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Campaign Finance: Constitutional and Legal Issues of Soft Money

SUMMARY

“Soft money” has become a major issue in the campaign finance debate. It is a highly controversial issue due to the perception that soft money may be the largest loophole in the Federal Election Campaign Act (FECA). Soft money is considered to be funds that are raised and spent according to applicable state laws, which FECA prohibits from being spent directly on federal elections, but that may have an indirect influence on federal elections. This Issue Brief discusses the three major types of soft money: political party soft money, corporate and labor union soft money, and soft money used for issue advocacy communications.

Political party soft money is those funds raised by the national parties from sources and in amounts otherwise prohibited in federal elections by the FECA. In accordance with the applicable state law, it is then largely transferred to state and local political parties for grassroots and party-building activities, overhead expenses, and issue ads. Much of the recent legislation would subject the contributions, expenditures, or transfers of national political parties, for any activity that might affect the outcome of a federal election, to the limitations, prohibitions, and source restrictions of the FECA. Although the courts have not had occasion to address this issue specifically, it appears that such a restriction on political party soft money would arguably pass constitutional muster.

Certain corporate and labor union activities are expressly exempt from regulation under the FECA and can therefore be paid for with soft money. These exempt activities are: (1) communications by a corporation directed at stockholders, executive or administrative personnel and their families or by a labor organization directed at its members and families on any subject; (2) nonpartisan voter registration and get-out-the-vote activities by a corporation that are directed to its stockholders, executive or administrative personnel and their families or by a labor organization to its members and their families; and (3) the establishment and administration of a political action committee (PAC) or a separate segregated fund (SSF).

Spending on issue advocacy communications is another use of soft money that has gained great popularity. Issue advocacy typically occurs when a group, such as a for-profit or non-profit corporation or labor organization, pays for an advertisement that could be interpreted to favor or disfavor certain candidates, while also serving to inform the public about a policy issue. However, unlike communications that expressly advocate the election or defeat of a clearly identified candidate, many lower courts have interpreted Supreme Court precedent as deeming issue ads constitutionally protected First Amendment speech, which cannot be regulated. Hence, issue ads may be paid for with soft money.

As in the 105th Congress, many of the 106th Congress bills focus on political party soft money—subjecting contributions, expenditures, or transfers of national political parties to the limitations, prohibitions and reporting requirements of the FECA. Other bills would restrict corporate and labor union soft money. Another major reform proposal would subject certain types of advocacy communications to FECA regulation, either fully or just insofar as disclosure requirements.
MOST RECENT DEVELOPMENTS

New 527 “Issue Ad” Disclosure Law: On July 1, 2000 P.L. 106-230, (H.R. 4762) was enacted, which requires disclosure by organizations claiming Internal Revenue Code (IRC) Section 527 status. The disclosure requirement is triggered by the IRC definition of “exempt function,” 26 U.S.C. § 527(e): “influencing or attempting to influence the selection, nomination, election or appointment of any individual” to public office. As the “exempt function” definition appears broader than the definition of “express advocacy,” i.e. words expressly advocating the election or defeat of a clearly identified candidate, the IRC definition arguably encompasses what the courts have defined as First Amendment protected issue advocacy, which may not be constitutionally permissible to regulate. As a result, a court could find that P.L. 106-230 unconstitutionally regulates issue advocacy because it requires public disclosure by Section 527 organizations spending soft money for issue ads. On August 28, 2000, in the U.S. District Court for the Southern District of Alabama, the National Federation of Republican Assemblies filed suit alleging that P.L. 106-230 is unconstitutional under the First and Tenth Amendments.

Court Strikes Down Issue Ad Disclosure Law: On June 14, 2000, the United States Court of Appeals for the Second Circuit, in Vermont Right to Life Committee v. Sorrell, 216 F.3d 264 (2d Cir. 2000), found that state campaign regulations triggering disclosure and reporting requirements of speech that “expressly or implicitly advocate[] the success or defeat of a candidate” were facially invalid under the First Amendment because they would result in a regulation of constitutionally protected issue advocacy, (emphasis added). In Vermont, the court held that the Supreme Court in Buckley v. Valeo had established an “express advocacy standard” in order to insure that regulations were neither too vague nor intrusive on First Amendment protected issue advocacy. Accordingly, the court determined that by including the term “implicitly,” the regulations extend to advocacy with respect to public issues, in violation of the rule enunciated in Buckley and its progeny.

Justice Kennedy Warns Of Soft Money Proliferation: On January 24, 2000, by a 6 to 3 vote, the Supreme Court in Nixon v. Shrink Missouri Government PAC, No. 98-963, upheld Missouri state campaign contribution limits and reaffirmed its landmark 1976 precedent in Buckley v. Valeo that the government can regulate campaign contributions. The Court noted that it has consistently found that less justification is required in order to uphold limits on campaign contributions than is required to uphold limits on campaign expenditures. In his dissent, however, Justice Kennedy warned that the Court’s decision undermines free speech protections and will add to the proliferation of “covert speech” in the form of soft money.

BACKGROUND AND ANALYSIS

Definitions of Hard and Soft Money in Federal Elections

The terms “soft money” and “hard money” are not defined in federal election law or regulations. However, the FEC broadly describes “soft money” as “funds that are prohibited
under the Federal Election Campaign Act (FECA), 2 U.S.C. §§ 431 et seq., either because they come from a prohibited source, see 2 U.S.C. §§ 441b, 441c and 441e, or because the amount exceeds the contribution limits in 2 U.S.C. § 441a.” Memorandum from Lawrence M. Noble, General Counsel, FEC to the Commissioners of the FEC (June 6, 1997). Sometimes referred to as nonfederal funds, soft money often includes corporate and/or labor treasury funds, and individual contributions in excess of federal limits, which cannot legally be used in connection with federal elections, but can be used for other purposes. (Federal Election Commission Twenty Year Report, p. 19 (April 1995)) Similarly, Common Cause has defined “soft money” as “funds raised by Presidential campaigns and national congressional political party organizations purportedly for use by state and local party organizations in non-federal elections, from sources who would otherwise be barred from making such contributions in connection with a federal election, e.g., from corporations and labor unions and from individuals who have reached their federal contribution limits.” See Common Cause v. Federal Election Commission, 693 F.Supp. 1391, 1392 (D.D.C. 1987).

For the purposes of this issue brief, “soft money” will be used to describe funds that are not subject to regulation under the FECA, but appear to be raised and spent in an attempt to affect federal elections.

The term “hard money,” also undefined under federal election law and regulations, is typically used to refer to funds raised and spent in accordance with the limitations, prohibitions, and reporting requirements of the FECA. See 2 U.S.C. §§ 441a, 441b(a). Unlike soft money, hard money may be used in connection with a federal election. Under the FECA, hard money restrictions apply to contributions and expenditures from any “person,” as defined to include, “an individual, partnership, committee, association, corporation, labor organization, or any other organization or group of persons, but such term does not include the Federal Government or any authority of the Federal Government,” 2 U.S.C. § 431(11).

This Issue Brief discusses three major types of soft money: political party soft money, corporate and labor union soft money, and soft money used for issue advocacy.

**Political Party Soft Money**

Political party soft money funds are raised by the national parties from sources and in amounts prohibited in federal elections by the FECA and are then largely transferred, in accordance with applicable state law, to state and local political parties for grassroots and party-building activities, overhead expenses, and issue ads. Since the 1979 FECA Amendments, certain grassroots, voter-registration, get-out-the-vote, and generic party-building activities are exempt from FECA coverage. 2 U.S.C. § 431(9)(B)(viii),(ix). Therefore, money raised and spent for these activities is not regulated and hence, is considered political party soft money.

Although the courts have not had occasion to address this issue specifically, it appears that subjecting the contributions, expenditures, or transfers of national political parties, for any activity that might affect the outcome of a federal election, to the limitations, prohibitions, and reporting requirements of the FECA, would arguably pass constitutional muster.

In the landmark Buckley v. Valeo case, the Supreme Court made it clear that the right to associate is a “basic constitutional freedom,” and that any action that may have the effect of curtailing that freedom to associate would be subject to the strictest judicial scrutiny. 424
U.S. 1, 25 (1976) (quoting *Kusper v. Pontikes*, 414 U.S. 51, 57 (1973)). But the Court further asserted that the right of political association is not absolute and can be limited by substantial governmental interests such as the prevention of corruption or the prevention of even the appearance of corruption. 424 U.S. at 27-28.

Employing this analysis, the *Buckley* Court determined that limitations on contributions can pass constitutional muster if they are reasonable and only marginally infringe on First Amendment rights in order to stem actual or apparent corruption resulting from *quid pro quo* relationships between contributors and candidates. The Court noted that, unlike an expenditure limitation, a reasonable contribution limitation does “not undermine to any material degree the potential for robust and effective discussion of candidates and campaign issues by individual citizens, associations, the institutional press, candidates, and political parties.” 424 U.S. at 20-38.

It could be argued that eliminating political party soft money by subjecting it to the limits and restrictions of the FECA would not significantly impact political debate because many other methods of expression under the FECA would still be available to a person seeking to make political contributions. For example, persons could: contribute directly to a candidate, to a PAC that would support a certain candidate, to the political party of such a candidate in accordance with FECA-regulated contribution limits (also known as “hard money” contributions), to state parties for state activities, or make independent expenditures on behalf of the candidate. It could be further argued that prohibiting political party soft money would stem corruption or the appearance thereof that could result from *quid pro quo* relationships between large-dollar soft money contributors and federal office candidates who benefit from political party soft money expenditures. The Court in *Buckley* found that preventing corruption or the appearance thereof, which can be presented by such *quid pro quo* relationships, would constitute a substantial governmental interest warranting reasonable infringement on First Amendment rights. 424 U.S. 26-27. Hence, under *Buckley*, it appears that a prohibition on political party soft money could arguably pass constitutional muster.

The FEC reported on March 19, 1997, that during the 1995-96 election cycle, Republican national committees had raised $138.2 million for their non-federal or soft money accounts and spent $149.7 million, an increase of 178% and 224%, respectively, over this same time period in the 1991-92 election cycle. The Democratic national committees raised $123.9 million and spent $121.8 million in that same period, a 241% increase in receipts in their soft money accounts and a 271% jump in spending from the 1992 cycle.

On November 18, 1998, the Federal Election Commission held a public hearing regarding a Notice of Proposed Rulemaking to prohibit national political parties from raising or spending soft money. The Notice of Proposed Rulemaking was published in the July 13, 1998 Federal Register and the FEC is currently reviewing comments received.

**Corporate and Labor Union Soft Money**

Generally, contributions and expenditures by corporations, labor unions, membership organizations, cooperatives, and corporations without capital stock have been prohibited in federal elections. 2 U.S.C. § 441b. The FECA, however, provides for three exemptions from this broad prohibition, that is, contributions and expenditures for: (1) communications by a corporation to its stockholders, executive or administrative personnel and their families or by
a labor organization to its members or families on any subject; (2) nonpartisan voter registration and get-out-the-vote activities by a corporation aimed at its stockholders and executive and administrative personnel and their families or by a labor organization aimed at its members and their families; and (3) the establishment, administration and solicitation of contributions to a separate segregated fund (commonly known as a political action committee or PAC or SSF) to be utilized for federal election purposes by a corporation, labor organization, membership organization, cooperative, or corporation without capital stock.


In Communication Workers of America v. Beck, 487 U.S. 735 (1988), the Supreme Court held that labor unions are not permitted to spend funds exacted from dues-paying non-union employees under an agency shop agreement for certain activities unrelated to collective bargaining when those employees object to such expenditures. According to the Court, Congress’ purpose in providing the union shop was to force employees to bear their fair share of the costs of labor-management negotiations and collective bargaining activities, but not to force employees to support unrelated labor union political activities they oppose. As a result of Beck, non-union employees in an agency shop agreement can request a refund of that portion of their dues used by the union for political activities. Accordingly, if workers exercise their rights under Beck, labor unions would lose some soft money funds, which would otherwise be available for election-related expenses. Campaign finance reform legislation that simply codifies the Beck decision, without expanding on the Court’s ruling, would appear to be constitutional.

### Soft Money Spent On Issue Advocacy

Spending on issue advocacy communications is another use of soft money that has gained popularity in recent federal election cycles. Issue advocacy communications are paid for by a group, such as a for-profit or non-profit corporation or labor organization, for advertisements that could be interpreted to favor or disfavor certain candidates, while also serving to inform the public about a policy issue. The Supreme Court has ruled that unlike communications that expressly advocate the election or defeat of a clearly identified candidate, issue ads are constitutionally protected First Amendment speech and cannot be regulated. Hence, they may be paid for with unregulated soft money.

### Court Decisions

In Buckley v. Valeo, 424 U.S. 1 (1976), the Supreme Court held that campaign finance limitations apply only to “communications that in express terms advocate the election or defeat of a clearly identified candidate for federal office.” A footnote to the opinion says that the limits apply when communications include terms “such as ‘vote for,’ ‘elect,’ ‘support,’ ‘cast your ballot for,’ ‘Smith for Congress,’ ‘vote against,’ ‘defeat,’ ‘reject.’” Buckley, supra at 44 n.52; See 11 C.F.R. 101.22(a). Communications without these ‘magic words’ are often classified as issue advocacy, thus falling outside the scope of the FECA.

In the 1986 decision of Federal Election Commission v. Massachusetts Citizens for Life, Inc., (MCFL), the Supreme Court continued to distinguish between issue and express advocacy, holding that an expenditure must constitute express advocacy in order to be subject to the FECA prohibition against corporate use of treasury funds to make an expenditure “in
connection with” any federal election. 479 U.S. 238, 249-250 (1986). In *MCFL*, the Court ruled that a publication urging voters to vote for “pro-life” candidates, while also identifying and providing photographs of certain candidates who fit that description, could not be regarded as a “mere discussion of public issues that by their nature raise the names of certain politicians.” Instead, the Court found, the publication effectively provided a directive to the reader to vote for the identified candidates and ergo, constituted express advocacy. 479 U.S. at 249-250.

In *FEC v. Furgatch*, 807 F.2d 857 (9th Cir. 1987), *cert. denied*, 484 U.S. 850 (1987), the Ninth Circuit presented the following three-part test to determine whether a communication may be considered issue advocacy:

First, even if it is not presented in the clearest, most explicit language, speech is ‘express’ for the present purposes if its message is unmistakable and unambiguous, suggestive of only one plausible meaning. Second, speech may only be termed ‘advocacy’ if it presents a clear plea for action, and thus speech that is merely informative is not covered by the Act. Finally, it must be clear what action is advocated. Speech cannot be ‘express advocacy of election or defeat of a candidate’ when reasonable minds could differ as to whether it encourages a vote for or against a candidate or encourages the reader to take some other kind of action. *Id.* at 864.


However, the trend in the circuit courts appears to be away from the *Furgatch* and FEC definitions toward a more limited interpretation of what type of speech will constitute “express advocacy.” Hence, regulation of fewer types of communications are being upheld as constitutionally permissible and therefore, more “issue ads” are permissibly funded with soft money.

In *Maine Right to Life Committee v. FEC*, 914 F.Supp. 8 (D. Maine 1996), *aff’d per curiam* 98 F.3d 1 (1st. Cir. 1996), *cert. denied*, 118 S.Ct. 52 (Oct. 6, 1997), the First Circuit affirmed the district court’s opinion that the FEC surpassed its authority when it included a “reasonable person” standard in its definition of “express advocacy.” The court reasoned that such a standard threatened to infringe upon issue advocacy, an area protected by the First Amendment. *Maine Right to Life*, 914 F.Supp. at 12. The Fourth Circuit reached a similar conclusion in *FEC v. Christian Action Network*, 92 F.3d 1178 (4th Cir. 1997). Most recently, on June 14, 2000, the Second Circuit, in *Vermont Right to Life Committee v. Sorrell*, 216 F.3d 264 (2d Cir. 2000), found that state campaign regulations triggering disclosure and reporting requirements of speech that “expressly or implicitly advocate[] the success or defeat of a candidate” were facially invalid under the First Amendment because they would result in a regulation of constitutionally protected issue advocacy, (emphasis added). In *Vermont*, the court held that the Supreme Court in *Buckley* had established an “express advocacy standard” in order to insure that regulations were neither too vague nor intrusive on First Amendment protected issue advocacy. Accordingly, the court held that by including the term “implicitly,” the regulations extend to advocacy with respect to public issues, in violation of the rule enunciated in *Buckley* and its progeny.
Nevertheless, the FEC has declined to revise its regulations defining “express advocacy.” See 63 Fed. Reg. 8363 (Feb. 19, 1998). The FEC has stated that its primary reason for this decision is “its belief that the definition of ‘express advocacy’ found at 11 CFR 100.22(b) is constitutional.” Id. at 8264.

**Voter Guides**

Another form of issue advocacy that has been widely used is the distribution of “voter guides.” The distribution of voter guides by the Christian Coalition between 1990 and 1994 is currently at issue in *FEC v. Christian Coalition*, No.96 CVO 1781 (D.D.C.July 30, 1996). One argument being made by the FEC is that since these voter guides declare candidates’ stands on issues as either “good” or “misguided,” the Christian Coalition is expressly advocating the election of candidates from a particular party. Thus, the FEC argues, the Christian Coalition is making independent expenditures that are subject to FECA reporting requirements.

**Issue Advocacy Distinguished from Independent Expenditures**

Soft money spent for issue advocacy communications is sometimes confused with independent expenditures. Although both types of expenditures are purportedly independent (Justice Kennedy argues that, by nature, practically all expenditures are coordinated with a candidate and, thus, cannot be considered independent. *Colorado Republican Committee v. FEC*, 518 U.S. 604(1996) (Kennedy, J., concurring in the judgment, dissenting in part)), only independent expenditures are subject to the FECA. 2 U.S.C. §§ 431 et seq. The Colorado Court held that the First Amendment would prohibit the application of the provision in the FECA, 2 U.S.C. § 441a(d)(3), limiting political party expenditures made independently and without any coordination with a candidate or his or her campaign. The Colorado decision essentially banned any limitations on political party expenditures when they are made independently of a candidate’s campaign. However, since a political committee making independent expenditures is still subject to FECA restrictions on the sources and the amount of contributions it may receive from a person, 11 C.F.R. § 110.0(d), an independent expenditure cannot be considered soft money.

**Related FEC Ruling**

In a 6-0 vote, on December 10, 1998, the Federal Election Commission rejected its auditors’ recommendation that the 1996 Clinton and Dole campaigns repay $7 million and $17.7 million, respectively, because the national political parties had closely coordinated their soft money issue ads with the respective presidential candidates and, accordingly, the expenditures would be counted against the candidates’ spending limits.

**Selected 107th Congress Legislation**

**H.R. 380 (Shays-Meehan)**

**Party Soft Money.** Prohibits national party and federal candidate committees from raising soft money. Restricts state party committees from spending soft money for “federal
election activity,” including: (1) voter registration drives in last 120 days of a federal election; (2) voter identification, get-out-the-vote drives, and generic activity in connection with an election in which a federal candidate is on the ballot; and (3) communications that refer to a clearly identified federal candidate with intent of influencing that election (regardless of whether it is express advocacy); allows state party spending on specific activities exclusively devoted to non-federal elections; bans party committees’ use of soft money to raise funds; prohibits federal candidates, officeholders, and their PACs from raising soft money in connection with a federal election, or money from sources beyond federal limits and prohibitions in non-federal elections; requires disclosure by national parties of all activity (federal and non-federal) and by state and local parties of specified activities that might affect federal elections; removes building fund exemption.

Corporate/Labor Soft Money. Requires labor unions, corporations, and national banks to disclose promptly all exempt activities (but only internal communications referring to federal candidates) once threshold level is reached; requires labor unions to give reasonable notice to dues-paying non-members of rights to disallow political use of their funds.

Issue Advocacy. Defines “express advocacy” communications as advocating the election or defeat of a candidate by (1) using explicit phrases, or words or slogans that in context can have no other reasonable meaning than election advocacy; (2) referring to a candidate in a paid radio or television broadcast ad that appears in the affected state within 60 days of the election (or, for president and vice president, within 60 days of a general election, regardless of where it appears); or (3) expressing unmistakable, unambiguous election advocacy, when taken as a whole and with limited reference to external events. Exempts from “express advocacy” definition printed or internet voting guides and records of at least one candidate (but would allow inclusion of statements of agreement or disagreement with candidate positions) that are not coordinated with a candidate or party (but allows questions to and responses from candidates regarding guides) and that contain no words or phrases that in context have no reasonable meaning other than election advocacy. Amends definition of “expenditure” under FECA to include a payment (1) for a communication containing express advocacy, and (2) for a communication that refers to a clearly identified candidate, in coordination with a candidate or his or her agent or party, for the purpose of influencing a federal election. Prohibits publicly-funded presidential candidates from coordinating issue advocacy with parties, if paid for with soft money. Prohibits consideration of background music (but not lyrics) in determining whether an advertisement constituted express advocacy.

Introduced January 31, 2001; jointly referred to Committees on House Administration, Education and the Workforce, Government Reform, Judiciary, Ways and Means, and Rules.

S. 27 (McCain-Feingold)

Party Soft Money. Prohibits national party committees from soliciting, receiving, directing, transferring, or spending soft money; prohibits state and local party committees from spending soft money for “federal election activity,” including: (1) voter registration drives in last 120 days of a federal election; (2) voter identification, get-out-the-vote drives, and generic activity in connection with an election in which a federal candidate is on the ballot; and (3) communications that refer to a clearly identified federal candidate with intent of influencing that election (regardless of whether it is express advocacy); allows state party
spending on specific activities exclusively devoted to non-federal elections; bans party committees’ use of soft money to raise funds; prohibits federal candidates, officeholders, and their PACs from raising soft money in connection with a federal election, or money from sources beyond federal limits and prohibitions in non-federal elections; requires disclosure by national parties of all activity (federal and non-federal) and by state and local parties of specified activities that might affect federal elections; removes building fund exemption.

**Corporate/Labor Union Soft Money.** Requires labor unions to give reasonable notice to dues-paying non-members of rights to disallow political use of their funds.

**Issue Advocacy.** Requires disclosure of “electioneering communications” above $10,000, with identification of donors of $500 or more. Prohibits funding of electioneering communications with union or for-profit corporations funds.

Introduced Jan. 22, 2001; referred to Committee on Rules and Administration.

### For Additional Reading

**CRS Issue Briefs**


**CRS Reports**


CRS Report RS20346. *Campaign finance bills in the 106th Congress: Comparison of Shays-Meehan, as passed, with McCain-Feingold, as revised*, by Joseph E. Cantor.


CRS Report 96-484. Political spending by organized labor: Background and current issues, by Joseph E. Cantor.


Selected World Wide Web Sites

Federal Election Commission: [http://www.fec.gov]

For access to full text of court decisions: [http://www.findlaw.com/casecode/cases.html]