987–88. But in real terms, the increase has been 39 percent; and as a proportion of GNP a mere four percent.[7]

Second, the rise in campaign spending took place during a rapid rise in Americans' standard of living. In 1940 the nation's annual gross domestic product stood at $96.7 billion; in 1970 GDP surpassed one *trillion dollars*. The end of the century saw GDP reach $9.8 trillion.[8] As Smith observes, "As the standard of living increases, more money

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should be available for such discretionary, nonessential activities as politics."[9] Indeed, that has been the American experience.

Third, the American electorate has expanded significantly as the result of population growth and the enfranchisement of black, female, and younger Americans. All things being equal, more voters mean more spending on efforts to sway their choices at the polls.

Fourth, today we elect more officeholders than in the past, and we participate in primary elections before presidential elections. Primaries were comparatively rare between the mid-19th and mid-20th centuries.[10] More elections require more spending in the aggregate.

Fifth, the post–World War I introduction of radio and the post–World War II introduction of television provided candidates and parties with technological instruments capable of disseminating campaign messages more effectively. The new technology led campaigns to spend more money overall on advertising. Between 1956 and 1968, for example, campaign spending on media advertising increased from $10 million to $60 million.[11]

Sixth, contemporary candidates must comply with quite onerous campaign finance regulations. The regulation of politics has reached the point that presidential candidates frequently spend 10 percent of their campaign budgets (i.e., several million dollars each) on regulatory compliance.[12]

Finally, but most important, there is the growth of government. As government does and spends more, individuals try to influence it, both to advance their causes and to protect themselves from abuse. As Bradley Smith argues:

> The more that government has the power to bestow benefits on the populace, or to regulate human endeavors, the greater the incentive for citizens to attempt to influence the government and the election of persons to fill government offices. . . . It is only natural that groups and individuals will find it worthwhile to spend increasing amounts in an effort to influence who holds office.[13]

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Does Smith's claim stand up to empirical scrutiny? The rest of this paper shows that government has grown enormously in recent years and that such growth accounts for the rise in spending on elections.

The Growth of Government

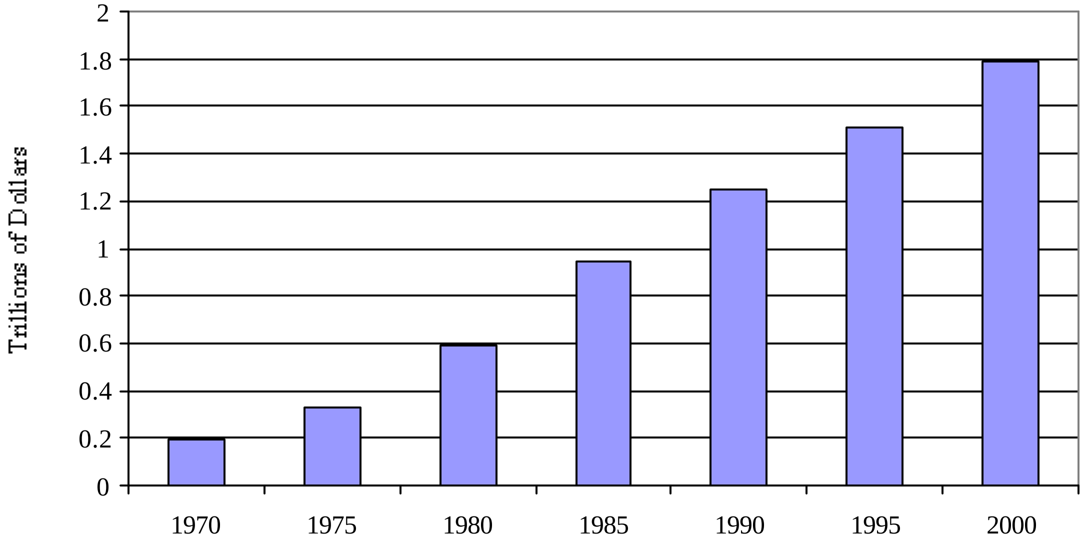
For several decades after the nation's birth, Congress proved largely respectful of the limits on federal activity laid down by the Constitution. Nevertheless, as early as the 1840s, "The men who ran America's burgeoning businesses and industries increasingly sought favors and protection from a government that was becoming more and more involved in taxation, tariffs, and other economic matters."[14] The relationship between more government intervention in the marketplace and more political spending grew stronger in the post–Civil War period.[15]

Although government grew significantly in the late 19th century, in nominal terms the size of government remained small by contemporary standards. In 1892, for example, federal government revenue amounted to just $355 million ($7 billion in 2000 dollars). However, by the 1920s government intervention in the economy had increased enormously. New antitrust laws and the income tax fomented more political involvement, in the form of lobbying and campaign donations, by private individuals and corporate interests.

Following the introduction of President Franklin D. Roosevelt's New Deal in the early 1930s, bigger government possessed inexorable upward momentum. By 1940, the year before America's entry into World War II, federal government revenues had reached $6.5 billion (6.7 percent of GDP), and federal government spending had reached $9.5 billion (9.8 percent of GDP).[16]

At the end of World War II, a much larger government bestrode the nation's economic landscape. By 1947 combined federal and

Figure 2
Growth in Federal Government Spending (1970–2000)



Source: *Historical Tables, Budget of the United States Government, Fiscal Year 2002* (Washington: Government Printing Office, 2001), Table 1.3, pp. 25–26.

state government revenues amounted to $50.3 billion, equivalent to 21.5 percent of GDP. The government's presence grew even larger in the 1960s with President Lyndon Johnson's Great Society initiatives. By 1970 federal government revenue totaled $192.8 billion, or 19 percent of GDP. Federal government spending, meanwhile, grew to $195.6 billion (19.3 percent of GDP).[17] Collectively, federal and state government revenue now amounted to $284.3 billion, or 28.1 percent of GDP.[18]

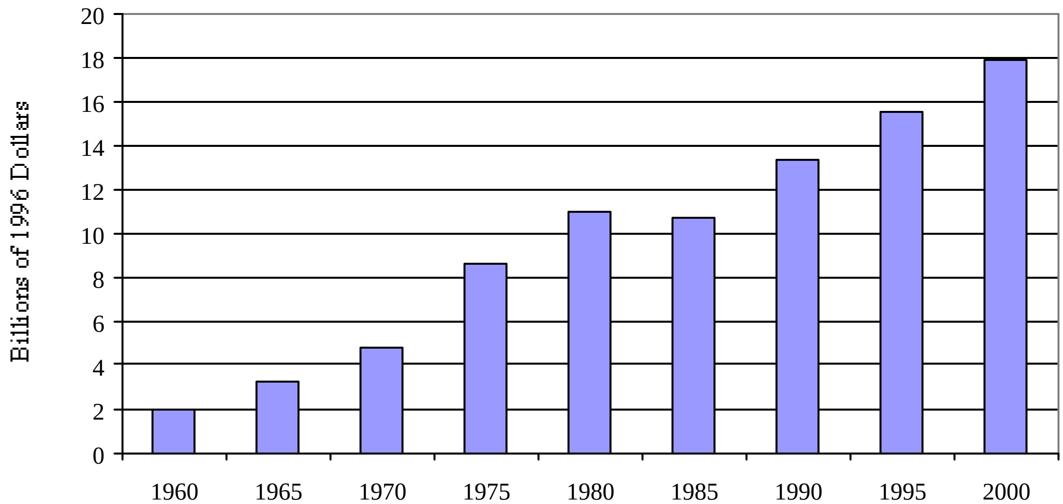
Where are we now? In 2000 the federal government taxed Americans to the tune of $2.03 trillion (20.6 percent of GDP), a 250 percent real increase since 1970.[19] In 2000 total federal and state government revenue reached 30.5 percent of GDP, up from 28.1 percent in 1970.[20] On the expenditure side, federal government spending reached $1.79 trillion in 2000, a 915 percent nominal increase over the previous 30 years (Figure 2).[21] Total government spending as a proportion of GDP increased from 32.4 percent in 1970 to 34.6 percent in 1997.[22]

We miss a big part of the picture if we focus only on direct government spending. Government has assumed the power to regulate all kinds of private conduct, especially economic life. The desire to gain benefits from or avoid the costs of regulation also pushes campaign contributions upward.[23] Federal spending on regulation has increased significantly in real terms over the past four decades (Figure 3). Economist Thomas Hopkins estimates that the cost of complying with federal regulations exceeded $700 billion in 1999.[24]

Let's pause a moment to take a look at the overall picture of government activity. In 2000 total federal, state, and local government spending was $2.75 trillion; as government regulation cost $1.1 trillion, the total cost of government intervention was $3.86 trillion. In other words, the portion of the nation's real income consumed by government was a staggering 45.4 percent in 2000.[25] Moreover, the composition of federal spending has changed radically. In 1962 nondefense spending comprised only 29.7 percent

Government has grown enormously in recent years, and such growth accounts for the rise in spending on elections.

Figure 3
Spending on Federal Regulatory Activity: 1960–2000



Source: Melinda Warren, "Federal Regulatory Spending Reaches a New Height: An Analysis of the Budget of the U.S. Government for the Year 2001," Washington University, Center for the Study of American Business, June 2000, p. 18.

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of all discretionary federal program spending; in 2000 nondefense spending accounted for 52 percent of all such spending. Furthermore, such spending increased by 140 percent in real terms.[26]

The growth of government has reduced economic freedom in the United States. In 1975 government transfers and subsidies accounted for 11.1 percent of GNP, a not insignificant sum but one that still merited 7.1 out of a possible 10 in the Cato Institute's economic freedom ratings.[27] By 1985, 12.5 percent of GNP was consumed by transfers and subsidies, causing the U.S. rating to fall to 6.7 out of 10. The most recent data show that, in 1999, 13.4 percent of GNP went for transfers and subsidies, causing the U.S. rating to fall further to 6.5 out of 10.[28]

Although the budget that President Bush presented to Congress in mid-April was arguably conservative by Washington standards—it sought only a 4 percent increase from the current fiscal year—it still proposed spending $1.96 trillion next fiscal year. In this context, Bush's quite modest tax cut plan appears even more moderate; in the current fiscal year, personal federal income tax revenue will constitute a record 10.4 percent of GDP.[29] Total federal taxes currently constitute 20.7 percent of GDP, the highest share since the nation was mired in World War II.[30]

More Government, More Spending

Current levels of taxation and regulation indicate that government has vast power over many aspects of American life—wealth redistribution, housing, agriculture, education, health care, trade, energy, telecommunications, gun ownership, alcohol, tobacco, and drugs, to name a few. An astonishing 68,937 government bodies are authorized to impose taxes on Americans.[31]

Is it any wonder, then, that $2.7 billion was spent lobbying politicians during the 1997–98 election cycle?[32] Is it a surprise that, in 2000, interest groups such as the pharmaceutical industry–funded "Citizens for Better Medicare" ($65 million), the AFL-CIO ($45 million), and the liberal feminist "Emily's List" ($20 million) spent so much money in federal races?[33] A study by scholars at Brigham Young

University found that interest-group spending on 2000's most competitive congressional races totaled $364 million.[34]

In so spendthrift and meddlesome a policy environment, was it not good business practice for Philip Morris, AT&T, News Corp., MCI Worldcom, FedEx, Pfizer, Boeing, and Microsoft to provide, collectively, the Republican Party with $12 million in soft money donations between January 1995 and December 1999? Was it not also good business practice for the Communications Workers of America, Walt Disney, the AFL-CIO, AT&T, the Association of Trial Lawyers of America, Philip Morris, FedEx, Time Warner, Northwest Airlines, and United Airlines to donate, collectively, almost $11 million in soft money to the Democratic Party during the same period?[35] After all, if any of those organizations had ignored Washington, their competitors might have won the political game and obtained favorable treatment from the federal leviathan.

But does the preceding analysis confirm anything more than a coincidence between increases in the size of government and increased campaign spending? There are solid empirical evidence and analysis to support the thesis that expanding government results in increases in campaign spending. For example, research by Yale economist John Lott Jr. found that 87 percent of the rise in federal campaign spending between 1976 and 1994 was attributable to the $1,101 per capita rise (in real terms) in federal government spending.[36] Lott found that this causal relationship also obtains for increases in gubernatorial and state legislative campaign spending. Government spending increases at the state level drive campaign spending increases at the state level. Lott's findings are consistent, for example, with those of economist Filip Palda, who has also found that the rise in campaign spending closely parallels the rise in government spending.[37]

Conclusion

Is there a solution to increased campaign spending? Within the current policy environment, it is impossible to reduce campaign spending. The most rigorous effort to restrict party funding, for example, will force those same funds to find a different outlet within the political system. The past 25 years, in particular, clearly demonstrate that, if the incentive to spend on political activity is not reduced, campaign spending that is removed by legislative fiat from one area simply materializes in another.[38]

I conclude with a hard truth: if you believe spending on elections is a problem, the only plausible solution is to limit the size of government. Anything else merely treats the symptoms without addressing the underlying disease of the body politic.

In this vein, Tod Lindberg, editor of *Policy Review,* is correct in asserting that "as long as people believe that the stakes in Washington are high, they will spend what they can to exert as much influence as they can."[39] We will reduce the amount of money flowing within the tributaries of our political system only by reducing the incentive for private interests to directly and indirectly support candidates and parties. The historical record provides sufficient empirical evidence from which to infer that lower government spending will lead to lower levels of campaign contributions; in turn, that will result in lower levels of campaign spending.

This reality presents our elected representatives with a serious dilemma. No matter how the policy cake is apportioned, they cannot have what they say they want—lower spending on campaigns—without having what they definitely do not want—less government. Of course, that is the downside of asking so awkward a question as why campaign spending *really* increased. One must be prepared to live with the answer, however unpalatable. Hence, our elected representatives do not even feign an attempt at candidly answering this question.

Even if a campaign finance "reform" proposal survives Congress, overcomes a possible presidential veto, and passes constitutional muster, our representatives' demonstrated lack of commitment to limited gov-

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ernment ensures that the upward momentum of campaign finance will continue unabated for the foreseeable future. In the end, the only real restraint on campaign spending will be a government that lives within its constitutional constraints.

Notes

1. Quoted in Alison Mitchell, "Blacks and Hispanics in House Balk on Campaign Finance Bill," *New York Times,* May 9, 2001, p. A1.

2. Bradley A. Smith, *Unfree Speech: The Folly of Campaign Finance Reform* (Princeton, N.J.: Princeton University Press, 2001), p. 41

3. Ibid., pp. 41–42.

4. Norman J. Ornstein, Thomas E. Mann, and Michael J. Malbin, *Vital Statistics on Congress 1999–2000* (Washington: AEI Press, 2000), Table 3-13, p. 110.

5. Alan Reynolds, "The Economics of Campaign Finance Reform," *Washington Times,* March 22, 2001.

6. Herbert E. Alexander, *Financing Politics: Money, Elections, and Political Reform* (Washington: CQ Press, 1992); George Thayer, *Who Shakes the Money Tree? American Campaign Practices from 1789 to the Present* (New York: Simon and Schuster, 1973); Smith; Robert J. Dinkin, *Campaigning in America* (New York; Greenwood, 1989); and Federal Election Commission.

7. Niall Ferguson, "The Case against McCain-Feingold," *Wall Street Journal,* March 26, 2001.

8. *Historical Tables, Budget of the United States Government, Fiscal Year 2002* (Washington: Government Printing Office, 2001), Table 10.1, pp. 181–82.

9. Smith, p. 173.

10. Gary C. Jacobson, *The Politics of Congressional Elections,* 4th ed. (New York: Longman, 1997), pp. 6–7.

11. Congressional Quarterly, *Dollar Politics* (Washington: Congressional Quarterly, 1982).

12. Smith, p. 173.

13. Ibid.

14. Center for Responsive Politics, *How Americans Have Financed Elections in the Past,* 1995, http://www.openscrets.org/pub/history/history2.html.

15. According to historian Richard Hofstadter, "Capitalists seeking land grants, tariffs, bounties, favorable currency policies, freedom from regulatory legislation and economic reform, supplied campaign funds, fees, and bribes, and plied politicians with investment opportunities." Richard Hofstadter, *The American Political Tradition* (New York: Alfred A. Knopf, 1948), p. 8.

16. *Historical Tables,* Table 1.3, pp. 25–26.

17. Ibid.

18. *Historical Tables,* Table 15.1, p. 291.

19. Ibid., Table 1.3, pp. 25–26.

20. Ibid., Table 15.1, p. 291.

21. Ibid., Table 1.3, pp. 25–26.

22. James Gwartney and Robert Lawson, *Economic Freedom of the World: 2000 Annual Report* (Washington: Cato Institute, 2000), p. 81.

23. See Fred S. McChesney, *Money for Nothing: Politicians, Rent Extraction, and Political Extortion* (Cambridge, Mass.: Harvard University Press, 1997).

24. Cited in Melinda Warren, "Federal Regulatory Spending Reaches a New Height: An Analysis of the Budget of the U.S. Government for the Year 2001," Washington University, Center for the Study of American Business, June 2000, p. 1.

25. Peter Ferrara and Michael Kamburowski, *Cost of Government Day Report: 2000* (Washington: Americans for Tax Reform Foundation, 2000), pp. 20–21.

26. *Historical Tables,* Table 8.8, pp. 145–50.

27. Gwartney and Lawson. The ratings employ data on the size of government, price stability, trade openness, the quality of legal structures, and other variables to develop a summary index of economic freedom. The index measures the ability of citizens in 123 countries to choose for themselves, engage in market activities, and keep what they earn.

28. Ibid., p. 241.

29. *Historical Tables,* Table 14.2, pp. 287–90.

30. Ibid., Table 1.2, pp. 23–24.

31. Margaret Shapiro, "Taxing History," *Washington Post Magazine,* April 15, 2001, p. 5.

32. Center for Responsive Politics. For an earlier analysis of interventionist government's stimulus to interest group intervention in the political marketplace, see Filip Palda, "The Determinants of

Campaign Spending: The Role of the Government Jackpot," *Economic Inquiry* (1992): 627.

33. David B. Magleby, ed. *Election Advocacy: Soft Money and Issue Advocacy in the 2000 Congressional Elections* (Provo, Utah: Brigham Young University, Center for the Study of Elections and Democracy, 2001), p. 26.

34. Ibid., p. 47.

35. Common Cause, http://www.commoncause.org/laundromat/topdonorsallnew.htm.

36. John R. Lott Jr., "A Simple Explanation for Why Campaign Expenditures Are Increasing: The Government Is Getting Bigger," *Journal of Law and Economics* 43 (October 2000): 359–94.

37. Filip Palda, *How Much Is Your Vote Worth?* (San Francisco: ICS Press, 1994), p. 96. See also David Boaz, "The Who and Why of Big Bucks Politics," *Wall Street Journal,* November 15, 1983.

38. Samuel Issacharoff and Pamela S. Karlan,"The Hydraulics of Campaign Finance Reform," *Texas Law Review* 77 (June 1999): 1705.

39. Tod Lindberg, "The Senate's Take," *Washington Times,* April 3, 2001.

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