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Did Firms Profit from Soft Money?

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At its heart, the Bipartisan Campaign Reform Act (BCRA) seeks to limit the private benefits that firms receive from campaign contributions. A series of rulings by the Federal Election Commission created the opportunity for organizations and individuals to give funds to party accounts outside the system of direct contribution limits—so-called soft money. Although little used before 1992, soft money ballooned during the 1990s. In the 2000 election, the two major parties raised approximately $500 million in soft money, most of which came from corporations in donations in excess of $100,000, at least ten times larger than the hard contribution limits set in the Federal Elections Campaign Act.[1]

Companies were widely alleged to have profited directly and substantially from their soft money donations. In the years leading up to the passage of BCRA, public interest groups and the press provided numerous examples of firms that benefited from public policies and were also large soft money donors—tobacco, pharmaceutical, and oil companies were especially featured in these reports. The most telling evidence, cited extensively by the majority opinion in *McConnell v. FEC*, emerged in hearings before the U.S. Senate Committee on Commerce in 1998. Corporate executives and legislators testified that soft money donations were often given when valuable government contracts where on the line. In other cases, donors feared that if they did not contribute, then their companies would lose competitive advantages through regulations.

These were clearly stories of excess. Parties and their candidates received donations well in excess of what they could raise under the hard money limits, and corporations, which gave most of the soft party money, allegedly received excessively large benefits at public expense in return for their contributions.

Were these cases typical, or exceptional? If exceptional, then the government might best deal with the problems of corrupt practices through aggressive enforcement of anti-bribery laws. If typical, then the government might attempt to eliminate these problems with blanket restrictions on contributions—as they in fact did.

At issue is the extent to which donors, especially large corporate donors, benefited from soft money. Economists and political scientists have long been puzzled about the influence of campaign contributions on public policy. An extensive literature examines the association between hard money contributions and public policy decision-making, especially roll call voting in the U.S. Congress. The large majority of studies find no significant effects of hard money contributions on public policy, and, in those that do find some association, the magnitude of the effects is typically very small.[2]

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[1] See the report by the Federal Election Commission at: www.fec.gov/press/051501partyfund/051501partyfund.html.

[2] For a summary of this literature, see Ansolabehere, Stephen, John de Figueiredo, and James M. Snyder, Jr. 2003. "Why Is There So Little Money in US Politics?" *Journal of Economic Perspectives* 17: 105–130.

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