

# AUCTIONING DEMOCRACY

The Rise of Super PACs  
&  
the 2012 Election

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## **ACKNOWLEDGMENTS**

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# EXECUTIVE SUMMARY

Demos and Washington PIRG Education Fund analysis of Federal Election Commission data on Super PACs from their advent in 2010 through the end of 2011 reveals the following:

- For-profit businesses use Super PACs as an avenue to influence federal elections. 17% of the itemized funds raised by Super PACs came from for-profit businesses—more than \$30 million.
- Because Super PACs—unlike traditional PACs—may accept funds from nonprofits that are not required to disclose their donors, they provide a vehicle for secret funding of electoral campaigns. 6.4% of the itemized funds raised by Super PACs cannot be traced back to an original source.
- Super PACs are tools used by wealthy individuals and institutions to dominate the political process. 93% of the itemized funds raised by Super PACs from individuals came in contributions of at least \$10,000, from just twenty-three out of every 10 million people in the U.S. population.

Scholarly and public opinion research demonstrates that big-money dominance of campaigns skews American politics because wealthy donors have different life experiences and policy preferences than average-earning citizens. For example, a Russell Sage Foundation survey of high-earners conducted between February and June of 2011 revealed that:

- Wealthy respondents were nearly 2.5 times more likely than average Americans to list deficits as the most important problem facing our country.
- In spite of consistent majority public support for raising taxes on millionaires, among wealthy respondents, “[t]here was little sentiment for substantial tax increases on the wealthy or anyone else.”
- In spite of recent scandals on Wall Street, “more than two thirds of [survey] respondents said that the federal government ‘has gone too far in regulating business and the free enterprise system.’”

# INTRODUCTION

The presidential race had barely gotten off the ground when it became clear that 2012 would be the year of the Super PAC. The millions of dollars raised and spent by these strange and powerful court-created entities have created a kind of parallel campaign.

First, Restore our Future, a Super PAC supporting Mitt Romney, pummeled Newt Gingrich in Iowa, opening the door for conservative alternative Rick Santorum.<sup>2</sup> Then, casino billionaire Sheldon Adelson swept in to offer Mr. Gingrich a lifeline—in the form of a \$5 million contribution to Winning our Future, the Super PAC supporting his candidacy.<sup>3</sup> This couldn't have been more critical to Gingrich whose own campaign fund was mired in debt.<sup>4</sup>

In fact, through Florida's GOP primary, outside groups—driven by Super PACs—had outspent candidates on TV ads.<sup>5</sup> Restore Our Future ran more than 12,000 ads in Florida alone.<sup>6</sup>

**“KNOCK KNOCK?”**

“WHO'S THERE?”

**“UNLIMITED UNION AND CORPORATE CAMPAIGN CONTRIBUTIONS”**

“UNLIMITED UNION AND CORPORATE CAMPAIGN CONTRIBUTIONS WHO?”

**“THAT'S THE THING, I DON'T THINK I SHOULD HAVE TO TELL YOU.”**

— **STEPHEN COLBERT**, *June 30, 2011, after receiving permission from the FEC to form a Super PAC*<sup>1</sup>

Super PACs are technically “independent expenditure committees,” political action committees that do not contribute directly to candidates or coordinate their efforts with any candidate or campaign. Emerging from a combination of the infamous *Citizens United v. Federal Election Commission*<sup>7</sup> Supreme Court ruling, a lower-court decision called *Speech-Now.org v. Federal Election Commission*,<sup>8</sup> and various FEC regulations and advisory opinions,<sup>9</sup> the new Super PACs may raise and spend unlimited funds from individuals, corporations, and unions provided they comply with the restrictions prohibiting direct contributions and coordination with candidates.

The first restriction is clear enough—Priorities USA Action,<sup>10</sup> the Super PAC formed to help re-elect President Obama, may not write a check to Barack Obama's campaign. This is because the Supreme Court has ruled that large direct contributions pose the risk of corruption or its appearance.

The second restriction—against coordination—is meant to give teeth to the first. After all, if a donor could give a \$1 million contribution to Priorities USA Action and President Obama could control how that money is spent, it would be the functional equivalent of making that contribution directly to President Obama's campaign.

But, unfortunately, as leading satirist Stephen Colbert has made abundantly clear,<sup>11</sup> and several notable exchanges

during the Republican primary debates have confirmed,<sup>12</sup> the Federal Election Commission's current rules around coordination are ... a joke. Candidates are currently permitted to raise money for Super PACs supporting their candidacies,<sup>13</sup> and even appear in scripted ads run by them.<sup>14</sup> And, many of the Super PACs are run by close associates of the candidates they support—often former staff, as Mr. Romney readily admitted about the Super PAC supporting his candidacy. When he announced his candidacy for “President of the United States of South Carolina” Mr. Colbert even re-named his Super PAC the “Definitely Not Coordinating with Stephen Colbert Super PAC” to drive this point home.<sup>15</sup>

Super PACs represent much of what is wrong with American democracy rolled neatly into one package. They are tools that powerful special interests and a tiny privileged minority can use to work their will by drowning out the voices of ordinary Americans in a sea of (sometimes secret) cash.

We do not yet have nearly the full picture of how Super PACs have affected and will continue to affect the 2012 elections. Right now, we only have a complete picture of the year 2011. But, we can already see some disturbing trends.

In spite of the Supreme Court's current misguided jurisprudence, corporations are not people, and should not be permitted to spend funds to influence elections.<sup>16</sup> Super PACs provide a convenient way for them to do just that—sometimes in secret. A significant percentage of Super PAC fundraising has come from for-profit businesses.

In *Citizens United*, the Supreme Court majority relied heavily on the benefits of transparency, writing “disclosure permits citizens...to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages.”<sup>17</sup>

But, as our research demonstrates, a small but significant percentage of the money raised by Super PACs cannot be traced back to its original source.

When an oil company wants to help elect a senator who supports policies that boost its bottom line (such as opening more federal lands or offshore sites to drilling) it will rarely sponsor an ad directly that says “Vote for Senator Smith...Paid for by ExxonMobil.” More often, it will contribute to a Super PAC with an innocuous name such as “Americans for Energy Solutions” which will sponsor the ad. Or, to make its sponsorship of the ad completely invisible to voters, it can contribute to a 501(c)4 nonprofit corporation (which need not disclose its donors and can have a generic name such as “Americans for a Better Future”) which can spend this money directly or in turn contribute to “Americans for Energy Solutions” Super PAC. Voters viewing the ad have no way of knowing the profit motive behind the communication.

Super PACs also provide a vehicle for the very wealthy to exert unfair influence over elections. The contributions to Super PACs that can be traced are dominated by a tiny minority of well-heeled individuals and institutions. This violates the spirit of the “one-person, one-vote” principle and a basic premise of political equality: the size of one's wallet should not determine the strength of one's voice in our democracy.

What can be done about the Super PAC menace? Improving our democracy is never easy, but there are several solutions at hand. Ultimately, the people must act together through Congress and the state legislatures to amend our Constitution to make perfectly clear that the First Amendment is not—and never was—intended as a tool for use by wealthy donors and large corporations to dominate the political process. In the meantime, federal agencies, Congress, the President, state legislatures, and municipalities all have roles to play. We provide specific policy recommendations below.

# AUCTIONING DEMOCRACY

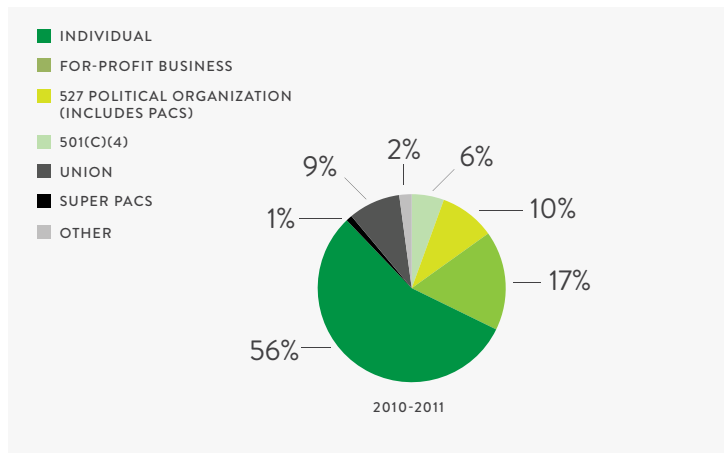
## BUSINESS MONEY

Democracy is a system for people of equal worth and dignity to make decisions about collective self-government. Elections are the most concrete locus of popular decision-making in a representative democracy.

Contrary to the Supreme Court's *Citizens United* ruling, for-profit businesses should not be permitted to spend treasury funds to influence these elections. First, most businesses are constrained to participate only to maximize private profit, rather than out of regard for the public good. More important, this spending undermines political equality by allowing those who have achieved success in the economic sphere to translate this success directly into the political sphere.

Yet, Super PACs have provided a convenient avenue through which 566 for-profit businesses have contributed \$31 million, accounting for 17% of total itemized Super PAC fundraising since their inception (See Figure 1). For the year 2011, that figure was \$17 million, for 18% of total itemized Super PAC fundraising.

Figure 1. | PERCENT OF SUPER PAC FUNDRAISING FROM VARIOUS SOURCES, 2010-2011



SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

## SECRET MONEY

In the otherwise controversial arena of campaign finance, there has been a near-consensus—across the political and ideological spectrum—regarding the benefits of robust disclosure of the sources and amounts of campaign funds.<sup>18</sup> As noted above, the Supreme Court extolled these benefits in the very decision that laid the groundwork for Super PACs.<sup>19</sup>

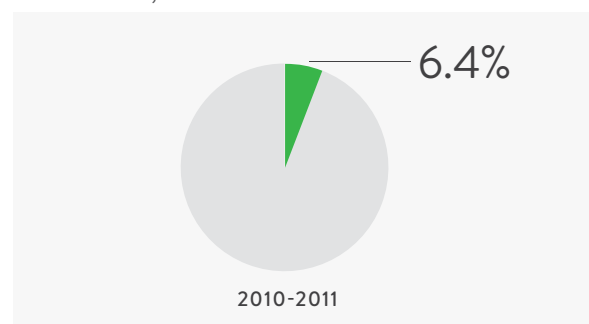
But, Super PACs have provided an avenue for secret money to influence elections.

Our analysis of FEC data shows that 6.4% of the itemized funds raised by Super PACs since 2010 was “secret money,” not feasibly traceable to its original source. (See Figure 2.) That figure was just below 2.4% for the off-year of 2011.

Nearly 20% of active Super PACs<sup>20</sup> received money from untraceable sources in 2011. Six out of the 10 Super PACs that raised the most money in 2011 received money from untraceable sources. (See Table 1.)

Without data for a complete election cycle, it is difficult to analyze the overall trend and effect of secret money. One reasonable hypothesis is that secret money will increase with proximity to an election. See Figure 3 for money-by-month analysis that provides some support for this supposition.

Figure 2. | PERCENT OF SECRET MONEY RAISED BY SUPER PACS, 2010-2011



SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

An important question is whether the amount of secret money will rise dramatically in the current election year. Given the spike in secret spending right before the 2010 election, and rate at which secret money has increased month to month in 2011 versus in 2010, it is reasonable to expect that in the months leading up to the 2012 election we will see secret money flowing into Super PACs at unprecedented rates in 2012.

Super PACs face the same disclosure and reporting standards as traditional PACs. The Federal Election Commission requires all PACs to report on their receipts and disbursements quarterly or monthly in non-election years, and more frequently in election years.<sup>21</sup> In these reports, PACs must itemize each contribution received from a donor who has given more than \$200 over the course of the year.<sup>22</sup>

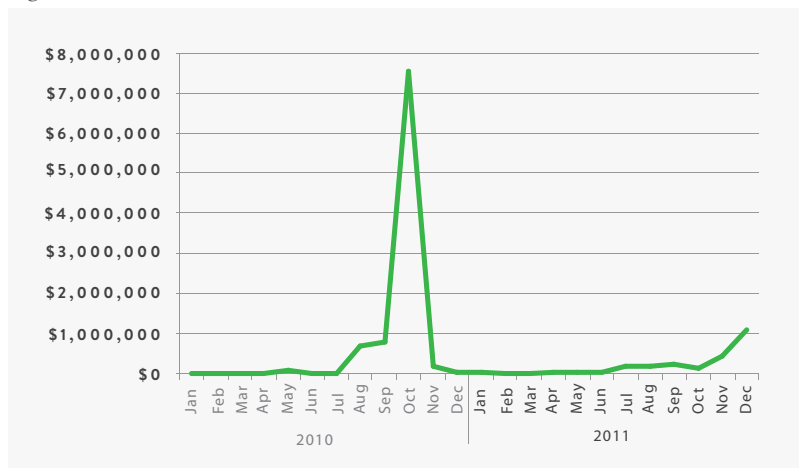
But, traditional PACs, which may make independent expenditures or contribute directly to candidates or parties, may only accept contributions that can be traced back to an individual donor.<sup>23</sup> Super PACs, on the other hand, may accept contributions from a wide range of sources—including sources that are not required to disclose all of their funders.

Table 1. | SIX OF THE TOP 10 FUNDRAISING SUPER PACS IN 2011 RECEIVED UNTRACEABLE FUNDS

RECEIVING SUPER PAC	TOTAL ITEMIZED FUNDS RAISED
<i>Restore Our Future, Inc.</i>	<b>\$30,179,652.77</b>
<i>American Crossroads</i>	<b>\$18,348,494.46</b>
<b>Make Us Great Again, Inc</b>	\$5,485,174.00
<i>Priorities Usa Action</i>	<b>\$4,386,859.42</b>
<b>Afl-Cio Workers' Voices Pac</b>	\$3,706,370.27
<i>American Bridge 21St Century</i>	<b>\$3,728,127.09</b>
<i>House Majority Pac</i>	<b>\$3,019,635.00</b>
<b>Our Destiny Pac</b>	\$2,680,289.90
<b>Majority Pac</b>	\$2,461,550.00
<i>Freedomworks For America</i>	<b>\$2,161,567.21</b>

SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

Figure 3. | SECRET MONEY TO SUPER PACS BY MONTH



SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

## SOURCES OF SECRET MONEY

### 501(c)(4) Nonprofit Corporations

Non-profit corporations established under section 501(c)(4) of the Internal Revenue Code are not required by the Internal Revenue Service (IRS) to disclose their donors.<sup>24</sup>

On its website, the IRS states that to qualify as a tax-exempt organization, these entities must “be operated exclusively to promote social welfare;” that “the promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office;” and that “a section 501(c)(4) social welfare organization may engage in some political activities, so long as that is not its primary activity.”<sup>25</sup>

But, the IRS has never clearly defined what it means for political activity to be an organization’s “primary activity” and many 501(c)(4)s take the position that they are permitted to spend up to 49% of their budgets on political activity.<sup>26</sup> This can include contributing to Super PACs.<sup>27</sup>

Our analysis of FEC data shows that 5.6% of all itemized Super PAC money came from 501(c)(4) corporations and that 19.1% of all active Super PACs received some portion of their income from 501(c)(4) corporations. For 2011, 12.5% of Super PACs received 501(c)(4) money, accounting for 2.1% of total itemized receipts.

Many 501(c)(4) nonprofits, such as the Sierra Club or the National Rifle Association, have longstanding reputations in the community that would enable a concerned citizen to evaluate their trustworthiness or intentions. But, others appear and disappear rapidly, or choose deliberately obscure names. In these situations it is particularly difficult for even the most diligent citizen to—in Justice Kennedy’s words—“make informed decisions and give proper weight to different speakers and messages.”<sup>28</sup>

### ***Contributions from one Super PAC to another Super PAC***

Another portion of untraceable money we found in some Super PACs came from other Super PACs that had raised money from an untraceable source.

We found that just over 1% of itemized Super PAC money came from other Super PACs. We deemed 68% of these funds untraceable.<sup>29</sup>

### ***Shell Corporations***

For the purposes of our analysis, we considered all for-profit corporations “original sources” of funding and therefore all for-profit corporate contributions traceable. But, it is worth noting a few apparent attempts to use shell corporations to obscure the original source of contributions to Super PACs.

For example, in Spring 2011, the Pro-Romney Super PAC Restore Our Future received a contribution of \$1 million from the corporation W. Spann LLC.<sup>30</sup> The business, incorporated in Delaware, existed for a matter of months before dissolving; and the donation was its only visible work.<sup>31</sup> This created a reasonable suspicion that the corporation existed for the sole purpose of making this contribution. Only after Democracy 21 and the Campaign Legal Center filed a complaint with the Justice Department did the creator of W. Spann LLC and true source of the \$1 million donation come forward as Ed Conard, a former colleague of Romney’s at Bain Capital.<sup>32</sup>

A few months later, two more questionable million dollar donations appeared in Restore Our Future’s reporting from apparent shell corporations Eli Publishing and F8 LLC, both registered at the same address in Provo, Utah. Those two contributions have been traced back to Paul Lund and his son-in-law, Jeremy Blickenstaff.<sup>33</sup>

Given that these donations were eventually traced back to their original sources one might argue that they are not “untraceable” (and we treated them as traceable for the purposes of our analysis). But, it appears that certain corporations exist not to conduct regular business but rather simply to necessitate an extra layer of research to discover the true source of contributed funds. This reduces the ability of average citizens to understand the motivations behind the money—an important interest served by disclosure.

## **WEALTHY CONTRIBUTORS**

Long before the courts created Super PACs, financing political campaigns was, by-and-large, a rich person’s game.

In the 2002 election cycle, more than half (55%) of the money congressional candidates raised from individuals came in contributions of at least \$1,000—from just 0.09% of the American population.<sup>34</sup>

Then, Congress doubled the limit on what an individual donor can give directly to a federal candidate (from \$1,000 to \$2,000 per election), and indexed the new limit to inflation.<sup>35</sup> Setting Super PACs aside, a wealthy



couple is currently permitted to give \$10,000 directly to a single candidate in one election cycle.<sup>36</sup>

Not surprisingly, by 2006, more than 62% of individual funds to congressional candidates came from \$1,000+ donors.<sup>37</sup> Considering the median household income in the United States in 2010 was \$49,445, it's clear that most Americans cannot afford to give nearly this much to a political campaign.<sup>38</sup>

Super PACs have made a bad situation worse. Now, a billionaire who wishes to help a friend, associate, or ideological ally get elected to federal office can contribute an unlimited amount to a Super PAC closely aligned (although not technically coordinated) with her favorite candidate's campaign.<sup>39</sup> We have already seen some examples of this in the presidential primaries. In addition the "merely rich" can make their voices heard loud and clear by contributing \$20,000, \$50,000, or \$100,000 to a Super PAC with the sole purpose of influencing a single election—drowning out the voices of average citizens and giving the candidate or candidates they support a much better chance to win.

Our analysis of FEC data on Super PACs for 2011 reveals the disproportionate influence of the wealthiest donors.

## Individuals

### Contributing to Super PACs

Super PACs raised 56% of their itemized funds from individuals since their inception in 2010. The average itemized contribution from an individual to a Super PAC in 2011 was \$8,460.<sup>40</sup> For 2011, these figures were 65% and \$21,380 respectively.

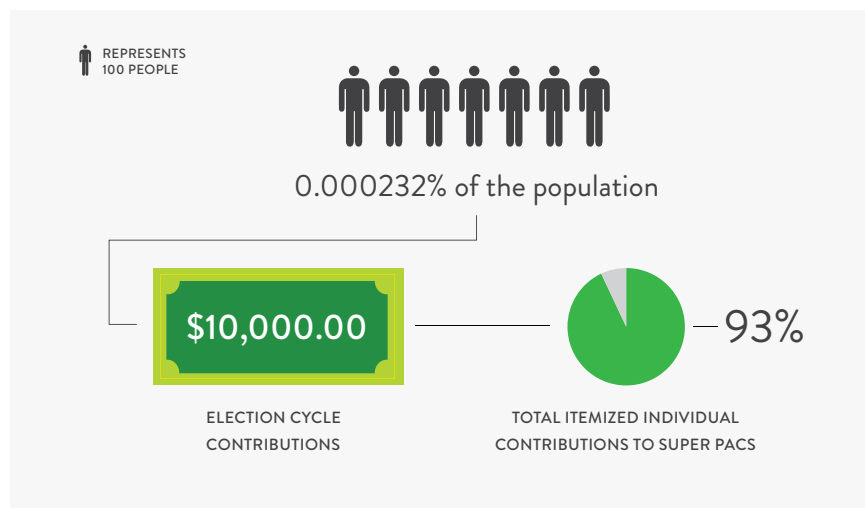
Of all itemized contributions from individuals to Super PACs 93% came in contributions of at least \$10,000. Only 726 individuals, or 23 hundred thousandths of 1% (0.000232%) of the American population, made a contribution this large to a Super PAC.<sup>41</sup> More than half of itemized Super PAC money came from just 37 people giving at least \$500,000. (See Table 2 and Figure 4.)

Table 2. | LARGE INDIVIDUAL DONOR FUNDING OF SUPER PACS, 2010-2011

CONTRIBUTIONS OF AT LEAST:	% OF TOTAL ITEMIZED INDIVIDUAL CONTRIBUTIONS TO SUPER PACS	NUMBER OF DONORS	% OF AMERICAN POPULATION
\$5,000	95%	1,071	0.000342%
\$10,000	93%	726	0.000232%
\$20,000	90%	476	0.000152%
\$50,000	86%	316	0.000101%
\$100,000	79%	196	0.000063%
\$500,000	52%	37	0.000012%
\$1,000,000	38%	15	0.000005%

SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

Figure 4. | A TINY NUMBER OF LARGE DONORS RESPONSIBLE FOR THE VAST MAJORITY OF ITEMIZED SUPER PAC FUNDRAISING FROM INDIVIDUALS



SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

## Total Super PAC Fundraising

Adding in institutional donors to Super PACs tells a similar story. Of all the itemized money that Super PACs raised, 96% came in contributions of at least \$10,000. Only 1,097 donors made contributions of this size,<sup>42</sup> the equivalent (if all of these donors were people) of less than three and a half ten-thousandths of 1% (0.000351%) of the American population. (See Table 3. and Figure 5.)

### WHY BIG MONEY SUPER PACS ARE BAD FOR DEMOCRACY

Our analysis of FEC data shows that a tiny minority of wealthy individuals and institutions is responsible for the vast majority of funds raised by Super PACs. Why, exactly, is this a problem? There are three major reasons.

### Wealthy Contributors Determine Who Wins Elections

The primary danger of our big money electoral system is that it gives a very small number of wealthy individuals and institutions vastly outsized influence over who wins elections and therefore who makes policy in the United States.

We know that financial resources make a huge difference in election campaigns. Candidates who raise and spend the most money routinely win more than 90% of federal elections in a given year.<sup>43</sup>

Raising and spending money directly is not exactly the same as having money raised and spent on one's behalf. But, as Newt Gingrich's lifeline from Sheldon Adelson<sup>44</sup> and Stephen Colbert's stinging satire have so compellingly demonstrated in recent weeks, lax FEC regulations have virtually collapsed the distinction.

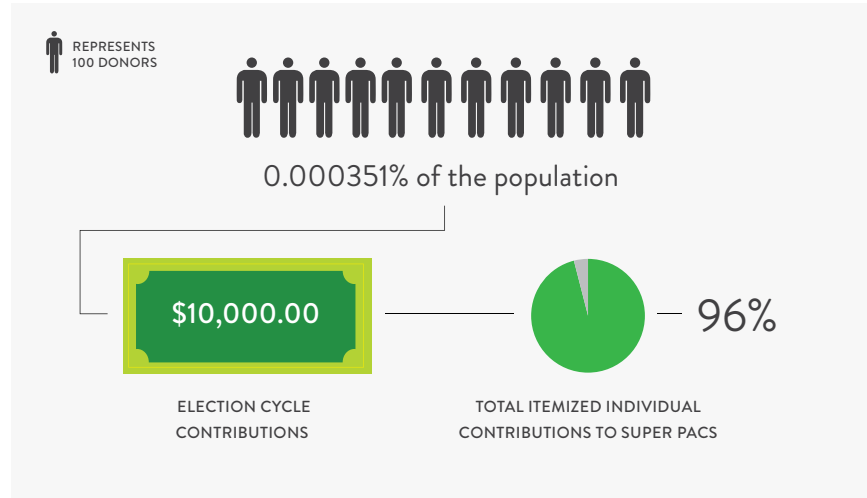
This means that Americans who can afford to give thousands of dollars to political candidates or Super PACs that support them are more likely to see candidates who share their views on the key issues of the day win office and assume positions of power.

Table 3. | LARGE DONOR FUNDING OF SUPER PACS, 2010-2011

CONTRIBUTIONS OF AT LEAST:	% OF TOTAL CONTRIBUTIONS TO SUPER PACS	NUMBER OF DONORS	EQUIVALENT % OF AMERICAN POPULATION
\$5,000	97%	1,551	0.000496%
\$10,000	96%	1,097	0.000351%
\$20,000	93%	769	0.000246%
\$50,000	90%	526	0.000168%
\$100,000	84%	351	0.000112%
\$500,000	56%	79	0.000025%
\$1,000,000	40%	35	0.000011%

SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation data

Figure 5. | A TINY NUMBER OF LARGE DONORS RESPONSIBLE FOR THE VAST MAJORITY OF TOTAL ITEMIZED SUPER PAC FUNDRAISING



SOURCE: Dēmos and U.S. PIRG analysis of FEC and Sunlight Foundation dataSunlight Foundation data

This is the influence of money on elections, rather than on politicians.

### ***Winning Candidates Are Accountable to Wealthy Contributors***

A second and related problem is the influence of money on politicians—the danger that winning candidates will feel more accountable to a narrow set of large donors than to the broad swath of constituents they are supposed to represent. This can lead to the appearance or reality of actual *quid pro quo* corruption—an officeholder supporting or opposing certain policies at the request of a donor. Or it can lead to a more subtle desire to please a political patron. If Newt Gingrich were to become president, it's reasonable to assume that he'd be more interested in Sheldon Adelson's views on major issues than those of an average single voter.<sup>45</sup>

### ***Wealthy Contributors Look Different and Have Different Priorities and Opinions than Average Citizens***

Wealthy contributors helping their favored candidates win elections would not systemically skew politics or policy outcomes if these well-heeled donors were like the rest of us, if on average they had the same life experiences, opinions about issues, and political views as average-earning citizens.

But, unsurprisingly, this is not the case. We have long known that large campaign contributors are more likely to be wealthy, white, and male than average Americans. And recent research confirms that wealthy Americans have different opinions and priorities than the rest of the nation.

According to a nationwide survey funded by the Joyce Foundation during the 1996 congressional elections, 81% of those who gave contributions of at least \$200 reported annual family incomes greater than \$100,000. This stood in stark contrast to the general population at the time, where only 4.6% declared an income of more than \$100,000 on their tax returns.<sup>46</sup> Ninety-five percent of contributors surveyed were white and 80% were men.<sup>47</sup>

Recent Sunlight Foundation research shows that ultra-elite \$10,000+ donors—“The One Percent of the One Percent”—are quite different than average Americans. In the 2010 election cycle, these 26,783 individuals were responsible for nearly a quarter of all funds contributed to politicians, parties, PACs, and independent expenditure groups.<sup>48</sup> Nearly 55% of these donors were affiliated with corporations and nearly 16% were lawyers or lobbyists.<sup>49</sup> More than 32% of them lived in New York City, Los Angeles, Chicago, or San Francisco, or Washington, DC.<sup>50</sup>

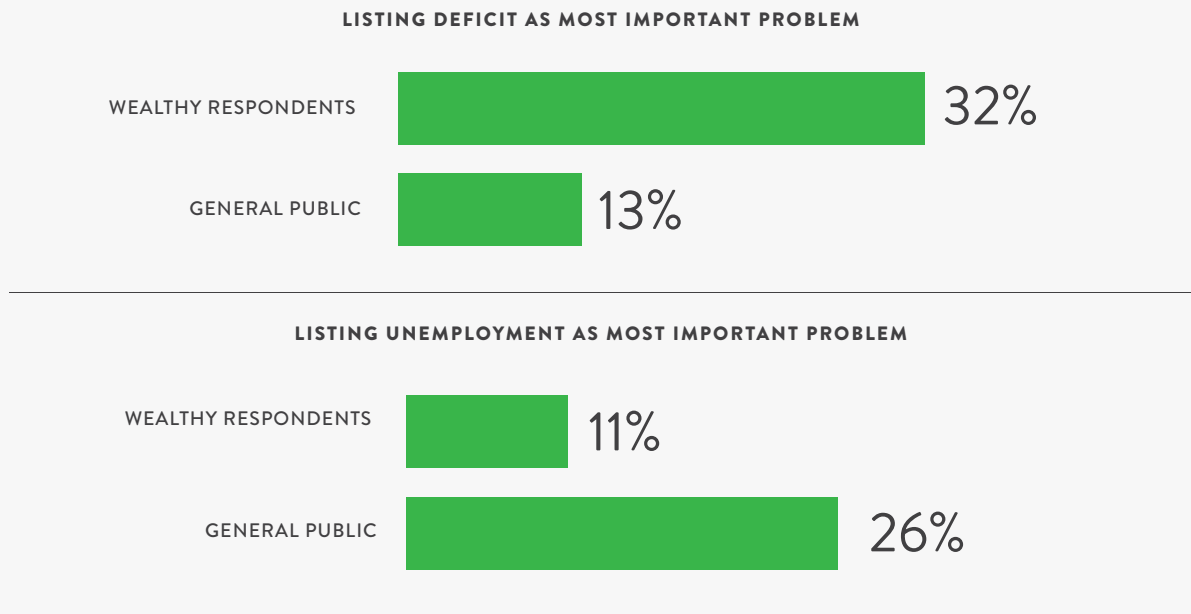
We also know that wealthy Americans hold different views than average-earning citizens. Investigators for the Joyce study cited above found that large donors are significantly more conservative than the general public on economic matters, tending to favor tax cuts over anti-poverty spending.<sup>51</sup>

A recent report by the Russell Sage Foundation confirms this finding. The authors surveyed “a small but representative sample of wealthy Chicago-area households.”<sup>52</sup> They found meaningful distinctions between the wealthy respondents they surveyed and the general public on economic issues such as the relative importance of deficits and unemployment.

For example, wealthy respondents “often tend to think in terms of ‘getting government out of the way’ and relying on free markets or private philanthropy to produce good outcomes.”<sup>53</sup> More wealthy respondents than average Americans listed deficits as the most important problem facing our country. Among those who did, “none at all referred only to raising revenue. Two thirds (65%) mentioned only cutting spending.”<sup>54</sup> In spite

of majority public support for raising taxes on millionaires, among respondents, “[t]here was little sentiment for substantial tax increases on the wealthy or anyone else.”<sup>55</sup> And, in spite of recent scandals on Wall Street, “more than two thirds of [survey] respondents said that the federal government ‘has gone too far in regulating business and the free enterprise system.’”<sup>56</sup>

Figure 6. | WEALTHY INDIVIDUALS HAVE DIFFERENT PRIORITIES THAN AVERAGE-EARNING AMERICANS



SOURCE: Wealthy respondent numbers from Benjamin I. Page, Fay Lomax, Cook, and Rachel Moskowitz, *Wealthy Americans, Philanthropy, and the Common Good*, September 25, 2011; General public numbers from Gallup average of January to May 2011: <http://www.gallup.com/poll/148001/subgroups-say-economy-jobs-important-problem.aspx>

## CONCLUSION

Our research shows that Super PACs are truly kryptonite for our democracy. They are tools used by for-profit businesses and big donors to translate economic success into political gain—sometimes in secret. This undermines basic principles of citizen sovereignty and political equality, and can rob voters of the chance to evaluate political messages in light of the messenger. In the following section we provide recommendations to different federal, state, and local actors for mitigating the influence of Super PACs.

# RECOMMENDATIONS

## *The Federal Election Commission*

1. *Tighten rules on coordination.* Current rules prohibiting coordination between Super PACs and candidates are riddled with loopholes. The Federal Election Commission should issue stronger regulations that establish legitimate separation between candidates and Super PACs. For example, the Commission could prevent candidates from raising money for Super PACs; prevent a person from starting or working for a Super PAC supporting a particular candidate if that person has been on the candidates' official or campaign staff within two years; and prevent candidates from appearing in Super PAC ads (other than through already-public footage).
2. *Require Super PACs to include basic information about the tax and political committee status of their institutional donors in disclosure filings.* This simple adjustment would make it far easier for concerned citizens to "follow the money."

## *The Securities and Exchange Commission*

The Securities and Exchange Commission has the authority to require all publicly traded companies to disclose their political spending, and there is currently a petition before the agency to do just that.<sup>57</sup> This would make it more difficult for for-profit companies to obscure their political contributions by funneling dollars through nonprofit corporations that are not required to disclose donors, and provide the owners of such companies with essential information that could materially affect the value of their investments.<sup>58</sup>

## *The White House*

The President should formally issue the current draft executive order requiring all government contractors to disclose any direct or indirect political spending.<sup>59</sup> This would immediately provide critical information to the public and reduce the incidence of favoritism in government contracting.<sup>60</sup>

## *The United States Congress*

Because its hands are tied by the Supreme Court, the U.S. Congress cannot immediately ban Super PACs or set limits on the amounts they may raise or spend. But, it may do the following:

1. *Propose a constitutional amendment to clarify that Congress and the states may regulate individual and corporate political contributions and spending.* The only complete solution to the problems presented by Super PACs is to amend the U.S. Constitution to clarify that the First Amendment was never intended as a tool for use by corporations and the wealthy to dominate the political arena.
2. *Tighten rules on coordination.* If the FEC refuses to act, Congress can pass legislation codifying the common-sense rules recommended above.
3. *Encourage small political contributions by providing vouchers or tax credits.* Encouraging millions of average-earning Americans to make small contributions can help counter-balance the influence of the wealthy few. Several states provide refunds or tax credits for small political contributions, and the federal tax code did the same between 1971 and 1986.<sup>61</sup> Past experience suggests that a well-designed program can motivate more small donors to participate.<sup>62</sup> An ideal program would provide vouchers to citizens up front, eliminating disposable income as a factor in political giving.<sup>63</sup>

4. *Match small contributions with public resources to encourage small donor participation and provide candidates with additional clean resources.* Candidates who demonstrate their ability to mobilize support in their districts should receive a public grant to kick-start their campaign, and be eligible for funds to match further small donor fundraising. This would both encourage average citizens to participate in campaigns and enable candidates without access to big-money networks to run viable campaigns for federal office.
5. *Protect the interests of shareholders whose funds may currently be used for political expenditures without their knowledge or approval.* Congress should require for-profit corporations to obtain the approval of their shareholders before making any electoral expenditures; and require any for-profit corporation to publicly disclose any contributions to a 501(c)(4) organization or trade association that either makes an independent expenditure or contributes to a Super PAC.

### ***State Legislatures***

1. *Pass or maintain state laws preventing direct corporate spending on elections.* The Montana Supreme Court recently upheld the state's longstanding prohibition against corporate spending on elections by distinguishing Montana's specific history of corporate-driven political corruption from the factual record considered by the U.S. Supreme Court in *Citizens United*.<sup>64</sup> State legislatures should build an extensive factual record to support new or existing laws that protect the rights of their citizens and safeguard their democracies from corporate takeover.
2. *Pass resolutions calling for a constitutional amendment.* States should urge two-thirds of the House and Senate to propose a constitutional amendment by passing resolutions calling for such a step.
3. *Enact corporate disclosure and shareholder protection provisions.* Corporations are chartered in the several states and as such states can use their authority to require the protections recommended for Congress above.

### ***Municipal Governments***

Although municipal governments have no formal role in the constitutional amendment process, they provide a good outlet for citizens to express their strong sentiment that Congress must propose an amendment. New York, Los Angeles, and other cities have passed resolutions calling for a constitutional amendment, and more cities should follow suit.

# METHODOLOGY

## DATA SETS

To create a complete data set, we combined aggregated FEC filings downloaded on 2/2/12 from [http://www.fec.gov/finance/disclosure/ftpdet.shtml#a2011\\_2012](http://www.fec.gov/finance/disclosure/ftpdet.shtml#a2011_2012) with 2011 data for all active Super PACs generously provided by the Sunlight Foundation.

## SECRET MONEY AND DONOR TYPE

We define secret contributions as those that are not traceable back to their original sources. An original source can be an individual or the treasury of a for-profit business, union, trade association, or Indian tribe. We consider these original sources, even though some are associations of members, shareholders, etc., because in the vast majority of cases a citizen learning that a contribution comes from this source will have enough information to judge the interests or agenda of the contributor.

Contributions from traditional political action committees are traceable because these entities are only permitted to accept contributions from traceable sources.

Contributions from 501(c)4s are untraceable because these entities do not need to disclose their donors.

A contribution from one Super PAC to another Super PAC is only untraceable if there is 501(c)(4) money somewhere in the chain preceding the transfer.

In order to determine the percentage of secret money, we coded each contributor to a Super PAC since the inception of the entities as one of the following types: individual, for-profit business, union, trade association, Indian tribe, 527 organization (this includes parties, PACs, and non-federal political organizations), or 501(c)(4).

In the vast majority of cases, the type of contributor was obvious from the FEC filing. When this was not the case, we researched the entity using the FEC website, IRS website, and general Google searching. In a few cases, after a reasonable effort to research the entity using all of the information available from FEC filings we were still not sure what type of organization the contributor was. We therefore determined that their contributions were not feasibly traceable by an interested citizen, coded the contributor as “unknown” and labeled the contributions “secret.”

In a few cases contributions were listed from a 501(c)(3) organization. Since this would violate the organization’s tax status we presume that these contributions are recorded in error and were meant to originate with a 501(c)(4). Either way, the entity would not have to disclose its donors, so we counted these contributions as secret. In a few other cases, contributions came from personal or family trusts. Even though these are technically institutions we coded these as coming from individuals and as “not secret” since the primary donor is obvious.

When a contribution came from one Super PAC to another, we followed the chain of contributions to determine if any Super PAC in the chain had accepted contributions from a 501(c)(4). If yes, we labeled the contribution “secret;” if not, we labeled the contribution traceable.

## CONTRIBUTION SIZE

All average contribution figures refer to the mean of the itemized contributions reported to the FEC. It is not possible to determine overall averages since contributions of under \$200 may be reported in bulk.

The number of contributors making certain levels of contributions was determined by aggregating the contributions of single donors to single Super PACs in a single election cycle. We determined the percentage of the U.S. population by dividing these donors by 312.9 million, which the Census Bureau lists as the current population of the United States (found at <http://www.census.gov/main/www/popclock.html>, accessed on February 3, 2012).

## ENDNOTES

1. [http://tpmmuckraker.talkingpointsmemo.com/2011/06/serious\\_ruling\\_on\\_stephen\\_colberts\\_campaign\\_finance\\_joke.php?ref=fpa](http://tpmmuckraker.talkingpointsmemo.com/2011/06/serious_ruling_on_stephen_colberts_campaign_finance_joke.php?ref=fpa)
2. Super PACs supporting Mitt Romney have raised more than \$32 million: <http://www.opensecrets.org/pres12/candidate.php?id=N00000286>
3. [http://articles.boston.com/2012-01-10/news/30612488\\_1\\_romney-sheldon-adelson-gingrich](http://articles.boston.com/2012-01-10/news/30612488_1_romney-sheldon-adelson-gingrich)
4. [http://www.washingtonpost.com/politics/gingrich-campaign-paid-off-some-debts-still-owes-600000/2012/02/03/gIQAjCyMqQ\\_story.html](http://www.washingtonpost.com/politics/gingrich-campaign-paid-off-some-debts-still-owes-600000/2012/02/03/gIQAjCyMqQ_story.html)
5. <http://www.usatoday.com/news/politics/story/2012-01-27/gop-primaries-ad-spending-super-pacs/52895296/1>
6. *Id.*
7. 130 S.Ct. 876 (2010). For more on how Citizens United has undermined democracy, see <http://www.Demos.org/publication/10-ways-citizens-united-endangers-democracy>
8. [http://www.fec.gov/law/litigation/speechnow\\_ac\\_opinion.pdf](http://www.fec.gov/law/litigation/speechnow_ac_opinion.pdf)
9. <http://saos.nictusa.com/aodocs/AO%202010-11.pdf>
10. Two Super PACs formed to re-elect President Obama, Priorities USA Action and 1911 United, have raised a combined total of more than \$86 million: <http://www.opensecrets.org/pres12/candidate.php?id=N00009638>
11. See e.g. this sublimely ridiculous exchange between Stephen Colbert, his lawyer Trevor Potter, and Jon Stewart: <http://www.colbertnation.com/the-colbert-report-videos/405889/january-12-2012/indecision-2012---colbert-super-pac---coordination-resolution-with-jon-stewart>
12. See e.g. this exchange between Mitt Romney and Newt Gingrich: <http://www.youtube.com/watch?v=NH9zrDqCzL0>
13. Candidates are permitted to solicit contributions up to the limit for traditional PACs and may appear at fundraisers. See FEC Advisory Opinion 2011-12, available at <http://saos.nictusa.com/saos/searchao?SUBMIT=ao&AO=3268>.
14. <http://electionlawblog.org/?p=28617>
15. <http://www.npr.org/blogs/monkeysee/2012/01/20/145475089/stephen-colbert-wants-you-to-know-thats-definitely-not-his-superpac>
16. For a fuller explication of why corporations have no business playing in elections, see [http://www.huffingtonpost.com/adam-lioz/why-corporations-shouldnt\\_b\\_283703.html](http://www.huffingtonpost.com/adam-lioz/why-corporations-shouldnt_b_283703.html)
17. Citizens United at 916.
18. Even Sen. Mitch McConnell, an arch opponent of restrictions on campaign fundraising, has a long history of supporting disclosure provisions. See e.g. <http://www.kentucky.com/2010/08/01/1372068/mcconnells-hypocrisy-on-campaign.html>
19. Citizens United at 619. Citizens United did not create Super PACs on its own, but its logic paved the road.
20. We consider a Super PAC “active” if it has raised any amount of money.
21. [http://www.fec.gov/info/report\\_dates\\_2011.shtml#frequency](http://www.fec.gov/info/report_dates_2011.shtml#frequency)
22. <http://www.fec.gov/pdf/forms/fecfrm3xi.pdf>
23. Political committees may accept contributions from individuals or other political committees—so each contribution must start with an individual.
24. [http://www.rollcall.com/issues/56\\_121/irs-gift-tax-501c4-205548-1.html](http://www.rollcall.com/issues/56_121/irs-gift-tax-501c4-205548-1.html)
25. <http://www.irs.gov/charities/nonprofits/article/0,,id=96178,00.html>
26. [http://www.democracy21.org/index.asp?Type=B\\_PR&SEC={91FCB139-CC82-4DDD-AE4E-3A81E6427C7F}&DE={1D87C7C9-1495-4FE1-A250-A5F2E7B7D091}](http://www.democracy21.org/index.asp?Type=B_PR&SEC={91FCB139-CC82-4DDD-AE4E-3A81E6427C7F}&DE={1D87C7C9-1495-4FE1-A250-A5F2E7B7D091})
27. There is a current lawsuit pending to force the FEC to require nonprofits that conduct electoral spending to disclose their donors: [http://www.democracy21.org/index.asp?Type=B\\_PR&SEC={91FCB139-CC82-4DDD-AE4E-3A81E6427C7F}&DE={01D73ED8-C9A6-4655-8490-9ED5E2467D17}](http://www.democracy21.org/index.asp?Type=B_PR&SEC={91FCB139-CC82-4DDD-AE4E-3A81E6427C7F}&DE={01D73ED8-C9A6-4655-8490-9ED5E2467D17})
28. Citizens United at 916.
29. For a more detailed explanation of how we determined which funds were or were not traceable see our methodology section.
30. [http://slate.com/posts/2011/08/06/edward\\_conard\\_mystery\\_romney\\_donor\\_behind\\_w\\_spann\\_llc\\_comes\\_forw.html](http://slate.com/posts/2011/08/06/edward_conard_mystery_romney_donor_behind_w_spann_llc_comes_forw.html)
31. *Id.*
32. *Id.*
33. <http://www.fox13now.com/news/local/kstu-mitt-romney-2-utah-companies-donate-1-million-apiece-to-romney-campaign-20110804,0,4424937.story>
34. Adam Lioz, The Role of Money in the 2002 Congressional Elections, U.S. PIRG Education Fund (2003).
35. [http://www.fec.gov/press/bkgnd/bcra\\_overview.shtml#Contribution%20Limitations%20and%20Prohibitions](http://www.fec.gov/press/bkgnd/bcra_overview.shtml#Contribution%20Limitations%20and%20Prohibitions)
36. <http://www.fec.gov/pages/brochures/contriblimits.shtml>
37. [http://www.cfinst.org/pdf/books-reports/Bliss/House\\_Cand\\_Sources\\_1998-2008.pdf](http://www.cfinst.org/pdf/books-reports/Bliss/House_Cand_Sources_1998-2008.pdf)
38. [http://www.census.gov/newsroom/releases/archives/income\\_wealth/cb11-157.html](http://www.census.gov/newsroom/releases/archives/income_wealth/cb11-157.html)
39. Due to the Supreme Court’s ruling in the seminal campaign finance case Buckley v. Valeo, 424 U.S. 1 (1976), since 1976 a billionaire has been (and remains) permitted to spend his fortune directly in support or opposition to a political candidate; but prior to Speech Now v. FEC, supra, she would not have been permitted to pool this money with other donors through the use of a political committee.
40. Average here means mean. Only contributions of at least \$200 must be reported itemized to FEC; therefore it is not possible to determine the overall average contribution size.
41. According to the U.S. Census Bureau, the current U.S. population is 312.9 million: <http://www.census.gov/main/www/popclock.html>
42. Many of these contributions are in fact aggregations of funds from upstream donors, shareholders or union members, so it is impossible to determine the exact actual number of donors.



43. Lioz, *supra*; <http://www.politifact.com/truth-o-meter/statements/2011/oct/17/occupy-wall-street/occupy-wall-street-protesters-sign-says-94-percent/>
44. [http://articles.boston.com/2012-01-10/news/30612488\\_1\\_romney-sheldon-adelson-gingrich](http://articles.boston.com/2012-01-10/news/30612488_1_romney-sheldon-adelson-gingrich)
45. Ted Koppel asked Gingrich directly what Adelson might expect in exchange for his money. See <http://www.ajc.com/news/georgia-politics-elections/las-vegas-billionaire-turns-1323245.html>
46. John Green, Paul Herrnson, Lynda Powell, and Clyde Wilcox. *Individual Congressional Campaign Contributors: Wealthy, Conservative and Reform-Minded* (1998).
47. *Id.*
48. <http://sunlightfoundation.com/blog/2011/12/13/the-political-one-percent-of-the-one-percent/>
49. *Id.*
50. *Id.*
51. Green et. Al.
52. Benjamin I. Page, Fay Lomax, Cook, and Rachel Moskowitz, *Wealthy Americans, Philanthropy, and the Common Good*, September 25, 2011 at 6; available at <http://www.scribd.com/doc/75022549/Wealthy-Americans-Philanthropy-and-the-Common-Good>.
53. *Id.* at 11.
54. *Id.* at 12.
55. *Id.* at 13.
56. *Id.* at 15.
57. [http://www.brennancenter.org/content/resource/comment\\_to\\_sec\\_on\\_corporate\\_political\\_spending\\_disclosure\\_petition/](http://www.brennancenter.org/content/resource/comment_to_sec_on_corporate_political_spending_disclosure_petition/)
58. There is also evidence that this policy is good for shareholder value. See e.g. John Coates & Taylor Lincoln, *Fulfilling Kennedy's Promise*, available at <http://www.citizen.org/fulfilling-kennedys-promise-report>
59. [http://www.huffingtonpost.com/2011/04/19/obama-administration-drafts-order\\_n\\_851228.html](http://www.huffingtonpost.com/2011/04/19/obama-administration-drafts-order_n_851228.html)
60. Elizabeth Kennedy & Adam Skaggs, *The People's Business: Disclosure of Political Spending by Government Contractors*, The Brennan Center for Justice, 6/16/11; available at: [http://www.brennancenter.org/content/resource/the\\_peoples\\_business\\_disclosure\\_of\\_political\\_spending\\_by\\_government\\_contrac/](http://www.brennancenter.org/content/resource/the_peoples_business_disclosure_of_political_spending_by_government_contrac/)
61. Thomas Cmar, *Towards a Small Donor Democracy: The Past and Future of Incentives for Small Political Contributions*, U.S. PIRG Education Fund (2004).
62. *Id.*
63. See Bruce Ackerman and Ian Ayres, *Voting with Dollars: A New Paradigm for Campaign Finance* (2002).
64. <http://electionlawblog.org/wp-content/uploads/MT-expenditures-decision.pdf>



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