Testimony of
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Before the
Committee on Rules and Administration
United States Senate
April 5, 2000

Mr. Chairman, Senator Dodd, and members of the Committee. Thank you for inviting me to testify at today's hearing. On behalf of the Committee for Economic Development (CED), I appreciate the opportunity to present and discuss our views on campaign finance reform.

As a business-led organization, CED offers a unique perspective on this important issue. Business leaders are significant participants in the system as contributors. Corporations are the largest source of soft money. And, as civic leaders, CED trustees are concerned about the impact this system is having on our democracy.

Over the past year, we have attempted to educate more Americans about why reforming our nation's campaign finance laws is so important, how and why the current broken system is harming our democracy and the business community, and how many business leaders view the issue.

We hope we have contributed to the debate in a positive way. We believe we have put to rest the idea that the business community monolithically supports the status quo, loves giving ever-increasing amounts of soft money, is unconcerned about the damage the system is doing to our democracy, and opposes real, far-reaching reform.

This morning, I'd like to tell you about CED's campaign finance reform proposal, which is outlined in the report we released a year ago, entitled *Investing in the People's Business: A Business Proposal for Campaign Finance Reform*. I encourage this Committee to review this report, which we shared with you and is available on our Web site (www.ced.org). I also want to share with you some of the insights we have gained from business leaders as we developed this proposal and shared it with others. I will also focus on some specific issues surrounding political parties and soft money.

But first, let me tell you what CED is and how we developed our recommendations. CED was formed nearly 60 years ago by corporate executives. Today, we remain an independent research and policy organization of some 220 business leaders and prominent university presidents. We are a nonprofit, nonpartisan organization dedicated to studying and proposing policies that promote steady economic growth, increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.

All CED policy recommendations are approved by a Research and Policy Committee of our trustees. Our campaign finance reform work was led by a special subcommittee, co-chaired by Edward A.

Kangas, the Chairman of the Global Board of Directors of Deloitte Touche Tohmatsu, and George Rupp, the President of Columbia University.

Since we have unveiled our campaign finance reform recommendations, they have been endorsed by more than 200 prominent business and civic leaders from throughout the country. The endorsers include top executives of Deloitte Touche Tohmatsu, Sara Lee, John Hancock Mutual Life Insurance, State Farm, Prudential, H&R Block, ITT Industries, Motorola, Hasbro, the MONY Group, Chubb, Goldman Sachs, Boston Properties, and Saloman Smith Barney. They also include the retired chairmen or CEOs of AlliedSignal, BankAmerica, GTE, International Paper, Union Pacific, General Foods, Monsanto, Time, CBS, Fannie Mae, Dow Chemical, Texaco, FMC, and BFGoodrich.

CED's Perspective on the Problem

Let me briefly outline what we believe are the major problems with the current system. Simply put, we believe the current system no longer works for anyone – not elected officials nor the business community, and especially not for democracy's shareholders, the voters.

And we are convinced that the status quo threatens our economic and business climate. As our report states, "A vibrant economy and well-functioning business system will not remain viable in an environment of real or perceived corruption, which will corrode confidence in government and business. If public policy decisions are made – or appear to be made – on the basis of political contributions, not only will policy be suspect, but its uncertain and arbitrary character will make business planning less effective and the economy less productive."

The specific problems can be broken down into four key areas:

The Money Chase: Today, money and fundraising have become too important and demanding in our political life. There is simply too much time spent by elected officials chasing after dollars that are buying influence and access. Our busy corporate executives are appalled by the amount of time senators and congressmen spend on fundraising, leaving too little time for you to do the people's business. We are also concerned that the escalating arms race for cash has devolved into an influence- and access-buying system that understandably disgusts average voters and those being hit up for ever-increasing amounts of contributions.

High Costs Mean Less Competition: Second, we believe that the high cost of campaigns and the burden of fundraising have become a barrier that limits voter choice. Business leaders are pro-competition. We believe changes need to be made to provide greater competition in congressional elections, especially those for the U.S. House of Representatives. The campaign finance system should not discourage otherwise good candidates from seeking re-election or making a run for office in the first place.

Decline of Small Donors: As our executives looked at the current system, they were especially alarmed by the dramatic decrease in small contributions. In 1984, 38 percent of individual contributions to congressional candidates were in amounts of $500 or more. By 1998, the portion had grown to 61 percent. At the same time, soft money contributions have skyrocketed. Average citizens are dropping out; too many have simply stopped voting and giving.

4. **Dramatic Growth of Unregulated Funds:** It's no wonder that average citizens are dropping out. As they hear more and more about the explosion of soft money, they understandably wonder what difference their small gift – let alone a $1,000 donation – makes compared to soft-money contributions of $50,000, $100,000, or even $1 million from a global corporation, large union, or wealthy individual. Unlike many reform opponents, citizens and corporations know that these new huge contributions are driving political and policy agendas.

As our CED report says, soft money, along with the growth of candidate-specific issue advocacy, "give a relatively small group of donors great influence in the electoral process. They facilitate relationships between monied interests and candidates that increase the possibility of corruption and undermine the accountability and transparency that safeguard against it."

Those are the four fundamental problems, as we see it. But let me also state what we don't think the problem is. Business leaders are realistic. They do not believe that all political contributions are bad or corrupting. I'd guess that most of CED's trustees are regular and healthy contributors to campaigns and parties. They believe voluntary political contributions – from individuals – are good for our democracy, and we should encourage more giving. They know it costs real money to communicate with large segments of the population. But they make important distinctions between types of money – hard versus soft, individual contributions versus money from corporate and union treasuries – and they recognize the importance of good, transparent rules of engagement.

CED's Business Proposal for Reform

So what does CED think we should do about these problems? After identifying these problems, we proposed the following solutions. Many of our trustees see these recommendations as a package. As we stated in our report, "Successful reform must balance the need for regulation with the protection of First Amendment liberties. It must permit the funding needed for full and robust political debate and competition while limiting the undue influence of money. Reform must also pay due regard to the effects of specific changes on political parties and particular types of candidates or sources of funding."

Eliminate Soft Money: First and foremost, soft money must be banned. The explosion of unlimited soft money contributions is the most egregious flaw in the system. Campaigns and political parties should be financed by individuals – not corporate and union treasuries.

Many corporate executives believe soft money is giving corporate America a "black eye from a campaign finance system that the public sees as suspect and even corrupt," as our co-chairs, Mr. Kangas and Dr. Rupp wrote. "Many Americans identify 'special interests' not as political groups or organizations but as corporations that buy too much influence and access at the expense of average citizens." (*The Los Angeles Times*, April 18, 1999)

Business executives are also troubled by the glaring lack of "truth in labeling" that they see surrounding the soft-money game. Only in Washington do people attempt to make artificial distinctions between hard and soft money, implying that soft-money is not used to help specific candidates. It is, after all, illegal for corporations and unions to make contributions to federal campaigns. Executives – and citizens – know that political parties and the House and Senate party campaign committees exist to elect candidates.

We appreciate, however, that political parties play an important role in our democracy and need money to do so. That's why our CED proposal recommends allowing individuals to contribute an extra $25,000 to political parties. Let me stress, however, that we believe that contributions should be limited to individuals – and not include money from corporate and union treasuries.

Improve Candidate Access to Resources: As I said earlier, we recognize that campaigns cost money, and we should not take steps that would increase the fundraising burden or inhibit robust political debate. For those reasons, we recommend increasing the individual contribution limit from $1,000 to $3,000. The quarter-century-old limit is out of date and unrealistic. It should be changed.

For those within the reform community who argue that $3,000 is a lot of money that most citizens could never contribute, we agree. But we believe this is a reasonable trade off that will help ensure that candidates have enough money. We also believe it would improve competition from challengers. And, as part of a package that bans soft-money, we believe the difference between a $3,000 contribution and a $100,000 or $1 million donation – in its potential corrupting influence – is obvious and clear.

To enhance the role of small donors and provide challengers with increased access to resources, we propose publicly financed two-to-one matching funds for individual donations of up to $200 for congressional candidates who agree to abide by voluntary spending limits. Such a system would increase the value of small contributions and provide an incentive for candidates to seek them. Importantly, it could also provide most of the money needed to finance an average campaign, reducing the reliance on larger contributions.

I know many people have been surprised that a group of corporate executives would support a system of partial public financing. But, as several of them have put it, if improving the integrity and quality of American elections isn't a good use of public money, what is?

Adopt Spending Limits to Reduce the Fundraising "Arms Race": Next, our reform plan would set overall spending limits for those candidates who accept public financing. The limits we suggest -- $500,000 for House races, and $1 million plus $.50 times the numbers of voting-age citizens in a state for Senate races – are generous enough to induce candidates to accept public financing, while low enough to help moderate the growth in campaign costs. We recognize that many reform proponents think these spending limits are too high. But we believe they are realistic and appropriate.

Reform Issue Advocacy: Like so many others, we believe Congress must reform so-called issue advocacy by expanding the definition of "express advocacy" within specified periods before elections. Ads that clearly promote candidates should meet the same requirements as other election ads, and their funders should be disclosed.

Together, we believe these reforms will produce more competitive elections, improve the quality of representation, and promote public confidence in our political process. It is a balanced, realistic, and pragmatic package.

Political Parties and Soft Money

Now let me address the issue political parties and campaign finance reform. I wanted to outline our reform plan first, because I think we must look at the big picture and consider how different changes fit together.

We believe that political parties and their committees play a very important role in our system. Reforms should ensure that they can continue to do so with adequate resources.

In particular, CED appreciates the role parties play in making races more competitive. As noted earlier, one of the primary goals of our reform plan is to give voters more and better choices. In our report, we note that, "Most of the coordinated expenditures by both parties are made on behalf of non-incumbentsÿBecause party committees direct their coordinated expenditures to help the maximum number of candidates win election, party funding helps to make elections more competitive. It enhances the ability of non-incumbents to increase their name recognition and make their views known to the electorate. In this way, parties improve the choices available to the electorate and enhance the competitiveness of electoral process."

As you know, these coordinated expenditures, direct contributions, and independent expenditures must be made with hard money. We recognize that a ban on soft money could have a significant impact on political party finances, the role parties play in enhancing the competitiveness of elections, and encouraging citizen participation. It would reduce the resources available for candidate (especially challenger) support or voter identification and turnout efforts.

Therefore, to partially compensate for this loss, we recommend changing the rules limiting individual contributions to federal candidates and political committees. Under current law, individuals are limited to an annual total of $25,000 for all contributions made to federal candidates, PACs, and party committees. CED proposes that Congress establish two separate aggregate limits for individuals. The first would limit the total amount contributed by an individual to federal candidates and PACs to $25,000 annually. The second, separate ceiling would limit the total amount contributed by an individual to national party committees to $25,000 annually.

Under the CED plan, we would also allow party committees to make up the difference between a candidate's total spending and the amount of the voluntary spending limit that would exist if the candidate accepted the public matching funds we propose. For example, party organizations could make higher levels of coordinated expenditures in some cases, as long as the combined spending by the candidate and party did not exceed the ceiling.

That said, we believe soft money must be eliminated. The basic principle on which our campaign finance laws are based – that campaigns should be financed by individuals within reasonable limits, and not corporations or unions – is sound. Soft money is the most egregious example of campaign financing that violates this principle.

It also contributes to the understandable cynicism of the American people about money and politics. Calling soft-money-financed ads that clearly promote or attack a candidate "issue ads" is making a distinction without a difference. The American people know it. Members of Congress know it. Fundraisers know it. And the funders of the ads know it. No one is being fooled. The pretense only fuels the cynicism that is damaging our democracy.

But CED is most concerned about the corrupting influence of soft money. It is no coincidence that most corporate soft-money contributions come from heavily regulated industries. For these and other executives, it is extremely hard to say no to solicitations for soft-money contributions from powerful members of Congress and the Executive Branch and their political operatives.

To quote our campaign finance reform co-chairman, Ed Kangas of Deloitte Touche Tohmatsu, "Unlike individual donations, most large corporate contributions aren't made as gestures of good will or for ideological reasons. Corporations are thinking of the bottom line. Will the contribution help or hurt my company? ÿEveryone knows big checks get noticed."

"For a growing number of executives, there's no question that the unrelenting pressure for five- and six-figure political contributions amounts to influence peddling and a corrupting influence. What has been called legalized bribery looks like extortion to us. . . . The threat may be veiled, but the message is clear: failing to donate could hurt your company. You must weigh whether you meet your responsibility to your shareholders better by investing the money in the company or by sending it to Washington." (*The New York Times*, October 22, 1999)

Over the last year or so, I've heard story after story from corporate executives about their being hit up for ever-larger contributions. Like Mr. Kangas, they describe this system with words like "extortion" and "shakedown." And business leaders are increasingly troubled by the new solicitation technique that seeks to pit one company or industry against another, as fundraisers imply that a company or industry won't be treated fairly if they don't match or exceed the contributions made by a business competitor.

We also don't buy the argument that, if soft money is banned, those dollars will simply flow elsewhere. We expect that most of the soft money from the business community will simply dry up. As our report notes, "Most of this money came into the system only during the last two presidential cycles, largely in response to the aggressive fundraising practices of the national party committees. These [corporate] donors are unlikely to aggressively seek out other means of pouring money into the system."

CED trustees know that large-dollar contributions are driving out smaller-dollar, hard-money contributions from average citizens. When voters regularly hear about contributions in excess of $50,000 or $250,000, it is not unreasonable for them to wonder what difference their $50 or even $500 contribution makes in the system.

We also believe that a soft-money ban would simplify the system. Parties, like candidates, would have one kind of money – hard money. There would no longer be a need for separate types of bank accounts or complex allocation rules for the financing of different types of party activity.

We applaud those corporations – such as Time Warner, General Motors and Monsanto – that have shown the courage to stop giving soft money. But we understand why other companies that may, publicly or privately, support a soft-money ban feel the need to continue participating until the system is changed.

Finally, I want to say that I believe that soft money actually hurts the political parties. First and foremost, soft money is the chief contributor to the disaffection the American people have with money and politics. Nearly all of the controversies surrounding campaign finance over the last five years or so have been related to soft money.

Second, a case can be made that soft money is distracting political parties and their committees from the real work of party building. As the unlimited arms race for soft money encourages parties to put more and more of it into television ads, necessary party-building activities – such as voter identification and registration – are being neglected.

Former Senator and Republican National Committee Chairman William E. Brock, a CED trustee and endorser of our reform recommendations, said it best. And he has considerable credibility on the issue of soft money and political parties. "Far from reinvigorating the parties themselves," Senator Brock wrote, "soft money has simply strengthened certain specific candidates and the few donors who can make huge contributions, while distracting parties from traditional grassroots work." (*The Hill*, April 29, 1998)

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Mr. Chairman, let me close by reiterating our strong view that enacting real reform is long overdue. The failure to do so is harming our democracy, as well as the business community. Congress has a responsibility to ensure that our campaign finance laws protect the integrity and quality of our elections. Today, no one can – or should – defend the current system. It must be changed. And it's up to Congress to do so.

Yes, improving the system is not easy. But, as our executives would say, reform is an investment that is not only worth making, but desperately needed now.

Again, thank you for the opportunity to share our views with you and the Committee.