Democracy South

105 W. Main Street, Carrboro, NC 27510 919-967-9942

Soft Money Hits Home

You don't have to be a billionaire trying to win a pardon to care about soft money.

If you worry about the air your child breathes or the high cost of prescription drugs, if you worry about exorbitant bank fees and credit card interest rates or the prospect of your teenager getting addicted to cigarettes, then you should care about the soft money from wealthy Tar Heel donors.

Soft money refers to the political donations given to the national parties in unlimited amounts from almost any source, primarily corporations, unions and wealthy individuals. Many checks are for $100,000 or more. The Federal Election Commission says soft-money committees of the Republican Party raised $244 million in the 2000 election, edging out the $243 million raised by the Democrats.

Soft money is supposed to help the party, not particular candidates, and the donors say they don't expect anything in return for their big checks. But no one really believes either statement. "Everyone knows big checks get noticed," says Edward A. Kangas, chair of the accounting firm Deloitte Touche. For many business leaders, he says, the "soft-money shakedown . . . looks like extortion to us." John H. Bryan, chief executive of Sara Lee calls the fundraising racket "legalized bribery," and says, "Everyone knows the system is absurd." Both men are leaders in the Committee for Economic Development, a business-backed group that favors banning soft money, while tripling the hard-money limit on donations to federal candidates to $3,000 – a move most reformers oppose.

Some prestigious North Carolina firms, like First Citizens Bank, have resisted the soft-money game. But many others are avid players. From 1997 through 2000, North Carolina-based businesses and individuals gave a total of $8.4 million in soft money donations to the national parties, with about 77 percent going to Republicans, 18 percent to Democrats, and 5 percent to other parties. The top ten donors of soft money in North Carolina gave 62 percent of the overall total:

TOP TEN DONORS 1997 to 2000	HOMETOWN	TOTAL $$$	REPUBLICAN PARTY	DEMOCRATIC PARTY	NATURAL LAW PARTY
R J REYNOLDS TOBACCO	WINSTON-SALEM	1,565,570	1,383,020	182,550	0
GLAXO WELLCOME	RES TRI PARK	1,086,550	1,006,050	80,500	0
FIRST UNION CORP	CHARLOTTE	688,500	683,500	5,000	0
BANK OF AMERICA	CHARLOTTE	559,800	396,300	163,500	0
CHRISTOPHER H WEGE	BOONE	319,700	0	0	319,700
LORILLARD TOBACCO	GREENSBORO	282,630	256,630	26,000	0
CAROLINA POWER & LIGHT	RALEIGH	219,000	144,000	75,000	0
ANDRES REYES	CHARLOTTE	190,000	0	190,000	0
DUKE POWER/DUKE ENERGY	CHARLOTTE	146,500	136,500	10,000	0
EASTERN BANK OF CHERO	CHEROKEE	140,000	0	140,000	0
STATE TOTAL: $8.4 million	TOP 10:	$5,198,250	4,006,000	872,550	319,700

The impact of these donations on a citizen's life is felt in many ways – in federal and state policies that shift business risks and costs to consumers, and in federal and state elections that shift power from voters and to the well-endowed donors. Here are some details related to North Carolina soft money.

National Policy Decisions

The top seven corporate donors of soft money from North Carolina fit the national profile of firms making sizeable donations, with a keen interest in winning greater influence in national politics. North Carolina has few of the mega-millionaires who write six-figure checks to a party from their personal bank accounts, nor does it have the wealthy labor unions that are the most reliable source of soft money for the Democratic Party. But North Carolina does have a blue-ribbon roster of corporations that use soft money contributions as one more way that they "build relationships" or "gain access" in order to set the agenda on government policies that affect their businesses.

Bank America and **First Union** rank as the number one and number six banks in the nation in terms of assets. They are powerful advocates on a wide range of federal issues, from the Community Reinvestment Act's requirements for non-discriminatory lending, to public guarantees for private overseas investment, to regulation of automatic teller machine (ATM) fees. In just two years, from the 1998 to the 2000 election cycles, soft-money contributions from the banking industry tripled, from $3.4 million to nearly $10 million, according to data compiled by the Center for Responsive Politics (www.opensecrets.org). Two controversial areas affecting banks in the past two years involve the deregulation of the financial sector and the overhaul of laws governing bankruptcy. First Union and Bank of America have been very active in both battles, which, in the first case, vastly expanded their scope of business into insurance and securities marketing, with minimal concessions to consumer advocates on privacy and anti-discriminatory issues, and, in the second case, greatly expanded their protection from debtors, with little incentive to help consumers stop overextending themselves.

Glaxo Wellcome, now Glaxo Smith Kline, with U.S. headquarters in the Research Triangle Park, has rapidly expanded its national political donations in the past decade. In the early 1990s, Glaxo won special legislation that extends the life of its patents abroad and blocks producers of cheaper drugs from cutting into its market. It jealously protects the favorable tax treatment of its investment in developing new drugs, which effectively allows it to benefit from both the expenses and the revenues tied to a new drug. More recently, it has joined other pharmaceutical companies in fighting efforts to legislate cheaper prices for medicine. Soaring prices are a big reason why American consumers spent nearly $100 billion on prescription drugs in 1999, double what they spent in 1990. But Glaxo punished the co-sponsors of a bill in the last Congress that would have required drug companies to provide medicine to Medicare beneficiaries at a deep discount. Many of the 138 sponsors, like Rep. Eva Clayton of North Carolina, had received Glaxo support in the past, but only one of the group received a Glaxo PAC donation after the bill was introduced – and that was only after he withdrew his co-sponsorship (see "Glaxo a big donor in races," by John Wagner, *News & Observer*, 10/23/00). Soft money donations from pharmaceutical firms have ballooned from $6.2 million in the 1998 election to $15.8 million in 2000. So far, the industry has effectively bottled up bills that would lower prescription drug prices or even allow pharmacies to import cheaper drugs produced abroad by U.S. companies.

For much of this decade, **R. J. Reynolds Tobacco** has led the list of soft money donors from North Carolina. Philip Morris – which is based in Richmond, Virginia, but put its second largest manufacturing plant in Cabarrus County – has similarly led the national list of corporate donors. **Lorillard Tobacco**, now based in Greensboro, has increased its soft-money donations, while other tobacco firms have shifted more resources into lobbying. In the 2000 election, the tobacco industry gave $5.3 million in soft money donations, down from $5.5 million in 1998. The list of issues facing the industry is well known to North Carolina: increased taxes on cigarettes, regulations to reduce underage smoking and exposure to second-hand smoke, multi-billion dollar lawsuits, classification of tobacco as a drug subject to FDA regulation, changing the federal tobacco allotment program to give the industry more flexibility. John McCain, who now leads the fight against soft money, led the fight a few years ago to raise federal taxes on cigarettes and give the government authority to regulate nicotine. McCain lost that battle amidst an avalanche of tobacco money, including $40 million spent in just six months in key Congressional districts on television ads that labeled his effort a massive tax increase on middle-income Americans.

State Policy Decisions

The companies leading the list of soft money donors also have enormous influence in North Carolina politics. **Carolina Power and Light, Duke Power, Bank of America,** and **First Union** are four of the top seven corporate PACs in the state in terms of political spending over the past decade; **Glaxo** and **Reynolds** rank among the next seven.

Duke and **CP&L's** renowned political clout kept their 14 fossil-fueled generating plants from being included in legislation passed two years ago to reduce smog-causing emissions. Even though those plants are a major source of the pollutants contributing to smog, ozone depletion and acid rain, the utility companies continue to evade stiff regulation. The state's Department of Environment and Natural Resources says part or all of 40 counties in North Carolina will fail to meet new federal ozone pollution standards, making new highway projects subject to federal review. Instead of pursuing tough emission limits, Gov. Jim Hunt compromised with the utilities shortly before leaving office.

Big Tobacco and Big Banks join the Big Utilities as the Tar Heel trinity at the center of the state's nationally recognized "progressive plutocracy," the moniker political scientist V.O. Key gave North Carolina in 1948. These corporations have long viewed state government as an instrument for economic expansion. Ever present in decision-making circles – through their lobbyists, community initiatives, foundations, volunteer leadership, and political donations – they take a pro-active, pro-business stance on issues ranging from education to tax fairness to race relations. Many view their contribution as pivotal in helping the state gain a higher standard of living than, say, South Carolina.

Of course, these firms also look after their own interests. Given the current state budget crunch, the best example of how the banks and tobacco lobby affect an ordinary person's life is the way they have shifted the state's tax burden away from themselves and onto the less politically powerful.

Banks in the state enjoy a unique provision that means they pay an effective state income tax rate that is one-third what the typical Mom-and-Pop business pays. According to the General Assembly's Fiscal Research Office, this "bank tax loophole" amounts to about $100 million in lost revenue annually, money other taxpayers must pay. The loophole allows banks to deduct the expenses incurred in earning *tax-exempt* income from other, unrelated *taxable* income, thereby giving them a double benefit for investing in certain securities. Like many loopholes, this one was supposed to create no net loss in revenues for the state, but it created an expanding hole, and each effort to close it has met swift and forceful opposition (see "Bank Heist," by the Institute for Southern Studies, 12/94).

For its part, **Reynolds** has saved millions on state taxes since it convinced the General Assembly to change the way North Carolina corporations can calculate their tax liability. A company like RJR with income from nationwide operations must attribute some share of that money to North Carolina in order to calculate its state income tax. Under the old law, that share was based on the average of the share of the company's total manufacturing assets inside the state and the share of its total sales inside the state. When RJR Nabisco announced a plan to build a massive cookie factory in Garner in the 1980s, it hedged, saying it wouldn't proceed unless it the state changed the formula for calculating its taxes. As a result, the General Assembly passed the "double-weighted" formula for multi-state corporations like RJR. It allows them to minimize the large share of their manufacturing capacity inside North Carolina by double counting the tiny share of their nationwide sales made inside the state. The new formula now deprives the state of $56 million a year in income taxes; the biggest beneficiary, according to the Fiscal Research Office, is still R. J. Reynolds. The cookie plant was never built.

In 1999, **R. J. Reynolds**, Philip Morris, **Lorillard** and other tobacco firms won another controversial tax break from the General Assembly, this one worth about $9 million a year, for producing cigarettes for export – even if the tobacco used comes from South America and the cigarettes are made in Virginia. All they need inside North Carolina is an income tax bill from which they can deduct a pro-rated share of the value of those cigarettes. Preposterous, but true.

Obviously, soft money by itself is not what earns these companies such special privilege. It is one tool that gains them an advantage others don't have. Hard-money, or regulated political donations given directly to candidates and parties, plays a more direct role at the state level, as does the retention of a battery of lobbyists, lawyers, and executives who shuttle through the revolving door connecting the corporate and political worlds. There are many other benefits, including more tax breaks. **Glaxo**, for example, is a prime beneficiary of state income-tax breaks for purchasing customized software, investing in research and development, and the $80 cap on sales taxes paid for manufacturing machinery. The latter, another windfall for RJR, is the most expensive of all business tax loopholes, costing the state treasury an estimated $178.5 million a year – money others must replace.

Federal Elections

Soft money is not supposed to support the election or defeat of a *federal* candidate – what is known as "express advocacy." It escapes the normal federal regulations governing the sources and limits for contributions for "express advocacy" precisely because it is only given to the national parties and is only used for "party-building activity." But what is that? In the past few years, the range of activities the Federal Election Commission and courts have let soft money finance has expanded so much that most people can not distinguish between "express advocacy" and "party-building activity."

North Carolina has experienced its share of the bizarre ways the two are mixed. In 1998, the National Republican Senatorial Campaign Committee used soft money to pay for nearly $400,000 worth of ads championing the leadership of then-Senator Lauch Faircloth, who was running for re-election against John Edwards. Because the ads never used the magic words of express advocacy – such as "elect," "defeat," "vote for" – they could be paid for with soft money. Other groups have used the same hair-line distinctions to finance "issue ads" attacking candidates with corporate or union money, a practice the McCain-Feingold bill would restrict. For example, the national AFL-CIO spent more than one million dollars in 1996 on television ads that humiliated GOP Congressmen Fred Heineman and David Funderburk, thereby helping elect David Price and Bob Etheridge.

In the 2000 election, the national Democrats sent a series of checks totaling $1.56 million to the N.C. Democratic party, which in turn sent checks totaling the exact same amount to an ad agency in New York. The money paid for ads trashing Republicans Rep. Robin Hayes and Rep. Charles Taylor and promoting their Democratic opponents. By simply conduiting the money through North Carolina, the national Democrats could make the media buy with more soft money and less hard money, because of different rules on how a state party can finance "party-building" ads featuring federal candidates.

State Elections

This money routed between party committees illustrates why critics believe soft money has turned the parties into money-laundering machines, where huge amounts of corporate or union money get filtered into activities they are banned from financing directly. In 1996, First Union Corp. sent $99,000 to the National Republican Committee (RNC) at the request of then N.C. gubernatorial candidate Robin Hayes. A few weeks later, a like amount came back to the state Republican Party which in turn sent a check to Hayes. Chuck Fuller, then Hayes' campaign manager, later admitted, "We raised money for the RNC and expected to receive contributions back from the RNC" (See "Soft Money Mocks Limits on Campaign Contributions, by Jim Morrill, *Charlotte Observer*, 6/1/97).

Hearings by the State Board of Elections in May 1998 revealed how then House Speaker Harold Brubaker apparently used similar tactics to launder corporate money for the 1996 election. For example, soon after he asked Asheboro-based Klaussner Furniture to send $100,000 to the RNC, a check for a similar amount came back to the Randolph County Republican Party, which Brubaker then used to support various state House candidates. The Board of Elections issued a ruling to tighten the state's law against "direct or indirect" donations from corporations. As a result, the national parties now assert that they are sending only soft money derived from wealthy individuals and they send the Board of Elections a list of the individual donors' names and addresses to prove it.

North Carolina has no law distinguishing between party-building activity and express advocacy and no limit on how much soft money can be received by a state party. In fact, a quirk in a bill passed in 1999 allows the national parties to send unlimited amounts for any purpose to any political committee – or even directly to a candidate. As a result, the 2000 election saw an explosion of soft money flowing into North Carolina and an expansion of the players who used it. Richard Vinroot's campaign for governor nearly succeeded in large part because of direct transfusions of soft money totaling $2.15 million from the national Republican Party. On the eve of the election, the state Democratic Party sent Mike Easley's campaign $200,000 in soft money received from Washington. State House leaders from both parties funneled a combined total of at least $500,000 in national soft money through the state party into support for the campaigns of targeted House candidates.

Altogether, about $9 million of soft money came into the state, with GOP national committees shipping in a million more than Democrats. The lure of soft money turned candidates into money traders, with several Republican legislative leaders sending as much as $100,000 from their campaign committees up to Washington and getting up to twice as much back for the state party to route to the legislative caucus committee, for use in a handful of hot races.

The flow of national soft money means local voters are in even less in control of their elections. Less than 5% of the $9 million sent into the state came from North Carolina donors. Actually, when reporters called the out-of-state donors on the lists sent to the Board of Elections, none of them knew their money was headed to North Carolina. They were writing checks to further their national agendas, not because they knew anything about the candidates or issues in the state. But their money is now fueling an arms race in fundraising inside North Carolina and helping to change the landscape of campaigning away from grassroots politics and toward big-money solicitations.

One of the ironies of the McCain-Feingold proposal is this: If the national parties are barred from accepting soft money, those big checks will likely go to state parties that can still take donations in unlimited amounts – states like North Carolina. And from there, the money will likely be laundered and brokered in even more contorted ways that defy comprehension by the voter. No wonder campaign reformers say what's needed is an alternative source of money that allows candidates to escape the money chase altogether, not simply a rearrangement in how the money flows from wealthy donors to needy politicians.

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