Campaign Finance: Constitutional and Legal Issues of Soft Money

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CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

Definitions of Hard and Soft Money in Federal Elections

Political Party Soft Money

Corporate and Labor Union Soft Money

Soft Money Spent On Issue Advocacy
  Court Decisions
  Issue Advocacy Distinguished from Independent Expenditures
  Section 527 Organization “Issue Ad” Disclosure Law

107th Congress Legislative Activity
  Bipartisan Campaign Reform Act of 2002 (P.L. 107-155)
    Party Soft Money
    Issue Advocacy
    Corporate/Labor Union Soft Money

FOR ADDITIONAL READING
  CRS Issue Briefs
  CRS Reports
  Selected World Wide Web Sites
SUMMARY

Soft money is a major issue in the campaign finance reform debate as such funds are generally unregulated and perceived as resulting from a loophole in the Federal Election Campaign Act (FECA). More specifically, 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 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 that FECA otherwise prohibits. 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 campaign finance legislation would subject national party contributions, expenditures, or transfers, for activities that might influence a federal election, to the limitations, prohibitions, and source restrictions in FECA. Although the courts have not had occasion to address this issue specifically, it appears arguable that such restrictions on political party soft money could pass constitutional muster.

Soft money can be used to pay for certain corporate and labor union activities that are expressly exempt from FECA regulation: (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, 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).

Soft money spent for 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. The prevailing view in the lower courts is that Supreme Court precedent generally holds that regulation of such communications, which do not contain specific express words of advocacy, is unconstitutional. Hence, issue ads may be paid for with soft money.

The Bipartisan Campaign Reform Act of 2002 (BCRA), enacted on March 27, 2002, would generally prohibit the raising of soft money by national parties and federal candidates or officials and restrict the spending of soft money by state parties on activities defined to be related to federal elections. Furthermore, the new law will regulate in the area of issue advocacy by prohibiting corporations and labor unions from directly funding broadcast advertisements that “mention” a federal candidate 60 days before a general election and 30 days before a primary and by requiring disclosure of all such ads regardless of the funding source.
**Most Recent Developments**

On March 27, 2002, President Bush signed into law the Bipartisan Campaign Reform Act of 2002 (BCRA), which will take effect on November 6, 2002. Primary features of law include restrictions on party soft money and issue advocacy. Shortly after its enactment, Senator Mitch McConnell and the National Rifle Association filed suit in U.S. District Court for the District of Columbia arguing that portions of the new law are unconstitutional.

On June 22 the Federal Election Commission approved by a 5-1 vote the text of regulations implementing the soft money provisions of the new Bipartisan Campaign Reform Act (BCRA). On June 26 BCRA sponsors announced that they will support a challenge to the new FEC rule, which was discussed and voted on in a series of meetings completed on June 22.

**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
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. 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.

In a recent Supreme Court decision, *Nixon v. Shrink Missouri Government PAC*, (120 S.Ct. 897 (2000)), the Supreme Court vote upheld a 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.

### 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. (2 U.S.C. § 441b(b)(2)(A)-(C); see also 11 C.F.R. § 114.1(a)(2)(i)-(iii).)

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 prevailing view in the lower courts is that Supreme Court precedent requires that only those communications that expressly advocate the election or defeat of a clearly identified candidate can be constitutionally regulated; any such communication that does not meet this “express advocacy” standard is constitutionally protected First Amendment speech, which cannot be regulated. Hence, issue ads may be paid for with unregulated soft money.

Court Decisions

In *Buckley v. Valeo*, (424 U.S. 1 (1976)), the Supreme Court generally held that campaign finance limitations apply to “communications that in express terms advocate the election or defeat of a clearly identified candidate for federal office.” A footnote to the opinion provides examples of such “express advocacy”: terms “such as ‘vote for,’ ‘elect,’ ‘support,’ ‘cast your ballot for,’ ‘Smith for Congress,’ ‘vote against,’ ‘defeat,’ ‘reject.’” (*Id.* 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.*, (479 U.S. 238 (1986)), 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. (*Id.* at 249-250). 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 “in effect” provided a directive to the reader to vote for the identified candidates and ergo, constituted express advocacy. (*Id.* 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.)
On July 6, 1995, the FEC promulgated regulations defining “express advocacy” in a manner consistent with the test espoused in *Furgatch.* (60 Fed. Reg. 35292, 35304 (codified at 11 C.F.R. 100.22) (effective Oct. 5, 1995. 60 Fed. Reg. 52069 (Oct. 5, 1995).) 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. (Id. 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.)

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**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.*
the FEC (Colorado I), 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 I Court held that the First Amendment would prohibit the application of a FECA provision, 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. (Colorado I, 518 U.S. at 614-17.) Since a political committee making independent expenditures, however, is still subject to FECA restrictions regarding sources and contribution amounts it may receive from a person, (see, e.g., 11 C.F.R. § 110.0(d)), an independent expenditure is not considered soft money.

Recently, in FEC v. Colorado Republican Federal Campaign Committee (Colorado II), (No. 00-191, slip op. (June 25, 2001)), the Supreme Court held that a political party’s coordinated expenditures, unlike genuine independent expenditures, may be limited in order to minimize circumvention of the Federal Election Campaign Act’s (FECA) contribution limits. While the Court’s opinion in Colorado I was limited to the constitutionality of the application of FECA’s “Party Expenditure Provision” (2 U.S.C. § 441a(d)(3)) to an independent expenditure by the Colorado Republican Party, in Colorado II the Court considered a facial challenge to the constitutionality of the limit on coordinated party spending. Persuaded by evidence supporting the FEC’s argument, the Court found that coordinated party expenditures are indeed the “functional equivalent” of contributions. (Slip op. at 12.) Therefore, in its evaluation, the Court applied the same scrutiny to the coordinated “Party Expenditure Provision” that it has applied to other contribution limits: inquiring whether the restriction is “closely drawn” to the “sufficiently important” governmental interest of stemming political corruption. (Slip op. at 21.) The Court further determined that circumvention of the law through “prearranged or coordinated expenditures amounting to disguised contributions” is a “valid theory of corruption.” (Slip op. at 7, 21.) In upholding the limit, the Court noted that “substantial evidence demonstrates how candidates, donors, and parties test the limits of the current law,” which, the Court concluded, “shows beyond serious doubt how contribution limits would be eroded if inducement to circumvent them were enhanced by declaring parties’ coordinated spending wide open.” (Slip op. at 22.)

Section 527 Organization “Issue Ad” Disclosure Law

On July 1, 2000, P.L. 106-230 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; a decision is pending.
107th Congress Legislative Activity

In the 107th Congress, the Senate passed S. 27 (McCain-Feingold), as amended, on April 2, 2001. On February 14, 2002, the House passed the companion measure, H.R. 2356 (Shays-Meehan), as amended. That bill passed the Senate on March 20, 2002, and was signed into law by President Bush on March 27, 2002, as P.L. 107-155.

Bipartisan Campaign Reform Act of 2002 (P.L. 107-155)

Party Soft Money. Prohibits national party committees from soliciting, receiving, directing, transferring, or spending soft money; generally prohibits spending of soft money for a “federal election activity” by state and local party committees, including an association or group of state or local candidates or officials. Prohibits state or local candidates from using soft money for public communications that promote or attack a clearly identified federal candidate, but exempts communications referring to a federal candidate who is also a state or local candidate. Permits state, district or local party committees to use some funds raised under state law for an allocable share (at a 50-50 hard to soft money ratio) of voter registration drives in the last 120 days of a federal election, and voter identification, get-out-the-vote drives, and generic activity if it: (1) does not refer to a federal candidate; (2) does not pay for a broadcast, cable or satellite communication (unless it refers solely to state/local candidates); (3) takes no more than $10,000 per year from any person for such activity (or less, if state law so limits); and (4) uses only funds raised by that party committee expressly for such purposes, with no transfers from other party committees. Defines “federal election activity” to include: (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) “public communications” that refer to a clearly identified federal candidate and promote, support, attack, or oppose a candidate for that office (regardless of whether it expressly advocates a vote for or against) or services by a state or local party employee who spends at least 25% of paid time in a month on activities in connection with a federal election. 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.

Issue Advocacy. Creates a new term in federal election law, "electioneering communication," which will regulate political ads that: "refer" to a clearly identified federal candidate, are broadcast within 30 days of a primary or 60 days of a general election, and for House and Senate elections, is “targeted to the relevant electorate.” Generally, it would require disclosure of disbursements over $10,000 for such communications, including identification of each donor of $1,000 or more, and such communications would be prohibited from being financed with union or certain corporate funds. With respect to corporate funds, it exempts Internal Revenue Code § 501(c)(4) or § 527 tax-exempt corporations from making “electioneering communications” with funds solely donated by individuals who are U.S. citizens or permanent resident aliens, unless the communication is “targeted,” i.e., (differing from S. 27) it was distributed from a broadcaster or cable or satellite service and is received by 50,000 or more persons in the state or district where the Senate or House election, respectively, is occurring. H.R. 2356 expressly exempts from the definition news events, “expenditures,” and “independent expenditures,” and candidate debates and certain other communications expressly exempted by FEC regulation. If this
The definition of “electioneering communication” is ruled unconstitutional, the Act provides an alternative definition, based on *FEC v. Furgatch*, (807 F.2d 857 (9th Cir. 1987)): a communication promoting, supporting, attacking, or opposing a candidate, regardless of whether it expressly advocates a vote for or against a candidate and is suggestive of no plausible meaning other than an exhortation to vote for or against a candidate.

**Corporate/Labor Union Soft Money.** Prohibits funding of “electioneering communications” with union or certain corporate funds, but exempts Internal Revenue Code §501(c)(4) or § 527 tax-exempt corporations making “electioneering communications” with funds solely donated by individuals, who are citizens or permanent resident aliens, unless the communication is “targeted,” *i.e.*, it was distributed from a broadcaster or cable or satellite service and is received by 50,000 or more persons in the state or district where the Senate or House election, respectively, is occurring.

**FOR ADDITIONAL READING**

**CRS Issue Briefs**


**CRS Reports**


**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]

For ongoing tracking of issue advocacy by the Annenberg Public Policy Center of the University of Pennsylvania: [http://www.appcpenn.org/issueads/]