ANALYSIS OF
COSTS OF ELECTION CAMPAIGNING
AND
RECOMMENDATIONS FOR
ALTERING CONTRIBUTION AND
EXPENDITURE LIMITS
FOR GUBERNATORIAL ELECTIONS

New Jersey Election Law Enforcement Commission

May 1984

TABLE OF CONTENTS

ELECTION LAW ENFORCEMENT COMMISSION

Andrew C. Axtell, Chairman
Alexander P. Waugh, Jr., Vice Chairman
Haydn Proctor, Member

Executive Director - Scott A. Weiner
Counsel - Edward J. Farrell

Suite 1215, 28 West State Street, Trenton, N. J. 08608

609-292-8700

ANALYSIS OF THE COSTS OF ELECTION CAMPAIGNING

and

RECOMMENDATIONS FOR ALTERING CONTRIBUTION AND EXPENDITURE LIMITS

Preface

The gubernatorial public financing law requires that:

> For the purpose of determining the continuing adequacy of the limits set by law upon contributions and expenditures in aid of the candidacy or in behalf of any candidate for nomination or election to the office of Governor, the Election Law Enforcement Commission shall monitor the general level of prices, with particular reference to those directly affecting the costs of election campaigning in this State. In the year next preceding any year in which a primary election and general election for the office of Governor are to be held, and not later than 12 months before the date of the primary election, the Commission shall report to the Legislature its recommendations, if any, for altering those limits in accordance with its finding pursuant to this section. N.J.S.A. 19:44A-7.1

In response to this requirement, the Election Law Enforcement Commission prepared this report which presents an analysis of: (a) gubernatorial campaign expenditures in 1981, (b) changes in gubernatorial campaign expenditures between 1973 and 1981, (c) cost increases since 1981 in some of the goods and services used in campaigning, (d) actual and potential changes in campaign methods as they may relate to the 1985 gubernatorial election campaign expenditures, (e) factors outside the political environment affecting campaigning and costs, and (f) those factors within the political environment affecting campaigning and costs. From this analysis and after considering its findings in its June 1982 report, New Jersey Public Financing - 1981 Gubernatorial Elections, the Commission arrived at a set of conclusions and recommendations.

Summary of Conclusions and Recommendations

It is obvious that the cost of campaigning has increased during the three year period of 1981-1983. While there is no "campaign cost index" comparable to the Consumer Price Index (CPI) or other price or economic indexes, media costs, a key element of campaign costs, are indexed and show an increase of approximately one third during this three year period. Accepting the industry's own cost projection for 1984, the increase will be nearly 45 percent during the four year period of 1981-1984.[1]

The Producer Price Index includes some of the other items comprising campaign expenditures.[2] Nearly all show increases for the three year period (1981-1983) which range from a low of a .8 percent decrease for typewriters to a high of a 41.0 percent increase for electricity. Telephone rates, another important cost element, have increased by 21.3 percent over a two year period, 1982-1983, and may increase more in 1984 and 1985 as the result of the AT&T divestiture. Applying these rates of increase, the Commission estimates that the costs to a gubernatorial candidate to run the same campaign in 1985 will have increased by 35 percent.

However, the Commission also recognizes that technological development, including the development of portable, low cost computers and other electronic media, promotes change in campaign methods. Furthermore, the network TV's gradually declining audience size[3] and cable TV's increasing penetration into the New York and Philadelphia markets[4] make network TV advertisements a less cost-effective means for reaching voters. As a result of these and other changes, the mix of goods and services used in gubernatorial election campaigning in New Jersey will probably be different in 1985 from the mix of 1981; also, these differences will vary according to each individual candidate's campaign strategy. The effects of these changes and factors on the costs of campaigning cannot be measured.

Similarly, the factors both inside and outside of the political environment which affect campaign related costs and campaign strategies for 1985 will differ from those of 1981. Among these factors are the state of the nation's and region's economies, the number of candidates in the primary and the likelihood of an incumbent running for re-election.

All these variables make estimating the increase in the cost of campaigning for 1985 difficult, if not impossible. What is clear is that unit costs for many of the goods and services used in gubernatorial election campaigning will be higher in 1985 than they were in 1981 and that the proportion of total available funds spent on specific goods and services will be different.

To arrive at an estimate of an increase in campaign costs and a recommended increase in the contribution and expenditure limits, the Commission: (a) projected the average 1981-84 media increases to 1985 and applied that to campaign communication expenditures; and (b) took the actual 1982 and 1983 increases for the CPI, adding Chase Econometrics' most recent estimate[5] of the rate of inflation for 1984 and 1985, and applied the increase of that to administrative expenditures. Overall, an estimate of a 35 percent increase in campaign costs for the four year period from 1981 through 1985 was reached. However, because of the many uncertainties and the potential volatility of prices, the 35 percent was raised 15 percentage points to 50 percent.

Therefore, the Commission concludes that its analysis in its 1982 report remains essentially valid and reiterates its recommendation that the contribution limit be raised 50 percent to $1,200 for the 1985 gubernatorial election.[6] This recommendation continues to be based upon the assumption that any increase is considered along with four other public financing provisions which, in the Commission's view, are inextricably related to the contribution limit. Those provisions are: (a) the qualifying threshold; (b) the matching formula; (c) the limits on public funds to any one candidate; and (d) the expenditure limit. These five provisions are the core of the public financing program. A change in any one of them affects the entire funding formula and can easily have unintended consequences. Therefore, proposals for the contribution limit to be higher or lower than the $1,200 recommended by the Commission may be appropriate when considered in the context of other recommendations addressing the inter-relationships and inter-dependency of the other four components of the program inextricably related to the contribution limit.

In light of its findings here, the Commission also reasserts its recommendations set forth in its 1978 and 1982 reports that the expenditure limit be repealed.[7] The original justifications for a limit -- that it makes the election more fair by equalizing the spending among candidates and that it works to keep the costs of campaigning down -- are not supported by the data gathered for this report. The argument that imposing limits on expenditures equalizes competing candidates and is thus more fair focuses only on the monetary factor in judging equity and ignores other advantages a candidate may have in a campaign, advantages that are not measured in monetary terms. And, although election campaign costs are rising, it is extremely difficult to quantify the change. Considering this, the

Commission finds that although an expenditure limit may keep gubernatorial candidates' total spending down, it does nothing to affect the costs of campaigning and, in fact, may lead to less effectively run campaigns. Therefore, the Commission restates its conclusion that expenditure limits are unnecessary and undesirable so long as the gubernatorial election process includes limits on contributions, limits on loans, limits on a candidate's personal funds and limits on the amount of public funds available to any one candidate.

If as public policy, it is decided that the expenditure limit should be retained, then the Commission recommends that the expenditure limit be increased by at least 50 percent. For the primary, that would be an increase from 35¢ to 52.5¢ per voter and, for the general election, an increase from 70¢ to $1.05 per voter. Assuming 3 million voters in the 1984 presidential election, the limit in the primary would rise from $1,050,000 to $1,575,000 and, in the general election, the limit would rise from $2.1 million to $3,150,000.

Gubernatorial Election Campaign Expenditures

In 1981, the general election candidates spent a majority of their money on broadcast media. The other two expenditure categories on which the two major candidates spent more than 10 percent of their funds were: (1) printing and mailing of campaign literature and (2) administration (including polls, office overhead and expenses, salaries and telephone). The 1981 primary candidates, spent a smaller percentage than the general election candidates on broadcast media time and a larger percentage on printing and mailing of campaign literature and administration.[8]

Comparison of Percent of Expenditures
1981 Primary and General Elections

Expenditure	Primary	General
Broadcast Media Time	41.4	58.0
Advertising Production	7.6	4.6
Newspaper ads and Billboards	2.4	•3
Printing, Mailing of Campaign Literature	17.5	12.7
Administration	31.1	24.4

Source: N. J. Election Law Enforcement Commission, Table 6.1 (General Election) p. 6.7 and Table 6.3a (Primary Election), p. 6.10

From 1973 to 1981, general election candidates increased the communications aspect of their spending, with a decrease in administration expenditures accommodating the shift.

Comparison of Percent of Expenditures-1973 and 1981 General Elections

	1973		1981	
Expenditure	Byrne (D)	Sandman(R)	Florio (D)	Kean (R)
Communication	55.2	51.0	76.0	75.4
Administration	44.7	49.0	24.0	24.6

Source: N. J. Election Law Enforcement Commission, New Jersey Public Financing-1981 Gubernatorial Elections, June 1982, Table 6.1, p. 6.7

The most significant change within the communication expenditures category was the decrease in the percentage of funds spent on newspaper advertisements and billboards. In the 1981 general election, both candidates spent significantly less on these items than either their 1977 or their 1973 counterparts. On the other hand, both candidates in 1981 spent the largest portion of their communication budget on broadcast media time, 74.7 percent for Congressman Florio and 78.7 percent for Governor Kean.

Billboard and Newspaper Ad Expenditures
As A Proportion of Total Communications Spending
1981, 1977 and 1973

	1981		1977		1973
	Florio (D)	Kean (R)	Byrne (D)	Bateman (R)	Byrne (D)
Dollars (000)	$ 5.4	$ 9.4	$ 28.2	$ 171.7	$ 129.8
Percent	.3%	.5%	2.7%	17.0%	16.4%

* (Figures for the 1973 Republican candidate, Congressman Sandman, are not available)

Source: N.J. Election Law Enforcement Commission, New Jersey Public Financing - 1981 Gubernatorial Elections, Table 6.1, p 6.7

In summary, the major changes in campaign spending that occurred between the two gubernatorial general election cycles of 1973 and 1981 were:

- the near demise of the two print media, i.e. newspapers and billboards, as vehicles for communicating the candidates' messages;

- a very large increase in the use of broadcast media (radio and TV) and direct mail, and

- a notable decrease in the percentage of total expenditures devoted to administration.

Cost Increases 1981-1983

The Commission did not attempt to create a "campaign cost index" for two reasons. First, the information on the 1981 disclosure reports was not precise in identifying the purposes for which expenditures were made; many types of expenditures were grouped into fairly broad categories. For example, "administration" included everything that was not a communication expenditure or an expenditure exempt from the expenditure limit (i.e. candidate's travel, food and beverage for fund raising events, election night activities and compliance). Thus, expenditures categorized as "administration" included: polling, office supplies and equipment, staff salaries, office rent, telephone installation and operation, food and beverage not associated with fund raising or with candidate travel, office supplies, a variety of consultants, automobile and other travel related expenses, and record keeping not related to compliance.

Second, the weighting of goods and services, which is necessary for constructing an index, would be extremely difficult because of the difference in the kinds and proportions of goods and services used. These differences are apparent in the three election cycles of 1973, 1977 and 1981. Any index built on the 1973 data would have had a limited relevance to the 1981 experience because of the shift to broadcast media and direct mail and the shift away from print media and administration. Presumably, an index constructed on 1981 data alone would not necessarily be predictive of 1985 campaigning.

However, existing indexes of various product and service costs pertain to this topic. The following discussion of these should provide some insight into campaign cost increases.

McCann-Erickson, Inc. of New York City, has developed indexes of media costs.[8] In the table below, those indexes have been converted into percentages for two time periods, for 1980-83 actual and for 1980-84 which includes an industry estimate for calendar year 1984 based on media specialists' estimates assembled by McCann-Erickson, Inc. The most pertinent types of media to a New Jersey gubernatorial election campaign are: spot TV, spot radio and direct mail. Spot TV and spot radio refer to that programming, including advertising, which originates and is shown locally, be it on a local or a network station. The most important measure is the cost per thousand which reflects the cost of reaching one thousand viewers based on the ratio between unit (total) cost of the advertisement and the size of the audience. As can be seen from the following table, all types of media have had actual increases in their costs per thousand viewers ranging from 26.2 percent to 37.1 percent, and the estimates for 1984 suggest the trend of increases will continue at approximately the same rate. The cost of direct mail, which has increased in the last three years by only 12.8 percent because of stable mailing rates and the increased use of computer technology in this process, is the one exception to this trend.

Media Cost Increases (Percent Change)
1980 through 1983 and 1984 Projected

Media Type	Unit Costs 1980-83	Unit Costs 1980-84	Cost Per Thousand Viewers 1980-83	Cost Per Thousand Viewers 1980-84
Broadcast				
-Network TV	30.5	43.7	33.6	47.1
-Spot TV	34.1	47.8	33.3	48.3
-Network Radio	40.2	52.8	37.1	48.3
-Spot Radio	29.2	39.6	26.2	35.4
Print				
-Newspapers	34.9	45.8	33.6	44.7
-Magazines	29.5	38.3	27.7	36.4
-Outdoor	32.0	44.0	28.8	39.2
-Direct Mail	12.8	12.3	12.8	12.3

(Table Continued on Page 8)

Media Type	Unit Costs 1980-83	Unit Costs 1980-84	Cost Per Thousand Viewers 1980-83	Cost Per Thousand Viewers 1980-84
Composite				
-National	31.7	43.5	32.2	44.2
-Local	34.3	45.5	33.3	44.6
-All	32.8	44.7	33.2	44.9

Based on index comparisons, media costs have risen faster than costs of other products and services. The table below shows that the index for advertising exposures, (total media cost per thousand), converted into a percent, grew faster over the three year 1980-83 period than other indexes of costs, including the Consumer Price Index (CPI). Thus, for at least the first three years between the 1981 and 1985 elections, the cost for local advertising, which would include New Jersey election media advertising, increased faster than prices for national advertising, other goods and services and the increase in hourly earnings.

Three Year Period
Comparison of Cost Increases
of Various Products and Services-1980-83

Product or Service	Percent Increase
National Advertising Exposures	32.2
Local Advertising Exposures	32.3
Consumer Prices (CPI)	20.2
Producer Prices of Farm Products	4.9
Producer Prices of Industrial Commodities	14.6
Hourly Earnings	21.2

Source: McCann-Erickson, Inc., Table IV, "Cost Indexes of Various Products and Services", dated February 1983; data for 1983 from the N. J. Office of Economic Policy, April 23, 1984.

Even though the media command the bulk of campaign expenditures, the rise in costs of other goods and services used in a campaign is also relevant. Rutgers University assembles cost data from the Producer Price Index for goods and services used by the University system, some of which are also employed directly or indirectly in an election campaign.[9] The three year, 1981-1983, cost increases, expressed as percentages, for those goods and services are as follows:

Goods or Service	Percent Increase 1981-83
Food	10.2
Electricity	41.0
Fuel oil	31.5
Paper office supplies	18.4
Unwatermarked bond paper	14.1
Pens and pencils	2.5
Photographic Equipment	7.2
Photographic supplies	23.3
Typewriters	(.8)
Commercial Furniture	22.3

For five other items, cost increase information was assembled for the last two years, 1982-83. Those goods and services and the two year, 1982-83, cost increase expressed as a percent are as follows:

Goods or Service	Percent Increase 1982-83
Private transportation	9.8
Public transportation	25.0
Food away from home	11.8
Lodging out of town	20.7
Local telephone service	21.3

Changes in Campaigning

As noted above, over the eight year period of 1973-1981, gubernatorial candidates changed the mix of goods and services they used in campaigning; they shifted away from newspapers and billboards to direct mail and broadcast media. They also decreased spending on administration in favor of communication. Thus, methods of gubernatorial election campaigning are not static. Furthermore, evidence suggests change in campaign strategies since 1981.

First, is the development of the portable computer and related computer technology and software. A trade journal for those involved in campaigning, Campaigns and Elections, started a special section on computers and elections in 1982 and has had a series of articles on the subject in every subsequent issue. Computers now merge lists of: registered voters, past voting records, census data, survey research information and commercial marketing data. Computers and word processors now do or assist in a number of tasks including: (a) scheduling the candidate, staff and volunteers; (b) targeting districts for telephone and direct mail contact; (c) developing and targeting "get out the vote" efforts; (d) preparing "walking" lists of registered voters for canvassing; (e) dialing telephones for telephone banks having immediate tie-ins with direct mailing of letters after successful telephone contact; (f) maintaining files of volunteers and contributors; (g) maintaining and preparing financial records and disclosure reports; (h) fund raising; (i) analyzing polling results and (j) designing media buying strategies.

The computer and its related technology can add to the costs of a campaign. Consultants who have mastered the computer for campaign purposes may attract higher fees. The computer's ability to handle large amounts of data, for example a variety of lists of names and information, may result in increased labor costs for data entry because some lists have to be adapted to the computer, e.g. lists of registered voters. However, the cost of computer equipment and software has declined in recent years and the portability of computers has added to their efficiency. Furthermore, computers are able to handle vast amounts of data. The result may be a decrease in the per person cost of reaching individual voters via telephone banks and direct mail. Finally, with the increasing automation of a campaign's administrative functions, manpower and financial resources may be allocated to other functions, thereby increasing campaign efficiency and ultimately affecting costs.

Cable TV and home video equipment are other technological changes. Cable TV has been described as the "wild card" in media advertising because there is no unit of measurement resembling a Nielson rating. The decline of the size of the viewing audience for commercial television is clear.[10] Some of that audience may have gone to non-network TV because of the popularity of certain syndicated TV shows shown on these stations; some of that audience may now watch cable; some of that audience may now watch video tapes of movies at home and some of that audience may now seek entertainment with some other medium.

As of October/November 1983, Cable TV had penetrated 28 percent of the New York market, which includes 12 New Jersey counties, and 39 percent of the Philadelphia market, which includes the other nine New Jersey counties.[11] Currently, some New Jersey elected officials use cable TV for a variety of purposes, including "newsletter" type programming. Such regular exposure may foster name-recognition. The impact on campaign media costs as a result can only be inferred.

Cable TV is purported to have two significant advantages over network broadcasting as a campaign tool -- (1) its much lower costs and (2) its ability to divide audiences, which are generally described as better educated, more affluent, younger and more likely to vote than network viewers, into target markets. This permits "narrow casting", i.e. specialized messages sent on different channels enabling candidates to discuss issues in greater depth among voters with particular concerns, further increasing the cost-effectiveness of this approach.

However, some question the utility of cable TV for campaigning purposes, noting that the efficiency of targeting is limited because of the uncertain audience. Furthermore, whether viewers choose to view a political advertisement airing over cable is questionable.

These changes in campaigning make it even more difficult to anticipate what strategies candidates will use in 1985, and compound the uncertainty in estimating campaign costs.

Factors Outside the Political Environment Affecting Campaigning and Costs

The AT&T divestiture has two impacts on campaigns. One is simply an increase in the cost of local intra-state telephone service; as noted above, rates have increased 21.3 percent in a two year, 1982-83, period and are expected to increase more as the long distance subsidy for local rates decreases. The second is that it is no longer possible to arrange telephone banks through one vendor, New Jersey Bell Telephone. Now, the campaign must deal with New Jersey Bell Telephone to have lines brought in and with another vendor for the equipment itself.

The condition of the national and regional economies in 1985 will also affect the cost of advertising and campaigning. One industry analyst [12] noted that 1981 was a poor year for the region's economy; thus, media rates were increasing more slowly and purchasing air time was easier for political candidates. This same person noted that, because the economy is much better than in 1981, it is now much more difficult for local and state candidates to secure air time when they seek it.

Consequently, the relative condition of the economy in 1985 will impact on the ability of New Jersey candidates to secure advertising time and on the cost of the ads.

Factors Within the Political Environment Affecting Campaigning and Costs

Many factors within the political environment affect the costs of gubernatorial campaigns including: (a) whether an incumbent runs for re-election; (b) the number of candidates running in the primary; (c) the personalities of the candidates; (d) the year in which the election is held and (e) the extent and significance of independent expenditures.

The 1985 gubernatorial election may include an incumbent governor as a candidate, someone who presumably has a high level of name recognition. An analysis of 48 gubernatorial campaigns between 1977 and 1980 revealed that campaigns involving incumbents tend to be less expensive than those without an incumbent -- except when the incumbent has been defeated in his own party's primary.[13] The entry of an incumbent into a campaign affects how his or her primary and general election opponents (assuming the incumbent wins his party's nomination) organize and conduct their campaigns. While extensive name recognition and a popular record can decrease an incumbent's need for expensive broadcast media advertising, it can create the opposite effect on his or her opponents.

Another unknown factor is the number of candidates who will enter the primary election for their parties' nomination. In 1981, there were 21 candidates, 13 Democrats and 8 Republicans, on the ballot; those candidates did not include an incumbent governor. With many candidates in a race, they may drive up consultant and media advertising costs simply by virtue of their total demand for such services and air time.

Candidates' personalities and ideologies may influence the cost of campaigning. Exceptional personal magnetism or strongly held positions may elicit volunteers, from envelope stuffers to publicity directors, where paid work is the norm.

The extent to which a gubernatorial candidate has a coattail effect in pulling votes for other candidates running in the same primary or general election, or vice versa, can influence how a gubernatorial election campaign is organized and conducted and how funds are spent for campaigning. A local political organization, in successfully getting out its vote for local candidates, may significantly aid a gubernatorial candidate, thus decreasing the amount that candidate has to spend in that local area.

New Jersey conducts its gubernatorial election in an off-year when there are no national elections and only Virginia and New York City are conducting major elections. In such an off-year, political consultants are more available to New Jersey gubernatorial candidates. Consultants may lower their fees and commissions. More critically, the New Jersey candidates have increased opportunities to retain more prominent and presumably more savvy consultant help.

Another factor to be considered is whether organizations will enter the campaign independent of a gubernatorial candidate's campaign committee to support or oppose a candidate. This phenomenon of "independent expenditures" was widespread in the 1980 presidential election as well as in some U. S. senatorial and congressional elections, and may be present in the 1985 New Jersey gubernatorial election. Among the factors that may cause their appearance would be an overly restrictive spending limit or other constraints which would underfund a campaign.

The significance and often the very existence of these influences is uncertain. However, they pertain to the analysis of increasing campaign costs insofar as they undercut the degree of certainty about the estimated increase in the costs of gubernatorial election campaigning.

Estimate of Increase to 1985

The Commission estimates that the increase in the costs of gubernatorial election campaigning between the last gubernatorial election year, 1981, and the next gubernatorial election year, 1985, will be 35 percent.

In arriving at this percentage increase for the four year period of 1981-1985, the following assumptions were made:

Assumption #1: The mix of communication expenditures and non-communication expenditures in the 1985 gubernatorial primary and general elections will be as it was in 1981; thus, 70.5 percent of all expenditures will be for communication (media time, advertising production, newspaper ads, billboards and printing and mailing of campaign literature) and 29.5 percent of all expenditures will be non-communication expenditures (all administration, food and beverage for fund raising, candidate's travel, election night activities, and expenditures by political party committees in the general election).

Assumption #2: The projected four year, 1981 through 1985, increase in media costs will be 40.4 percent made up of three components: (a) the actual increase from 1981-1983; (b) the industry's projected increase for 1984 and, (c) the average of the total change 1981-1984, to provide a projection for the increase into 1985. This percent of 40.4 was then applied to the 70.5 percent, representing all media expenditures in the 1981 primary and general elections, to arrive at a proportional percentage increase of 28.5 percent for the four year period from 1981 through 1985.

Assumption #3: The increase in non-media costs in 1984 and in 1985 will be 4.8 percent and 5.5 percent, respectively, based on the Chase Econometrics' most recently published projection estimate for the Consumer Price Index.[14] Thus, the 1982 and 1983 CPI inflation rates of 6.3 percent and 3.2 percent, respectively, were added to the two year rates as projected by Chase Econometrics to arrive at a total percentage increase for consumer prices from 1981 through 1985 of 19.8 percent. This percent was then applied to the 29.5 percent of all non-communication expenditures in the 1981 primary and general elections to arrive at a proportional percentage increase of 5.8 percent for the four year period from 1981 through 1985.

The final estimate of 35 percent was reached simply by adding the two proportional percentages of 28.5 percent and 5.8 percent to arrive at a total of 34.3 percent, rounded upward to 35 percent. Obviously, this estimate of a 35 percent increase is built on explicit and implicit assumptions that are problematic, such as the assumption that the expenditures for the 1985 elections will be apportioned between communication and non-communication expenditures in the same manner as the 1981 gubernatorial primary and general elections. Furthermore, the bases for the estimate include no allowances for: (a) changes in the quality of goods and services used in gubernatorial election campaigning; (b) changes in the ways campaigning might be conducted in 1985; (c) factors external to the political environment; or (d) factors within the political environment. In light of the incompleteness of data, the extreme difficulty, even for economic experts, in projecting inflation rates for any period of time, and the great difficulty in quantifying many of the factors influencing costs and the ways in which campaigns may be run, the Commission believes that its estimate of a 35 percent increase in the cost of gubernatorial election campaigning for the four year period of 1981 through 1985 is reasonable.

The Commission believes that neither the contribution limit nor the expenditure limit, if it is retained, should be set at a figure which is so low that it will seriously impair a gubernatorial candidate from raising sufficient funds to conduct an effective campaign or from spending sufficient funds to communicate effectively with the electorate. Therefore, the Commission concludes that it is preferable to err on the side of caution and recommends that the estimate be increased by 15 percentage points to 50 percent.

Recommendations

The purpose of this report is to analyze costs of election campaigning in New Jersey and to recommend alterations, if any, in the contribution limit of $800 and the expenditure limit of 35¢, per voter in the presidential election for the primary election and 70¢ per voter in the presidential election for the general election ($1,050,000 and $2, 100,000, respectively, assuming 3 million voters in the presidential election).

The Commission has estimated that costs of election campaigning will increase 35 percent for the four year period 1981 through 1985. However, because of the many uncertainties associated with estimating inflation and the many factors which may affect campaign costs and strategies but cannot be quantified, the Commission believes that the estimate should be increased 15 percentage points to 50 percent.

Recommendation #1: The Contribution Limit Should be Raised to $1,200

The Commission concludes that its analysis in its 1982 report remains essentially valid and recommends that the contribution limit be raised. Additionally, the Commission concludes that its previous recommendation to raise the limit 50 percent from $800 to $1,200 for the 1985 gubernatorial election remains valid.[15] As the Commission stressed in its 1982 report, the issue of the contribution limit must be considered at the same time with four other public financing provisions, namely: (a) the qualifying threshold; (b) the matching formula; (c) the limit on public funds to any one candidate; and (d) the expenditure limit. A change in any one of these five provisions affects the entire funding formula and can easily have unintended consequences. Therefore, proposals to raise the contribution limit more or less than the $1,200 recommended by the Commission may be appropriate when considered in the context of other recommendations addressing the inter-relationships and inter-dependency of the four other components of the program inextricably related to the contribution limit.

Recommendation #2: The Expenditure Limitation Should Be Repealed

In light of its findings here, the Commission reasserts its position of its 1982 report that the expenditure limit be repealed. The original justifications for a limit -- that it makes the election more fair by equalizing the spending among candidates and that it works to keep the costs of campaigning down -- are not supported by the data gathered for this report. Although election campaign costs are rising, it is extremely difficult to quantify the change. Considering this, the Commission finds that although an expenditure limit may keep gubernatorial candidates' total spending down, it does nothing to affect the costs of campaigning and, in fact, may lead to less effectively run campaigns. Therefore, the Commission reaches the same conclusion as it did in its 1978 report and its 1982 report, i.e. that expenditure limits are unnecessary and undesirable so long as the gubernatorial election process includes limits on contributions, limits on loans, limits on a candidate's personal funds and limits on the amount of public funds available to any one candidate.[16]

The two principal arguments presented in support of expenditure limits are: (1) expenditure limits make the election more fair because no candidate can spend more than another candidate; and (2) the costs of campaigning are too high and need to be restrained by the State through expenditure limits.

The argument that imposing limits on expenditures equalizes competing candidates and is thus more fair focuses only on the monetary factor in judging equity and ignores other advantages a candidate may have in a campaign, advantages that are not measured in monetary terms. For example, an incumbent governor or other person with high public recognition has substantial name recognition among the electorate garnered from previous elections and from his or her general newsworthiness. In this setting, it could be argued, a challenger needs more money to overcome the name recognition advantage of an incumbent. Another example is the candidate who can draw on substantial volunteer resources to staff telephone banks, canvass voters and stuff envelopes. Certain organizations are better able than others to mobilize such volunteers without engendering costs that would be included within an expenditure limit. An opponent of candidates supported by such organizations, it is argued, may well need additional funds to meet or overcome the advantage provided by substantial volunteer efforts.

Fairness can be measured in many ways. One is to measure actual out-of-pocket expenditures and impose an expenditure limit. However, if other factors are considered, such as the usual advantages of incumbency, the advantages of support from large volunteer organizations, the coattail support from national or other state officials or candidates and the organizational support from well organized political party committees in particular counties, then equity or fairness cannot be measured solely on the basis of expenditures made by the gubernatorial candidate's campaign committee. In this context, expenditure limits may themselves be unfair.

The second argument is that campaigns cost too much and that imposing an expenditure limit is one way to keep costs down. First, the expenditure limit has no impact whatsoever on the amount of public funds given in total or to any one candidate; public funds are limited by the matching formula and the cap on public funds to any one candidate. Concerning overall campaign costs, some observers counter by arguing that not enough money is spent on politics and elections in the United States, especially when political advertisements must compete with commercial advertising. Furthermore, the argument that imposing an expenditure limit is a good way to keep campaign costs down is countered by the fact that, in the New Jersey system, there are already severe restraints on receipts going into a campaign. Specifically, the State imposes a contribution limit, which was $600 in 1977, and $800 in 1981. As some observers have pointed out, within the total universe of potential contributions, only a small percentage contribute at all and a much smaller percentage contribute the maximum. Other limitations on receipts to a publicly funded candidate include the $25,000 limit on candidate's personal funds that he or she may contribute, a $50,000 limit on bank loans and the requirement that the bank loan be repaid 20 days before the election and the limit on the amount of public funds to be given to any single candidate. Thus, the only way a candidate can increase his or her receipts is by convincing more contributors to contribute more money up to the permitted maximum. Without those increased receipts, a candidate simply cannot spend more money. A candidate's ability to generate more contributions, is, in the judgment of the Commission, one important reflection of the candidate's support among the electorate and the State should not discourage that type of participation in the electoral process by imposing an arbitrary expenditure limit. The experience in the 1981 general election is instructive: both major candidates, Congressman Florio and Governor Kean, refunded money to contributors the week before the election because the expenditure limit made it impossible for the candidates to spend the money. While many of those funds may have found their way to the two state political party committees, the Commission finds that it is a questionable public policy which compels gubernatorial candidates to refund contributions to a contributor.

An expenditure limit does not affect the cost of campaigning. It only limits the amount that can be spent.

The application of the expenditure limit in the 1977 general election led to controversies in October of that year over the issue of joint expenditures between the state political party committees and the gubernatorial campaigns. Both Governor Byrne and Senator Bateman were quickly approaching the expenditure limit at the time the controversies emerged. When the Commission allocated costs between the state political parties and the gubernatorial candidates, and the courts subsequently supported the Commission's decisions, both campaigns were compelled to reimburse their respective political party committees and were unable to make other planned expenditures during the week before the election.

Between the two candidates, Governor Byrne and Senator Bateman, the latter was more seriously hurt by the reallocation because his campaign committee had to shift more than $70,000 from planned expenditures to the Republican State Committee shortly before the election.

In 1977, as the public support for the candidates shifted toward Governor Byrne, Senator Bateman, solely because of the expenditure limit, was unable to react and mount an alternative campaign to counteract the growth of support for Governor Byrne. Even if Senator Bateman had been able to raise additional contributions, he could not have spent the money on new ads or other campaigning because of the restraint imposed by state law.

In the 1981 primary, no comparable problems developed. However, in the 1981 general election, similar problems did emerge, although they were not as serious as those in 1977. Issues of allocating costs between the state political party committees and the gubernatorial candidates were eased somewhat by the Commission's issuance, in July 1981, of Advisory Opinion No. 33-81, which provided guidelines on potential allocation questions. Nevertheless, the Commission still had to deal with individual cases of allocation. For example, the Commission increased the allocation to Governor Kean's campaign of the costs associated with a visit to the state by Vice President George Bush and of the costs associated with fund raising letters signed by President Reagan and Vice President Bush. Both of these cases came up early enough in the campaign and the additional costs to the Kean campaign were not excessive and were easily absorbed. The Commission also had to decide what percentage of the costs for a flyer prepared by candidates for the Senate and Assembly would have to be allocated to the Democratic gubernatorial candidate, Congressman Florio, solely because his name was listed, along with three freeholder candidates and one sheriff candidate, on the back of the flyer. The Commission had to decide what percentage of the costs for a dinner and a rally, held by the Hudson County Democratic Dinner Committee for Hudson County candidates and for Congressman Florio, had to be allocated to the Congressman because he and a key campaign official attended. In another set of cases, the Commission, in response to a formal complaint filed by the Republican State Committee, reviewed all of the telephone bank expenditures made by the Democratic State Committee and the method by which a portion of those costs was allocated to Congressman Florio. The resolution of that case required two special meetings of the Commission the week before the election and diverted the attention of the finance directors and legal counsels for the Florio campaign and Democratic State Committee. Potentially more serious were the cases of "independent expenditures" which came before the Commission immediately before and after the election. The Commission, through its review of reports filed by other entities and through other sources, such as newspaper articles, identified 18 cases where allocations were made or possibly should have been made to Congressman Florio or Governor Kean, but where those costs were not reflected in the gubernatorial candidates' reports. An "independent expenditure" is defined by Commission regulations:

> ...an expenditure in aid of a candidate which is not made with the cooperation or prior consent of, or in consultation with or at the request or suggestion of, the candidate or any person or committee acting on behalf of the candidate. N.J.A.C. 19:25-15.28 and 19:25-16.29

In all of these cases, the dollar amounts were not large; the largest was $14,600 and most of the others were in the low hundreds or low thousands of dollars.

The significance of all these cases arises solely from the expenditure limit. The cases would have limited impact and limited importance if there were no expenditure limit. So long as an expenditure limit exists, there will be an illusion of a limit while "independent expenditures" grow to be a large factor outside that limit in future gubernatorial campaigns. This is exactly what has happened at the national level where the expenditures of the presidential candidates have been restrained on one hand, but committees organized independent of presidential candidates successfully raised relatively large sums to be spent on behalf of the presidential candidates. Thus, while the law dictates an expenditure limit, in reality the expenditure limit is illusory at the national level because of the growth of "independent expenditures." The Commission concludes that this problem can and should be forestalled, if not completely avoided, in New Jersey by repealing the expenditure limit provision entirely.

Another compelling reason for the elimination of the expenditure limit on gubernatorial candidates is that the expenditure limit causes the gubernatorial candidates to divorce their campaigns from their respective state committees and from their parties' legislative and local candidates. Local and legislative candidates are constrained from using the gubernatorial candidate's name or campaigning jointly. If they do so, a portion of the costs for advertising, billboards or other similar expenditures must be allocated to the gubernatorial candidate who may not be able to absorb the cost solely because of the expenditure limit. In the Commission's judgment, this leads to an unnecessary and undesirable separation between the gubernatorial candidate and his or her legislative and local running mates.

In conclusion, as it did in 1978 and in 1982, the Commission again finds expenditure limits to be unnecessary and undesirable so long as the gubernatorial election process includes limits on contributions, limits on loans, limits on a candidate's personal funds, and limits on the amount of public funds available to any candidate.

However, if it is decided, as public policy, that the expenditure limit be retained, then the Commission recommends that the limit be increased by the same 50 percent. The increase in cents per voter and estimated expenditure limit in dollars would be:

	Cents/Voter		Estimated Expenditure Limit*	
Election	1981	1985	1981	1985
Primary	35¢	52.5¢	$1,050,000	$1,575,000
General	70¢	$1.05	$2,100,000	$3,150,000

*Assumes 3 million voters in 1980 and 1984 presidential elections.

End Notes

1) McCann-Erickson, Inc., 485 Lexington Avenue, New York, N. Y. 10017, Table I, "Media Unit Cost indexes", revised December 1983.

2) H. Karl Neidlein, Table I, "Inflationary Trends 1984/85-Non-Salary Object Codes," Office of Budget and Resource Studies, Rutgers, the State University, published March 1983. Updated in telephone conversation April 18, 1984.

3) Marketing and Media Decisions, Fall 1982 Special, p. 26; Fall 1983 Special, p. 28.

4) William C. Paley and Shelly Moffett, "The New Electronic Media-Instant Action and Reaction", Campaigns & Elections Vol. 4 No. 4 (Winter 1984), p. 9.

5) Chase Econometrics, 150 Monument Road, Bala Cynwyd, Pa. 19004, "U. S. Macroeconomic Forecasts and Analysis", March 1984, Estimate for 1984 -- 4.8 percent; estimate for 1985 -- 5.5 percent.

In addition, two other sources were reviewed. First was Wharton Econometrics Forecasting Associates, Inc. 3624 Science Center, Philadelphia, Pa. 19104, "Quarterly Model Outlook" April 1984. Estimate for 1984 -- 4.7 percent; estimate for 1985 -- 5.6 percent. Second was Manufacturers Hanover Trust, Bank Window, Church Street Station, New York, N. Y. 10105. "Economic Report", February 1984. Estimate for 1984 -- 4.4 percent; estimate for 1985 -- no entry.

Both Chase Econometrics and Wharton Econometrics Forecasting Associates, Inc. are within .1 percentage point of each other in their CPI estimates for 1984 and 1985. Manufacturers Hanover Trust's 1984 estimate was the lowest but there was no estimate for 1985. Chase Econometrics' estimates are used by the New Jersey Office of Economic Policy and were used for this report.

6) New Jersey Election Law Enforcement Commission, New Jersey Public Financing - 1981 Gubernatorial Elections: Conclusions and Recommendations (June 1982), pp. 11-14 and pp. 1.1-1.7. The Commission is aware of legislation addressing this topic. This report is not intended to evaluate the effectiveness of those proposals.

7) New Jersey Election Law Enforcement Commission, pp. 21-24 and pp. 4.1-4.10.

8) McCann-Erickson, Inc. Table I and Table III, "Media Cost-Per-Thousand Indexes," revised December 1983.

9) H. Karl Neidlein.

10) Marketing & Media Decisions, Fall 1982 Special and Fall 1983 Special.

11) Paley and Moffett, p. 9.

12) Telephone interview with Rodney Nebocat of McCann-Erickson, Inc. on April 17, 1984.

13) Thad L. Beyle, University of North Carolina, Chapel Hill, <u>State Government</u>, summer 1983.

14) Chase Econometrics (see end note 5).

15) New Jersey Election Law Enforcement Commission, pp. 11-14 and pp. 1.1-1.7.

16) New Jersey Election Law Enforcement Commission, pp. 21-24 and pp. 1.1-1.7.

Acknowledgement

Two interns, Jean Richmond and Selene Ballonoff ably provided important research and editorial assistance in the preparation of this report. Celia Minich was the principal support staff in typing the report.