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RUNNING HEAD: CAMPAIGN FINANCE IN THE US AND THE UK

The Internet and Campaign Finance in the US and the UK: An Institutional Comparison

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Abstract

While much literature on the Internet has drawn heavily on the ideas of normalization or optimism, this article seeks to define a more complex relationship between existing political institutions and new technology. With reference to the development of campaign finance strategies in the US and the UK, it will aim to show that existing political circumstances and technology share a dialectic relationship when it comes to generating outcomes. The success of online fundraising in the US is certainly reforming political life, but is the product of long-standing arrangements and beliefs which have catalyzed its impact. In contrast, in the United Kingdom institutional arrangements have retarded the potential of the Web in this area.

Keywords: campaigns, elections, fundraising, online politics, United Kingdom, United States

The analysis of any new technological phenomena invariably raises the question of ontological primacy, and in particular the distinction between technological and sociological determinism. The development of the Internet and the ramifications it has for political competition are no exception to this rule. Two distinct camps – the "optimists" and the "normalisers" – have emerged as the contemporary standard bearers for technological and sociological determinism respectively. The optimists focus on the technological attributes of the Internet, in particular how it lowers barriers to participation and democratizes both access to information and the means of creating it. They assume that the characteristics of the Internet will lead to a reformation in political activity, sidelining existing elites and empowering those who are currently excluded from civic life (Morris, 1999; Rushkoff, 2003; Trippi, 2004). In contrast, normalisers argue that the Internet will not herald a major rearrangement of power and opportunity away from existing political elites. Instead they claim those who currently control political life will be able to use their offline strengths to dominate the online world too (Margolis & Resnick, 2000; Norris, 2003; Resnick, 1998). Essentially the normalisers reverse the relationship that optimists perceive. The optimists believe that more equalitarian power structures will be created online and then come to impact offline politics. In contrast normalisers argue that, no matter what characteristics the Internet has, they will be subsumed into offline social and power arrangements.

However, many studies have observed that the realities of online politics do not fit neatly into either the optimistic or the normalizing worldview (Gibson et al., 2005; Livingstone et al., 2005; Lusoli & Ward, 2005). These authors' findings point to a more nuanced reality and a far more complex relationship between new communication technology and the offline world. It seems far more likely that the development of Internet politics is being fuelled by a dialectic relationship, as both new technological affordances, and existing social and institutional arrangements mesh together to form unique and what must, by definition, be society specific outcomes (Anstead & Chadwick, 2008 - forthcoming). In short, the Internet certainly has the capability to change political life. However, it cannot escape the circumstances in which it is deployed, which can either catalyze or retard its potential.

The aim of this article will be to attempt to understand this relationship in the context of a specific example – the use of the Internet as a tool for political fundraising. In order to do this, it will focus on two countries where the Internet has had a hugely differing level of impact, the United States and the United Kingdom, and seek to explain how the specific historical, institutional and regulatory attributes of each political system have led to such distinct outcomes, as well as assessing the changes that the Internet is driving. With this approach it will be possible to arrive at a truer understanding of the technological-societal dialectic.

Fundraising Online in the US and the UK

In the United States, the impact of Internet fundraising has been one of the major political changes in recent years, and would seem to support the view that the Internet is capable of having a revolutionary impact. With reference to the American experience, we can observe at least four clear developments which the net is driving. Firstly, the Internet has played a significant role during a period of time when the total sums of money expended in American politics have increased hugely. It has been argued, for example, that the 2008 presidential election will become the first billion dollar contest (Malbin & Cain, 2007: 4). This sum would be more than double the totals contributed to candidates in 2004, and three times the amount raised in 2000 (Campaign Finance Institute, 2008). Secondly, the new technology seems to have re-balanced political competition, aiding those who might be termed “outsider” candidates during primary competitions, at the expense of more established figures. Examples of this pattern include John McCain’s efforts in 2000, Howard Dean’s run in 2004, and Barack Obama and Ron Paul’s successes in 2008 (Bosman, 2007; Dodson & Hammersley, 2003; Klotz, 2004; Schouten, 2006; Spark-Smith, 2007; Trippi, 2004). Thirdly, the Internet is re-structuring the financial relationships between the parties. At least in recent history, the Democrats have been at a financial disadvantage against their Republican opponents. This was never more the case than during the 2000 election, when George W. Bush was nearly able to outspend Al Gore twice over. However, in 2004, John Kerry came close to achieving financial parity with Bush, largely thanks to his prowess as an Internet fundraiser (Dwyer et al., 2004). Fourthly, the Internet seems to be reshaping where political money is coming from. It has been claimed that, in the past, candidates and parties have tended to rely on large donations from a very small number of wealthy givers. The development of the Internet, it is argued, has created a form of “small dollar democracy”, where vast numbers of contributors, each donating comparatively small sums of money, can wield huge influence (Bonin, 2007; Graf et al., 2006; Helman, 2007; Trippi, 2004).

These observations raise a whole host of research questions about the impact that the Internet is having on American political life, such as whether the financial arms race will continue into future election cycles; if party elites will be washed away by the continuing success of outsider candidates; and why do the Democrats seem to have an advantage online? However, one point is close to unarguable – the fundraising potential of the Internet is having a profound impact on American political life.

In contrast, it is almost impossible to find comparable examples of the Internet being a significant fundraising tool in the United Kingdom (Jackson, 2006: 158). One example that stands out, if only because it is relatively unique, are a series of emails sent by Labour-supporting journalist and author John O'Farrell during the course of the 2005 general election. Within a few hours these had raised some £50,000. Over the next few days, the appeal went on to generate a total of £110,000 (O'Farrell, 2007). However, in the general scheme of an election where the party spent £17 million, the money raised by O'Farrell through his online donations drive was relatively minimal. Furthermore, it was not a strategy which other parties aimed to emulate over the course of the campaign (Jackson, 2006: 175)

This is not to suggest that British parties have neglected the fundraising potential of the Web altogether. All the major British parties, as well as a large number of the minor ones, do currently have donate buttons on their national Web site (Jackson, 2006: 169). However, the relatively weak design of the sites, which have a tendency to be garish and unenticing (Nielson, 2008), and the low emphasis placed on fundraising, at least in comparison with the US, is indicative of an activity that is not central to parties' Web strategies and where little success has been achieved. It is certainly the case that online fundraising in the UK has generated far less popular interest than it has in the US.

It cannot be argued that the lack of donations to political parties and candidates from British citizens is part of a wider mistrust of financial transactions online. In the UK, 60 per cent of people have engaged in some form of e-commerce (Office of National Statistics, 2006), lagging only slightly behind the 66 per cent of Americans who shop online (Horrigan, 2008). Although consumer and political financial transactions are not directly analogous, there are some parallels. After all, many of the advantages of the Internet that make it perfect for commerce – ease of use, convenience, rapidity of transaction, and the potential for low overheads – also make it ideally suited for political fundraising. For this reason, it is surprising that British politicians have made no headway in emulating their American counterparts. Furthermore, this difference between the British and the American experience cannot be explained through divergent levels of Internet adoption. In 2006, 69 out of every hundred Americans used the Internet, in comparison with 56 per cent of people in the United Kingdom (ITU, 2006). While these figures do show a digital divide between the two countries, it is also worth noting that the Internet was having a significant impact on political fundraising in the US before it achieved these levels of penetration. In 2003, for example, at exactly the point when Howard Dean was successfully using the Internet to fuel his candidacy for the Democratic nomination, 56 per cent of Americans were online – a figure identical to current British connectivity (ITU, 2003).

The British experience suggests that it would be wrong to see the Internet as inherently linked to either colossal fundraising or small dollar democracy. This is one area of political life therefore where we are unlikely to find a process of Americanization occurring (Kavanagh, 1995). What seems more appropriate is to note that the technological affordances of the Internet, when coupled with certain aspects of the American political system, have demonstrated the potential to create very dramatic outcomes. In contrast, it seems that the environment in which British financial politics occurs is preventing the same technology having a comparable effect.

Explaining the Differences

Attempting to explain the differing impact the Internet has had on fundraising in the US and the UK requires us to adopt a two part explanatory structure. First order explanations are to be found in foundational elements of the political systems in the two countries – essentially the realm of political ideas and long-standing institutional norms. These explanations are vital, as they frame the ideals and desires of both the political classes and citizens. As a result, they also play a huge role in constructing the narrative through which political events and developments are understood. Second order explanations fall into the arena we might term regulatory and legislative. Institutions have the potential to act as both catalysts and barriers, and thus influence the strategies that political actors adopt to achieve their goals.

Foundational Explanations

American and British politics, despite similarities and much-shared heritage, clearly contain many differing traditions. In the case of the US, two particular foundational circumstances have undoubtedly been essential to fuelling the development of online fundraising in the form in which it has occurred – civic volunteerism and progressivism.

Civic volunteerism, defined as willingness to engage in active citizenship through offering time and support for causes and organizations, has been central to American life since the early years of the Republic, as de Tocqueville and Bryce both noted (Bryce, 1888; Tocqueville, 1988). More recent studies have argued that Americans continue to have a higher propensity to be civically involved than their counterparts in other countries (Almond & Verba, 1963; Curtis et al., 1992). In the context of campaign finance, the American tradition of civic volunteerism is distinct from either the British tradition of the mass membership party or the European approach of state funding (Fisher & Clift, 2004: 683; Linton, 1994: chapter 3), instead being based on the idea of contributing to the civic good. This leads to a very high proportion of Americans giving money during election cycles, at least in comparison with those in other countries (Sorauf, 1992: 1). This tradition of supporting candidates and parties with donations demarks one of the most distinctive elements of the American campaign finance system, and has been essential to the relationship that has developed between Internet technology and political finance.

Forged at the beginning of the twentieth century, the American progressive tradition has also played a vital role in shaping the environment in which online fundraising has occurred. The concept of progressivism is notoriously hard to define, with it even being debated whether it is possible to talk about a progressive ideology or era. This is due to the various, and occasionally contradictory, ideas the tradition drew upon (Filene, 1970). However, progressivism can be defined with reference to two concepts, which continue to reverberate in American politics. Firstly, its adherence to political optimism based on a belief in the power of activism (Hofstadter, 1955). Secondly, progressives argued that there were inherent dangers when elites controlled large concentrations of wealth and power. To realize their goals therefore, progressives sought to devolve political power directly to citizens, through institutions such as the direct primary and the recall election, which gave the populace far greater control over office holders (Milkis & Mileur, 1999: 6-8). These twin pillars of progressivism have become recurring elements in American politics, especially at times when the political classes have been mistrusted. Most notably, this occurred in the post-Vietnam period, when the role of the direct primary was hugely expanded in an effort to give the electorate a far greater impact on political outcomes (Finer, 1984). The rise of Internet politics, and in particular the development of online fundraising strategies, can clearly be seen to fit into this tradition. Two aspects of Internet fundraising standout as having especial significance when viewed through the progressive prism.

Firstly, activism seems to play a central element in online fundraising. Speaking at a seminar in February 2004 former Dean campaign manager Zaphyr Teachout argued the involvement of activists had played a vital role in Dean's success in generating income online (Malbin et al., 2004). This argument was also later made by Republican political consultant Patrick Ruffini, who, citing the example of Howard Dean and Ron Paul's campaigns, claimed that the most effective Internet fundraising occurs when candidates are surrounded by "vibrant grassroots ecosystems", especially when these networks are based on blogs and many-to-many communication (Ruffini, 2007).

Ruffini's argument leads us to a second similarity between modern Internet fundraising and progressive ideology – a widespread belief that the Internet is removing power from old monied elites who have dominated political finance by virtue of their wealth. This change is most evidenced in the idea of "small dollar democracy" (Bonin, 2007; Graf et al., 2006). Howard Dean's campaign in particular was noted for the very large number of donations it received of less than $200 (the largest amount that doesn't have to be individually itemized to the Federal Election Commission). The historical context and tradition of progressivism offers an explanation as to why people believe that such a development would be healthy for American democracy.

The central point to understand here is that in recent electoral contests, and especially those that have occurred since 2004, the Internet and its ability to help candidates raise financial contributions has become more than a convenient mechanism for quickly and efficiently raising revenue to compete with opponents. Additionally, the role played by the Internet has been assimilated into the much wider traditions of civic volunteerism and progressivism within American politics.

In contrast, in Britain at the beginning of the twentieth century, when American progressivism was at its zenith, alternative political principles were being developed and enshrined which were to have an equally long-standing impact and continue to influence modern fundraising strategies. In particular, the foundation and early development of the Labour Party embodied two particular ideals that were to have lasting ramifications on the British political landscape – the desirability of a role of trade unions in political life and a preference for mass membership parties. These arrangements offer an alternative to the more volunteer-orientated, donation-driven model of American campaign finance.

The Labour Party was founded for the purpose of achieving working class representation in the House of Commons and the majority of the impetus for its creation came from the trade union movement, with the aid of a number of socialist societies (Garner & Kelly, 1998). At its foundation, the party sought to mobilize the financial muscle of the working classes, through the unions, in order to give it the ability to compete with older, cadre-style parties. However, in order for the potential of the union link to be realized, Labour first had to overcome a serious legal challenge. This occurred in 1909, when the House of Lords ruled that a railway porter, Walter Victor Osborne, should not be compelled to support the party simply because he was a member of an affiliate, the Amalgamated Society of Railway Workers. The implications for Labour were huge, having the potential to strangle it at birth. It was only in 1913, when the Liberal government passed the Trade Unions Act, that a compromise was reached. The Labour Party would be free to continue receive trade union donations. However, unions would have to stage a ballot among their membership in order to gain permission to donate to a political party (Klarman, 1989; Pelling, 1982).

The rules created by these political skirmishes in the early twentieth century have largely remained in place to the present day, with one major amendment, which insisted that unions ballot their membership on political contributions every decade, being passed in 1984 (Towers, 1989). The defeat of the arguments contained in the Osborne Judgment and the passing of the 1913 Act successfully enshrined a central element of the British campaign finance system. It did much to shape the nature of the trade union link and encouraged Labour to adopt a strongly collectivist approach to political organization, certainly in comparison with the then dominant Liberal party (Klarman, 1989: 895 and 899). Instead of donations positively being given by individuals, trade unions gave block grants to Labour from their political funds. The defining characteristic of the attitude many union members held to political donations was, in reality, apathy (Klarman, 1989: 913-914).

Additionally, the 1913 Act and the rise of the Labour Party defined the modern party system and drew the financial battle lines of twentieth century British politics, forcing the Conservatives to rely increasingly on support from the business community to fulfill their financial needs and counterbalance the resources Labour received from unions. Through successfully employing these methods, they were able to compete with and even outstrip the financial capabilities of Labour (Pinto-Duschinsky, 1981: chapters 4 and 5). The respective sources of support for the two major parties also bolstered the ideological conflict between them, with Labour seen as being dominated by the unions and the Conservatives argued to be under the control of a business elite. Through political competition then, the involvement of organized labor and business in British political life became a firmly established practice. The real losers in this new arrangement, which continued for much of the twentieth century and, to a great extent, still continues, were the Liberals and their successor parties. Lacking institutional support, they rapidly became the poor relations of British politics (Pinto-Duschinsky, 1981: chapter 7).

The second great engine of political finance established by both the left and right in the early twentieth century was the mass-membership party. This model of political organization had profound implications for the way parties were funded and, as importantly, how it was believed they should be funded. An inherent element of the structure of the mass membership party is the subscription, which offers an alternative to donations. This financial arrangement could be considered a more significant relationship between organization and supporter than is created by a simple donations system (Duverger, 1964). A subscription demonstrates a much more permanent affiliation between giver and receiver, as well as implying a greater level of commitment to the ideology of the party or the class whose interests it articulates. In return, subscribers can expect to reap the full benefits of membership, whether they are solidary, purposive or ideological (Ware, 1996: 69-71).

In common with other western countries in which parties have formal structures for subscription, British parties have, in recent decades, suffered a dramatic decline in membership (Dalton & Wattenberg, 2000; Webb, 2000). However, subscribers are still used to raise substantial sums of money. In 2005, for example, Labour was able to draw £3.5 million from its membership, which amounted to a significant proportion of the £17 million of electoral expenses the party incurred in the same year (Electoral Commission, 2006).

This reliance on the century old model of the membership party has at least two impacts on British parties and their potential as online fundraisers. Firstly, by creating a more permanent relationship with their supporters, British parties are also effectively erecting a barrier to political donations, as it makes it highly unlikely that non-members will give (Jackson, 2006: 164). Secondly, the guarantee of significant – if declining – sums from the party membership offers an alternative revenue stream to donated monies. As a result, it is hardly surprising that much of the online work done by British parties has focused not on reaching out to new donors, but on engaging with their existing membership (Gibson et al., 2005). This relationship and its solidity is especially important, as membership-based parties require far more permanent organizational arrangements, which have to be paid for throughout the duration of a parliament. This need has historically differentiated British parties from their election-focused American counterparts, and goes some way to explaining the persisting desirability of a membership-base, as it offers a constant stream of revenue which is less likely to fluctuate.

Although they shared common concerns about political finance (most notably the power of elite and moneyed interests), the ideologies that developed in the US and the UK in response to these worries at the start of the twentieth century were distinct. In the US, the long-standing tradition of civic volunteerism, coupled with progressive ideas sought to bypass the power of political and economic elites. In contrast, in the UK, collectivism and unified class action was designated the most effective response, evident both in the trade union link and mass membership parties. However, a necessary by-product of these ideas (and the successful responses to them by the Conservative Party) was the development of political arrangements that downplayed the role of the individual in political life. This was to have huge ramifications into the present day, as these foundational circumstances have created a form of path dependency, leading to contemporary outcomes (Fisher & Clift, 2004: 680). Ultimately, then, they play a huge role in the nature and success of online fundraising across differing societies.

Regulatory and Legislative Explanations

Historically, on both sides of the Atlantic, regulation and the passing of legislation on campaign finance has proved a particularly fraught and controversial area of discussion, with campaign finance reform a notoriously difficult area to legislate in. This should not surprise us; after all, campaign finance is an area of civic activity that is regulated by the very same people whose livelihoods and ambitions are to be most impacted by it – namely, office-seeking politicians. This has, at various times during American and British history, led to periods where campaign finance has been hotly debated, but little action has been taken, with deadlock being the only outcome. It is no coincidence that when reforms have been implemented, it has followed events that have shaken the public's confidence in the political classes.

The Development of the Campaign Finance Regulation in the US

One important consequence of the progressive tradition in American politics was a desire to legislate on campaign finance issues by those with a reformist agenda, among whom there was a belief that the problems of campaign finance could be solved through regulatory mechanisms. For this reason, campaign finance was a much more significant legislative issue in the US than it ever was in the UK.

The progressive era.

Genuine attempts to offer root and branch reform of the campaign finance system can be traced to the beginning of the twentieth century. Although the progressive agenda in this area was not implemented in full, the legislation that it instigated would be the basis for campaign regulation in the United States until the early seventies. Additionally, the ideas advocated by the progressives would have an impact into the present and play a significant role in framing all future debates on campaign finance.

This period saw a hugely significant principle enshrined in legislation, which was to have a vast long-term significance and set the American system apart from the model adopted in the UK. The Tillman Act of 1907 outlawed electoral contributions from corporations and banks. This legislation established a significant element of the American campaign finance system – namely, the rejection of institutional donations (Corrado, 1997: 27-28; Zardkoohi, 1985). This principle was further extended in 1943, by the War Labor Disputes Act, which imposed an electoral contributions ban on trade unions, similar to that which the Tillman Act had imposed on corporations (this measure was originally intended to last until the end of the conflict, but was made permanent in 1946). Although both corporations and labor unions do play a significant role in the financial aspects of American political life through various institutional mechanisms, these two pieces of legislation ensured that they were expressly excluded from giving directly to candidates and parties, which establishes a vast and significant distinction from the UK.

The Federal Election Campaign Act era.

The desire to regulate campaign finance in the United States in the latter part of the twentieth century was driven by both social and technological change. Perhaps the most obvious factor influencing the evolution of campaign finance in the immediate post-war period was the erosion of the city-based party machines. These organizations had once been central to electoral power-broking and fundraising. However, by the late sixties the city machine was near to extinct, destroyed by societal change and the evolution of American life. In the place of the machines and the parties, politics started to refocus on the candidates seeking office. Instructively for anyone studying the Internet, at least one element of this change was technological in nature. The rise of television led to a far greater focus on the candidate and a hugely increased role for advertising in election campaigning. As a result, electoral costs were spiraling by the late sixties. There was a fifty per cent increase in election expenditure between 1964 and 1968 alone (Alexander, 1992: 88). However, candidates, deprived of the fundraising capabilities of effective party machines, struggled to meet the demands created by the evolving electoral environment.

The response to this problem was legislative, and took the form of the Federal Election Campaign Act (FECA) of 1971. The Act essentially contained three elements: it limited the amount of personal wealth candidates could contribute to their own campaign; it created a requirement for full and publicly available disclosure of election receipts and expenses, and, in response to the rising cost of publicity, it established specific limits on media expenditure – defined as radio, television, newspapers, magazine, and automated telephone systems (Corrado, 1997: 29 and 52; Sorauf, 1992: 7-9). This latter element of the bill had two distinct parts – firstly, the candidates could only spend $50,000 or $0.10 per eligible voter in an election, whichever was the greater amount. Additionally, a maximum of 60 per cent of a candidate’s total expenditure could be used to purchase television or radio advertising. These regulations were to cover the entire period of the primary and the general election, as well as any runoff or special elections.

The Federal Election Campaign Act was never intended as a radical document. Rather, it was designed to retain the principles established in the pre-existing regulation, but to update them for the televisual, candidate-centered age. However, the Act was only to be used in one election. Events were very soon to take a dramatic twist and irrevocably alter the campaign finance landscape in the United States. The Watergate scandal and the fact that the investigation into Nixon's wrongdoings had led to serious concerns about the propriety of his campaign's sources of income, made far more radical reforms politically viable. The end result of this was the Federal Election Campaign Act Amendment (FECA) of 1974. This has been seen as the most significant piece of campaign finance legislation ever passed in the US (Corrado, 1997: 32 and 53; Sorauf, 1992: 7-9). This claim is not without justification. Not only did it seek to fix the problems that its proponents argued were evident in the old regime, and add extra requirements and restrictions; it also sought to enshrine certain values – in particular a preference for small donors over large givers – into the regulatory framework. Broadly, the amended FECA regime can be divided into four elements: reporting requirements, spending caps, donations caps and public subsidy.

Reporting requirements were tightened considerably under the Act. The format of accounts was standardized and time limits were imposed to ensure their prompt submission, while candidates were required to create a single committee, through which all their finances must be managed (in the past it had been perfectly possible for candidates to funnel monies through multiple committees). Most crucially of all, a new bipartisan body – the Federal Election Commission (the FEC) – was established to gather and hold this data, and enforce campaign finance regulations. The FEC was to have genuine power to hold candidates to account and to punish wrongdoing. Indeed, the creation of the FEC gave the United States the largest campaign finance bureaucracy system in the world (Sorauf, 1992: 9).

The media-based spending caps of the 1971 Act were replaced with total expenditure caps, which applied to all federal elections. In Senate contests, the total expenditure per candidate was permitted to be the greater sum of $100,000 or $0.08 per voting-age member of the population for the primary election, and then the greater amount of $150,000 or $0.12 per voting age citizen in the general election. For House candidates, the limit was set at the greater sum of $150,000 or $0.12 in each cycle. Expenditure in presidential elections was also capped, with simple limits - $10m for the primary contest and $20m for the general election. All of the ceilings were indexed to inflation. Additionally, candidates were allowed to spend an extra 20 per cent of their budget total on fundraising.

The reason for this last provision was that the Act also imposed limits on donation, and it was appreciated that, now having to rely on smaller donations, candidates would have to use greater amounts of energy and resources to increase the number of people in their fundraising base. The amendment Act retained the 1971 Act’s limits on contributions by candidates to their own campaigns, as well as capping all other donations. Individuals were permitted to give a maximum of $1000 to a campaign for any primary, runoff or election. An individual was limited to a total of $25,000 electoral contributions per annum. Furthermore, Political Action Committee contributions were capped at $5,000 per campaign per year.

Finally, and perhaps most ground-breaking of all, the Act introduced public funding for presidential elections. This funding took two forms. The general election itself was funded by a simple grant of $20m, index linked to inflation. This money was, realistically, available to candidates from the two major parties, as the ability to gain full-funds was derived from performance during previous elections. However, the grant was only given on the condition that there were no attempts to raise private money for campaigning. The public funding arrangements for the primary competition was more complex, and were based on the principle of the public purse matching funds raised by the candidates from small contributors. In order to qualify, candidates had to raise $5,000 in contributions of less than $250 in at least twenty states. If these criteria were met, the government would match, dollar-for-dollar, the first $250 of each donation made to candidates. Candidates could claim up to $5m in this way – that is, half of their spending limit. The logic of the regulation was clear. Spending limits and public finance were conceived to function in tandem, with the maximum public funding available being related to the overall spending limit in the primary competition. The aim of the public subsidy was to encourage candidate to gather their contributions in small donations, which were regarded as preferable to large contributions.

How candidates would have adapted to the stringent regulatory framework established by FECA in its 1974 form is one of the great "what if?" questions of American politics. The Act was never used in the form it was drafted in a presidential election cycle. The reason for this was that some of its most significant elements were deemed unconstitutional by the Supreme Court in Buckley vs. Valeo (US Supreme Court, 1976), a ruling which Sarauf argues "gutted" FECA (Sorauf, 1992: 211). Firstly, spending caps were deemed unconstitutional, on the grounds that they impinged the First Amendment, which guaranteed freedom of speech. As importantly, the ruling rejected the definition of electoral campaign spending used in FECA, which was expenditure designed to influence elections. This, the Supreme Court argued, was too vague and would actually discourage people from engaging in political activity that should be legal and protected by the constitution. Instead, the Supreme Court suggested a definition of “express advocacy”, where the use of certain “magic words”, such as “vote”, and “elect” would be used to indicate electoral campaigning (Malbin, 2006a: 5).

However, even in its modified form, FECA was powerful enough to dramatically alter the fundraising methods employed by the parties. Two strategies are worthy of particular note: direct mail campaigns and bundling. As they were unable to raise large sums from individual donations, candidates and parties were forced to do a great deal of work developing the technology and infrastructure to undertake massive direct mailing operations. As a result, campaigns became adept at tailoring their message to individual voters, hoping to entice them to make political contributions (Adamany, 1986; Berman, 1986). Secondly, to cope with the newly introduced donation limits, parties encouraged supporters to “bundle” contributions. Essentially, this required prominent and powerful individuals – often businessmen and women, or campaigners – to construct a network amongst their professional, political and social acquaintances, all of whom would give donations to a political candidate or party. Thus, completely legally, a single individual could marshal and organize donations running into tens or even hundreds of thousands of dollars (Sorauf, 1992: 52-53, 124-130). This practice continues today. In the 2000 Presidential election, George Bush deemed activists who were able to bundle more than $100,000 for his campaign as “Pioneers”. In the 2004 election he created two new categories – “Rangers” who each bundled $200,000 and “Super-Rangers” who each bundled $300,000 (Drinkard & McQuillan, 2003). In 2007, 233 Hillary Clinton bundlers who each raised more than $100,000 were dubbed “Hillraisers” (Kirkpatrick, 2007).

The FECA period still offers much of the fundamental framework of the American campaign finance regime. Perhaps, most importantly though, it illustrated the power of the Supreme Court, and made the constitutional doctrine that campaign expenditure is equated to free speech a political orthodoxy. As a result, the idea of Congress legislating to impose spending caps on candidates in elections became unthinkable, short of a constitutional amendment. Given the great difficulty, illustrated throughout the history of campaign finance reform, of creating even a simple majority for change, this is nearly impossible to imagine.

The Bipartisan Campaign Finance Act: reform revisited.

By the mid-nineties, even judged against the limited regulatory framework offered by the post-Buckley vs.Valeo incarnation of FECA, the regulatory system was failing. The reason for this was a loophole constructed from two elements of the original legislation. Firstly, the Act allowed for unlimited sums of money to be given to state parties for organizational developmental. The original logic behind this clause was that parties were a vital element in civic society, and that to deprive them of funds would prevent them fulfilling their role as mobilizes and educators of the electorate. However, by the nineties, party strategists had started to link this provision with the “express advocacy” test laid out by the Supreme Court. This reading of the law gave parties the ability to spend vast sums of money on election campaigns without breaking any rules (Franz et al., 2006: 143-144; Malbin, 2006b: 6). This situation created a paradox – the weaknesses of FECA, once lauded as the most radical campaign finance reform Act passed in American history, had, by the mid-nineties, been exploited to such an extent that the regulatory regime had been completely undermined. The parties were now able to gather unlimited “soft money” contributions (that is, donations that are given and spent outside the regulatory environment) from individuals, corporations and trade unions.

The dramatic failure of the FECA regime in this respect and runaway soft-money donations to parties led to renewed calls for reform (Malbin, 2006b: 6). The Bi-Partisan Campaign Finance Act, sometimes referred to by the name of its co-sponsors, Senators John McCain and Russ Feingold, was, in many ways, an attempt to re-establish a fundamental principles of the 1974 Act – namely that contributions to both candidates and parties should be regulated and limited. In trying to achieve this goal, McCain-Feingold gave with one hand and took with the other. In the debit column, it prevented parties from harvesting "soft contributions" for campaigning in Federal Elections. As a result of this measure, parties were deeply fearful of a financial shortfall that they would be unable to make up in "hard money" contributions – that is, donations that are regulated by federal law. To counteract this fear, BCRA increased federal donation caps, which had remained unchanged since 1974 (indeed, since the limits imposed by FECA were not indexed to prices, donations caps had been declining in size in real terms). It was widely predicted that both candidates and parties could hope to raise greater sums from individual donors who had the resources to give to the legal maximum than had been the case in previous election cycles. However, this did not placate everyone. Many still claimed that parties, denied access to soft money, would still be unable to make up the short-fall in their funds (Ansolabehere & Snyder, 2000; Malbin, 2006b: 1-4).

In many ways, the development of the Internet as a serious fundraising tool and the impact of BPCR were contemporaneous. As well as arguably being the first online election, 2004 was also the first BPCR election. Simultaneously to both of these developments, campaign fundraising in American politics has massively increased, both in rate and scale, as evidenced by the 2004 and 2008 presidential contests. Arguably, BPCR's central objective – to empower individual donors and undermine soft money – is perfectly aligned with the potential of the Internet.

The Development of the Campaign Finance System in the UK

Historically, the impulse to reform campaign finance has played a far lesser role in British political discourse than it has on the other side of the Atlantic. Certainly the United Kingdom has taken a far more laissez faire stand to campaign finance (Fisher & Clift, 2004: 677). This approach is evidenced by the late development of public reporting of political donations and expenditure, for example. The US has aspired to transparency since the early twentieth century and now has the most effective reporting system of anywhere in the world. The UK only got such an arrangement in 2000, and even then, it collated far less information than the American model.

This is not to suggest that campaign finance has not been discussed and solutions proposed to perceived problems. Two recurring issues are cited with political finance in Britain. Firstly, it is argued that parties are perennially short of necessary financial resources, to the extent that they are unable to fulfill their civic role (Phillips, 2007: 1-2). Secondly, it is claimed that political financial scandals, such as the so-called cash for honors affair in 2006-2007 or Peter Hain's failure to adequately report donations to his deputy leadership campaign in 2007 undermine the public's confidence in the political classes (BBC Online, 2007; Grice, 2008). Despite this though, the issue has never gained the same ideological charge that it carries in the United States, possibly because the terms of the debate are so fixed in longstanding political arrangements. However, two significant pieces of legislation stand out as having particular impact.

Regulating the constituencies.

The Illegal and Corrupt Practices (Prevention) Act of 1883 was, for nearly 120 years, albeit with some amendment, the single most important piece of legislation concerning campaign finance regulation on the British statute books, and still provides the foundations for a significant proportion of the regulatory framework in place. The Act was drafted in the aftermath of the 1880 election. In modern British politics, there is much talk of “run-away” election expenditure. However, in real terms, the 1880 election is probably the most expensive ever fought, costing £2.5 million. At 2005 values, that amounts to more than £165 million (figure derived from Pinto-Duschinsky, 1981: 28). The actual 2005 election cost the three major parties just over £40 million (Electoral Commission, 2006). The profligate expenditure during this period of British politics can be explained by the interaction of two distinct circumstances. Firstly, elections occurred within a completely unregulated campaign finance system. Secondly, the latter half of the nineteenth century saw a huge increase in political competitiveness across the country, fuelled by the rise of political parties and the extension of the franchise. Fifty years before, many seats would have been uncontested, keeping costs down. By 1880, only seventeen per cent of seats were uncontested (Pinto-Dushinsky, 1981: 28). Clearly this funding situation was not sustainable in the long term.

The result of these events was the 1883 Act, which directly addressed the issue of expanding expenditure by imposing limits on candidate’s campaign spending in the constituency where they were running. To ensure these limits were adhered to, the Act also made the appointment of an electoral agent, with responsibility for recording and reporting campaign donations and expenditure, compulsory (Linton, 1994: 5-6). Measured by overall election expenditure, the Act was a success. The 1885 election cost a third less than the 1880 contest. The cost of elections – in real terms – was never again to reach the extremes of spring 1880.

This Victorian attempt at regulating British political finance enshrined a very fundamental and recurring principle, which significantly differentiated British rules from those in the United States. While American legislators found it near-impossible to introduce spending caps, the 1883 Act proved that, within a British political framework, such spending limits were practicable, effective, and persistent. The modern version of this idea was laid out in the Representation of the People Act (1983), which legislated that spending limits should broadly go up in line with inflation, with precise recommendations for the caps being made by the Electoral Commission. The tool for doing this would be a two stage formula, combining a universally applied constituency spending cap and a sum of money per voter living in the electoral unit. In the 2005 general election, the flat spending limit was £7,150 per constituency, plus an additional 5 pence per voter in more urban, borough constituencies or 7 pence per voter in more rural, county constituencies (Garner & Kelly, 1998: 2 and 6). Such restrictions would be unthinkable in the US.

Despite the success of the 1883 legislation, at least on its own terms, changes to the regime governing the financial aspects of politics were limited throughout the twentieth century. The Illegal and Corrupt Practices (Prevention) Act has been modified since it was originally passed by subsequent pieces of legislation, drafted in response to specific circumstances. For example, the original Act did not regulate non-candidates in an election who might campaign against people running for office, a loophole exploited by the suffragettes. The 1918 Representation of the People Act rectified this situation, making it illegal to campaign against candidates (Linton, 1994: 6). However, major reform, and in particular any kind of regulation at the national level, looked unlikely to occur, as any suggestions seemed to advantage or disadvantage of one of the major parties. In 1929, Labour proposed an Electoral Reform Act containing measures that would have greatly disadvantaged the Conservatives, who, in response, proposed a set of reforms that would have hurt Labour. Ultimately no changes occurred. Likewise, in 1974, Labour established the Houghton Committee, which, two years later, stated it was in favor of state aid for political parties. However, Labour's loss of power in 1979 prevented this policy being instigated.

PPERA: time for national regulation?

The deadlock in campaign finance legislation was broken by the Labour Party's electoral victory in 1997. In part, this victory was achieved on the back of concern about standards in public life during the previous Conservative government's tenure, with so-called "sleaze" scandals proving to be highly damaging. This concern was further enhanced by Labour's own party funding scandal, involving a donation from Formula One Supremo Bernie Eccelston and a decision to exempt motor racing from a proposed ban on tobacco advertising (Scarrow, 2004: 668).

These events resulted in the Political Parties, Elections and Referendum Act (2000). This piece of legislation would address what had become the major weakness of the existing regulatory framework. At the time the 1883 Act was passed, the primary concern of lawmakers was local politics, being fought out in the constituencies. However, over the following decades, political power and resources became increasingly centralized, and national parties grew hugely in significance. This is not to suggest that local campaigning and fundraising became wholly insignificant (on this issue, see Johnson & Pattie, 2007). However, it is clear that expansion of central parties, coupled with the deadlock in the reform process, left a significant – and, throughout the twentieth century, expanding – proportion of political life almost completely unregulated and lacking in transparency of any kind (Grant, 2005: 381).

PPERA has been termed the most dramatic development in British campaign finance regulation since the 1883 Act (Fisher, 2002: 1). The Act established the first national campaign spending limits, which were calculated based on the number of seats that a party was running in. In 2005, this limit was set at £30,000 for every constituency a party was contesting. As a result, the maximum potential expenditure was some £18.8 million (Garner & Kelly, 1998: 6). Additionally, it modestly increased the level of state funding available to political actors seeking office, and clarified the role to be played by third-party actors in electoral competition. Finally, the Act instigated the first national reporting criteria, wherein parties would have to notify the Electoral Commission of their income and expenditure in quarterly reports. They would also have to provide more detailed and frequent information during an election period (HM Government, 2000).

However, PPERA is as interesting for what it did not include. Two particular omissions stand out as being significant. Firstly, the Neill committee, around whose proposals PPERA was originally drafted, recommended a system of matching funds from the public purse for small donations. This was rejected by the government as being too expensive and because it was claimed such a measure would amount to public funding via the backdoor. More cynically, it has been argued that this rejection in fact occurred because Labour would do less well out of such a system than would their opponents (Grant, 2005: 381-382).

The second significant omission in PPERA was the lack of any attempt at instigating donation caps, despite the fact that a number of huge donations to both major parties have been a source of some public concern, especially in the period before general elections. However, it is also important to note just how reliant political parties are on large donations, either from individuals and organizations. It has been estimated that a cap on donations in the United Kingdom of £5000 (roughly equal to five times the increased BPCR cap imposed in the US) would deprive parties of 90 per cent of their current income (Grant, 2005: 390). This is particularly true of individual donations, which have grown in significance as parties' traditional sources of income – most notably, membership subscriptions and, in the case of Labour, trade union levies – have declined.

More generally (and although PPERA is undoubtedly a break from the past and the United Kingdom's laissez faire approach to campaign finance), PPERA, unlike BPCR, did nothing to attack any streams of revenue on which the parties had come to rely – not individual donors, corporations or trade unions. As a result the system PPERA instigated did not create the same level of disruption to the campaign finance system in the UK as did BPCR to the American system, and parties were not required to rethink or hugely alter their political fundraising strategies. The essential elements of the campaign finance system remained undisturbed. Additionally, by not including the possibility of matching public monies for small donors, the Act did not encourage parties to look for new and potentially lucrative sources of revenue from large numbers of citizens giving small amounts of money.

American and British campaign finance regulation and the Internet

This regulatory history leads us to a number of broad conclusions about the fundamental differences between the British and American campaign finance systems, all of which have played a role in shaping the nature of online fundraising in the two countries. Broadly, we can focus on three distinctions, which encourage online fundraising in the US and discourage it in the UK: differing attitudes to institutional and individual giving; the American reliance on donation caps in comparison with the British tradition of spending caps; and the lack of any kind of systematic public funding in the United Kingdom.

The rejection of institutional funding by Americans occurred very early in the progressive period. Although the legislation is far from fully effective, and PACs and soft money loopholes still allowed for such donations, there is a far greater cultural antipathy in American politics to institutional giving. In contrast, both major British parties relied on institutional donations for the most part of the twentieth century, to the extent that the process became enshrined in the party system. It continues to make up a significant element of party income today. In summer 2007, for example, when it was suspected that Prime Minister Gordon Brown was going to call an early election, a number of trade union leaders were able to offer a pledge that they would finance the campaign if it were required (BBC Online, 2007). American law would simply not permit such a statement. Instead, American politicians largely have to rely on individual donors giving money to their campaigns. Furthermore, both FECA and BPCR have enshrined this principle in legislation. Clearly, this form of giving is much more conducive to the use of the Internet. In contrast, in the British example, the technology is largely superfluous to the fundraising requirements of parties.

The same can be said of the large individual donations that are available to parties in the United Kingdom. Such donations, which have run into millions of pounds, negate the need to use the Internet. When parties are able and legally allowed to raise such huge sums of money from an individual, then Internet campaigning becomes, with its requirement to expend energy and resources reaching out to vast numbers of small donors, a relatively less attractive option. In the US, even “large donors” contributing to candidates (and, since BPCR, to parties) still give a relatively modest sum, capped at $2000 and linked to inflation by the 2002 legislation. It is still conceivable to imagine such sums being given over the Internet. It is certainly likely that smaller sums – the so-called $50 donations – are given online. Even if the extent and significance of these contributions is perhaps not as one-sided as it has been presented, it is undoubtedly the case that they have an expanded role in American politics, and the Internet is playing a part, and probably a decisive one, in creating this situation.

Although the impact of the Act is hard to quantify, it seems likely that the rise of small dollar online giving in the United States has also been catalyzed by the implementation of BPCR. Parties have not completely renounced soft money, but have instead found alternative mechanisms for deploying these donations, most infamously 527 groups (so-termed because of the code in the US tax statute that regulates them). Although these organizations are in theory completely separate from political parties, they are in reality closely linked, especially through the people they employ (Boatright, 2007; Weissman & Hassan, 2006). However, the post-BPCR period has also seen massively increased hard money giving, the growing significance of individual donors, and an increase in small dollar giving. By this measure, the Act has certainly achieved many of its aims, aided by the development of the Internet.

The tradition of donation limits as the primary regulatory tool in the US has had other significant impacts. Post-FECA, the strategies that parties and candidates developed in order to respond to only being able to gather limited donations from individuals have also helped them adapt to the Internet age. Direct mail ensured that American campaigns became very effective at managing and organizing information and using computer technology. Additionally, direct mail taught fundraisers to develop a relationship with individual contributors and tailor their messages toward them. This is something that has been replicated online (Howard, 2006: 1-2). Bundling, albeit on a narrow and exclusive scale, pointed towards the power of networked funding, as it relied on individuals, who were acting with a measure of independence from campaigns in order to raise funds. In many ways, that model can be seen as a primitive version of the technique that was to be employed by bloggers and online activists.

In contrast, the British regulatory approach of employing spending caps, first in the constituencies and more recently nationally, seems to have stunted the need of parties to develop alternative sources of revenue. This is primarily because it prevents a campaign finance "arms race" of the sort seen in the US. British politicians from major parties have little fear that their opponents will be able to out fundraise them. In the lexicon of Katz and Mair, the system is cartelized by spending limits, which reduces the level of competition massively (Katz & Mair, 1995). While UK parties will always aspire to generate extra income, this regulatory framework ensures that they lack the same level of motivation as their US counterparts.

Finally, a system of matching funds, as created by FECA in the US, will do much to encourage candidates to seek small donations, as it effectively increases their relative value via the public purse. The lack of any such incentive in the United Kingdom ensures that small donations are not favored over larger contributions. However, it should also be noted that the American matching funds system in the primary season is now in some difficulties (Malbin, 2006a). In particular, the rising level of campaign fundraising has made it possible for certain particularly successful candidates to opt out of matching funds and, as a result, the spending limits it imposes on them. This was first apparent in the 2000 presidential election, when George Bush chose not to take public support. John Kerry and Howard Dean then followed this approach in the 2004 contest.

This is the perhaps the clearest example of the technology-institutional arrangement dialectic at work. While various institutions have made the Internet a powerful tool for American politicians, the very success of online fundraising is dismantling some elements of the American campaign finance system. It is now questionable whether a candidate can actually accept public funds and still be considered a serious contender for the nomination. Short of full scale reform, the public funding element of the presidential primary system seems like it is now a defunct institution. Furthermore, these developments look set to continue: it now seems that the fundraising prowess of certain candidates will soon endanger public funding for the presidential election itself (Washington Post, 2008).

Conclusion

The above discussion seems to point to a very complex relationship between, on the one hand, pre-existing political arrangements, norms and regulations, and, on the other hand, the technological affordances of the Internet. If examined in isolation, the experience of the United States and the dramatic changes seemingly being wrought by the net might seem to suggest the optimists were correct – the Internet is reforming political institutions, at least in the arena of campaign finance. However, such an approach negates the role played by the same institutions and norms in facilitating those changes in the first place.

In part, explanations for the success of online fundraising in the US can be found in the realm of political ideas, and in particular the positive view the American population takes of civic volunteerism and the progressive tradition. Additionally, the regulatory framework constructed in the US over the past century, culminating in BPCR in 2002, has created a situation where political actors have both the opportunity and motivation to develop their capabilities as online fundraisers. Especially since the 2000 election cycle, this has created a financial “arms race”, where office seekers have attempted to out raise each other in order to remain politically viable. This process has reached its dramatic conclusion (at least thus far) in the Democratic primary contest, with candidates raising sums of money which would have seemed unimaginable only a few years ago.

The complex relationship between technology and political institutions is further demonstrated by the experience of the United Kingdom. In Britain, it seems that both institutional norms and regulations have conspired to undermine the potential of the Internet as a fundraising tool. Parties have had little opportunity and limited incentive to change their existing revenue streams in recent decades. They are still able to rely on large donation, from individuals, unions or corporations. Although Britain has recently seen a significant piece of campaign finance legislation passed, PPERA has, by failing to limit large donations or incentivize small giving, not created the same disruption of pre-existing revenue streams that BPCR did in the US. Furthermore, the imposition of a national spending cap under the Act may actually ensure that the funding arrangements employed by British parties become cartelized, preventing a funding arms race and limiting competitive pressures within the party system which might drive the development of an effective Internet donation base.

It is important to appreciate that the political traditions and regulatory frameworks in both countries will continue to impact the future of campaign finance, and it is unlikely that the patterns of path dependency will be broken. For example, it is no coincidence that while there is concern in Britain about the funding of political parties, there are few advocates of an Internet driven, American-style small dollar revolution. Instead the default position of British reformers has tended to be the advocacy of the European model of state funding (for example Linton, 1994; Power Commission, 2006). However, any such proposal, where it ever to be instigated, would, by abetting the process of cartelization between the parties and making small individual donations less significant, be likely to bolster many of the existing characteristics of the British campaign finance settlement, rather than offset them. As a result, it is not only the case that Internet fundraising is currently less relevant in the UK than in the US; it also looks likely that the potential direction of future reform will ensure this remains true.

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