

GUBERNATORIAL COST ANALYSIS REPORT



The New Jersey Election Law Enforcement Commission

June 1988



State of New Jersey

ELECTION LAW ENFORCEMENT COMMISSION

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June 1988

Dear Members of the Legislature:

As you know, the Public Financing Program has substantially enhanced the gubernatorial election process in New Jersey.

Since 1977, when New Jersey earned the distinction of being the first state in the Nation to conduct a gubernatorial election campaign partially funded with public monies, the program has enabled candidates to conduct competitive campaigns free from the corrupting influence of big money.

In this report, the Commission traces trends in gubernatorial campaign spending, analyzes the costs involved in campaigning for governor, and estimates campaign cost increases during the eight-year period beginning in 1981 and ending in 1989, the year of the next gubernatorial election.

The report's findings not only reinforce the recommendations for improving the program made in the Commission's earlier report entitled New Jersey Public Financing: 1985 Gubernatorial Elections, but also point to the inevitable conclusion that its thresholds and limits must be modified in order to insure that the program remains viable.

The Gubernatorial Public Funding Program in New Jersey is a national model and the Commission trusts that this report will help maintain that tradition.

STANLEY G. BEDFORD
Chairman

OWEN V. MCNANY, III
Vice Chairman

ANDREW C. AXTELL
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ACKNOWLEDGMENTS

The Commission wants to thank the numerous people who worked on this report.

Dr. Herbert E. Alexander, the Director of the Citizens' Research Foundation and a political science professor at the University of Southern California, acted as the Commission's consultant on this project. His careful and expert review of every phase of the work from its earliest planning to its final drafting has assured its value and utility. The Commission is proud to have had the guidance and help of one of the leading experts in the campaign financing field in producing this report.

The project coordinator and principal author of this analysis was Deputy Director Jeffrey M. Brindle. His hours of hard work and excellent writing skills were the backbone of this report. Executive Director Frederick M. Herrmann served as the general editor, while Legal Director Gregory E. Nagy and Director of Compliance and Information Evelyn Ford provided expert proofreading and Director of Administration Richard J. Magee contributed an essential statistical review.

Various other Commission staff members played a vital role too. A student intern, Gregory Sanders, acted as the primary research assistant. Another student intern, Virginia Wilks, and Assistant Compliance Officer Donna Saczynski also provided background information. Senior Report Examiner James Wojtowicz helped with some of the proofreading and Secretary Carol Killings skillfully and diligently typed numerous drafts.

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INTRODUCTION

New Jersey became the first state to enact a gubernatorial public funding program when it amended and supplemented "The New Jersey Campaign Contributions and Expenditures Reporting Act" in 1974. Amended again in 1980, following the first publicly funded gubernatorial general election in 1977, the law now contains a system of partial public funding for both the gubernatorial primary and general election campaigns.

Since its inception with the general election campaign of 1977, approximately \$17.7 million in public funds have been distributed to qualifying candidates for governor. Including the general election of 1977 and the primary and general elections of 1981 and 1985, a total of 24 candidates have received funds from the program.¹

Popular support for the program has been extensive. Throughout its history, the program has been financed through the State income tax check-off provision. With an average check-off rate of almost 40 percent, New Jersey has the most extensively supported program by the public in the nation, exceeding the 21.7 percent rate of the federal check-off program for 1986 by a wide margin.

Under the check-off program, taxpayers can choose to contribute to the "Gubernatorial Elections Fund" by checking off a box on their State income tax form. While not increasing a citizen's tax bill, one dollar is contributed into the fund by individuals participating in the check-off program. For married couples filing joint returns, up to two dollars can be contributed into the fund.

There can be no doubt that New Jersey's Public Financing Program has been successful. It has allowed viable candidates to run for governor and has eliminated undue influence from the gubernatorial election process. Moreover, the Election Law Enforcement Commission's (ELEC) low administrative costs, \$160,000 for the primary and \$ 100,000 for the general election in 1985, have added to the program's popularity.²

Because of the enormous importance of the public funding program to New Jersey voters and to potential candidates for governor, the Legislature built into the gubernatorial financing statute a provision that requires the Commission to undertake, every four years, an analysis of the cost of campaigning for governor. The purpose of this analysis is to determine whether the various program limits and thresholds are sufficient for the upcoming gubernatorial contests in 1989.

Specifically, 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 the 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.³

In fulfillment of this statutory requirement, the Commission has prepared this report, which contains the following: (1) recommendations for changing the program's thresholds and limits, (2) a description of trends in gubernatorial campaign spending, (3) a summary

of general inflationary trends, (4) a summary of media cost inflation, and (5) an estimate of the increase in campaign costs during the eight-year period beginning in 1981 and ending in 1989.

Together, the various sections of this report describe what is happening in Statewide campaigns for governor; the effects of inflation on these campaigns; and, finally, the consequences to the public financing program of a failure to modify its limits and thresholds to keep pace with inflation.

The Election Law Enforcement Commission hopes that this report will contribute to the debate on the merits of changing the program and to the eventual modification of it in a way that is reasonable, satisfactory, and conducive to its long-term viability.

1. RECOMMENDATIONS

In September 1986, the Commission published a report on the 1985 gubernatorial elections. The report, entitled *New Jersey Public Financing 1985 Gubernatorial Elections*, was prepared in the tradition of two previous reports which followed the 1977 and 1981 elections. Among other things, the 1985 report contains recommendations for modifying the various program thresholds and limits to keep the State's gubernatorial public funding initiative at pace with inflation.

ADMINISTERING A VIABLE PROGRAM

The Commission takes pride in administering a viable and successful program. It believes that in order to conduct gubernatorial public financing in a way that meets the historical objectives of enabling candidates of limited personal wealth to run for governor, keeping the elections free from improper influence, and preserving the fiscal integrity of the program, it is vitally important to change the thresholds and limits to reflect realistically the increased costs of campaigning. Without such modifications, participation in the program by future candidates for governor might wane, possibly precipitating a gradual erosion of demonstrated public support for the gubernatorial financing concept in New Jersey.

Costs of Campaigns Increasing

Throughout this report, the conclusion that the costs of campaigning for governor are rapidly increasing will be drawn in a number of different ways. Varied statistical data will indicate actual and projected increases in the overall cost of living as well as in the cost of conducting meaningful Statewide New Jersey campaigns for the office of governor. In addition to the written text, tables and charts are utilized to reinforce the conclusion that campaigns are more expensive today than ever before, as well as to illustrate two central facts: (1) campaign costs accelerate at a faster rate than those for most other goods and services, and (2) new campaign strategies based on the use of mass media technology have replaced older strategies predicated upon the use of volunteers.

COMMISSION'S RECOMMENDATIONS

Based on these conclusions, the Commission believes that its recommendations for modifying the program are essential to the continued stability and well being of the gubernatorial public funding program in the State.⁴

Link Thresholds and Limits to the Consumer Price Index

As part of its recommendations, the members of the Commission broke new ground by suggesting that the various thresholds and limits in the law be linked to the Consumer Price Index. The Commission recommended that this linkage begin with the 1989 gubernatorial elections.

The public funding law has not been changed since 1981. During the last eight years inflation has undermined the value of increases in the thresholds and limits that were enacted between the general election of 1977 and the primary election of 1981. Between 1980 and 1985, for instance, inflation eroded the value of an \$800 contribution by \$187 to \$613. To make matters worse, whereas overall inflation was 30.5 percent during those years, media costs rose by 40.4 percent.⁵ Since media expenditures comprise the lion's share of modern gubernatorial campaign budgets, it is easy to see how the decrease in the worth

of contributions holds the potential for seriously undercutting the ability of candidates to run viable campaigns.

As the following pages demonstrate, the inflationary trend, while more modest than in the late 1970s and early 1980s, is continuing. Since the 1985 gubernatorial elections, the cost of living has risen by 5.6 percent⁶ while media cost inflation has increased by 10.4 percent⁷. Thus, the value of an \$800 contribution, as well as the value of other program thresholds and limits, continues to erode, fostering a campaign environment in which more and more of a candidate's time and energy is spent raising funds. A candidate for governor, in addition to raising the money to qualify for the public funding program, must spend too much time in fundraising for the purposes of receiving matching funds and for running a meaningful campaign. As will be seen, the erosion of the dollar is expected to bring the value of an \$800 contribution to \$591 by 1989.

While expensive campaigns and money raising efforts to fund those campaigns are certainly a fact of modern political life, outdated thresholds and limits of the gubernatorial public funding program should not exacerbate the situation. The Commission believes that changing the thresholds and limits to realistic levels, and then adjusting them by the CPI every four years, will enable the candidates to spend less time fundraising, more time campaigning and communicating their message to the voters, and generally running more viable campaigns. It also will make changes automatically within a formula set by the State Legislature. Of course, the Legislature and Governor retain the right to change the provisions of the program at any time.

Change the Base Amounts of Thresholds and Limits

In addition to the innovative proposal to adapt automatically the program to inflationary pressures, the Commission recommended changes in the base amounts for the various thresholds and limits that are to be adjusted by the CPI. The key recommendations include: (1) raising the contribution limit to \$1,200, (2) reducing the public funds cap to \$500,000 in the primary and \$1 million in the general election, (3) lowering the matching ratio from two-for-one to one-for-one, (4) raising the qualification threshold to \$100,000, and (5) matching eligible contributions for qualifying candidates for funds raised in excess of \$50,000. These recommendations are designed not only to cope with inflation but to preserve public money by making it somewhat more difficult for candidates to receive matching funds. Moreover, the Commission reaffirmed its long held position that expenditure limits should be abolished. In the event that they are not, it is proposed that its recommendation for 1985 of a \$1.6 million limit for the primary election and a \$3.2 million limit for the general election be adjusted every four years for inflation.⁸

SUMMARY

These recommendations, if enacted, would enable the program to keep pace with inflationary trends. They would insulate candidates from being improperly influenced by excessive private donations, while at the same time permitting them to undertake serious campaigns. And, just as importantly, they would protect the fiscal integrity of the program.

This report analyzes the costs of running Statewide campaigns for gubernatorial nomination and election. Included in this analysis is a review of overall inflationary trends as well as of inflationary indicators regarding goods and services directly related to campaigns. This analysis demonstrates the need for modifying the program's thresholds and limits in a manner consistent with the Commission's 1986 recommendations.

2. TRENDS IN CAMPAIGN SPENDING

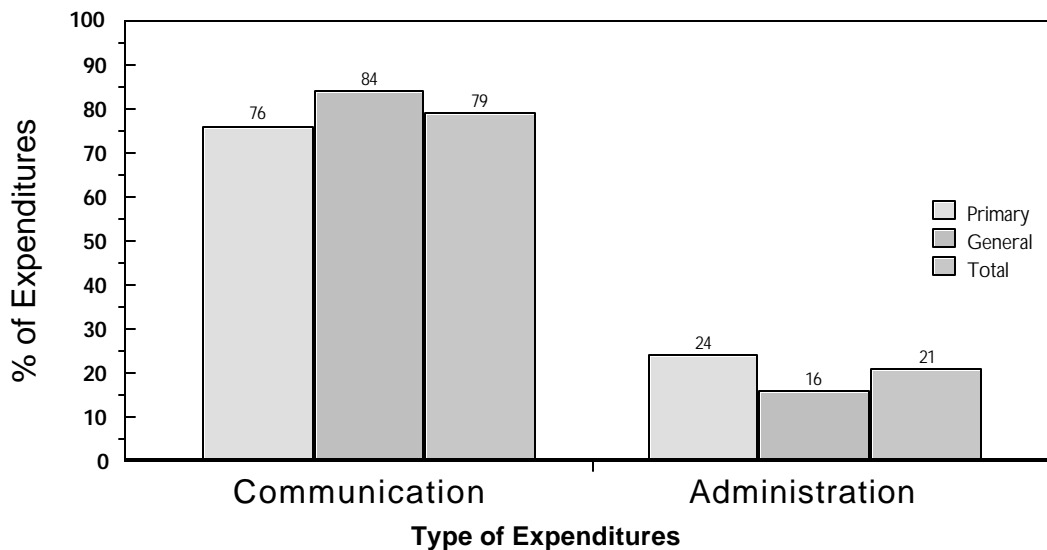
Candidates for governor in the 1985 primary spent approximately \$6.2 million. In the general election the two candidates participating in the public financing program, Republican Governor Thomas H. Kean and Democrat Peter Shapiro, spent a total of \$4.2 million.⁹

SPENDING LARGELY ON MASS MEDIA

For purposes of this study, the category of expenditures designated communication includes: broadcast media time, newspaper advertising placement, billboard rental, printing and mailing of literature, and advertising production. These expenditures are all subject to the spending limit. As shown in Figure 1, a substantially large percentage of the expenditures in both elections were made for communication purposes.

Figure 1.

Comparison of Expenditures by Type: 1985 Primary and General Elections



Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44.

The high percentage of communications costs in 1985 continues a trend toward increased emphasis on mass communications in Statewide gubernatorial campaigns. In the 1985 primary, \$4,712,449, or 76 percent of the total expenditures, were spent on mass communications. The two publicly funded major party candidates in the general election expended \$3,555,374, or 84 percent of all expenditures, on mass media. In both elections together, a total of \$8,267,824, or 79 percent of expenditures, were spent by the candidates on mass communication.

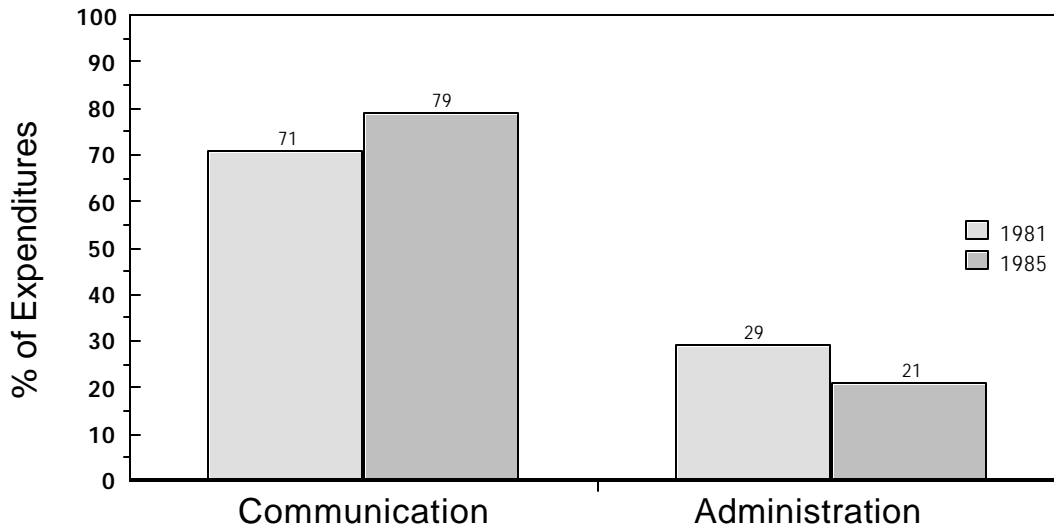
Administrative costs for both the primary and general elections amounted to \$2,156,865, or 21 percent of all expenditures. Administrative costs include that category of expenditures which are both exempted and non-exempted from the expenditure limit. They are expenditures for: candidate travel, fundraising, election night activities, legal counsel, telephone, personnel, and volunteer recruitment efforts.¹⁰ These volunteer recruitment efforts are for the purpose of door-to-door and telephone canvassing and get-out-the-vote drives, and for other duties traditionally performed by volunteers.

Expenditures for administration in the primary totaled \$1,489,005 and in the general election amounted to \$667,859. These figures represent 24 percent and 16 percent of primary and general election total expenditures respectively. In both elections, a negligible amount of money was spent by others outside of the campaigns on behalf of the gubernatorial candidates. Independent expenditures for both amounted to \$34,184.¹¹

Trend Toward Spending on Mass Media

Compared with the 1981 elections, the 1985 elections for governor showed an increase in the percentage of total expenditures made for mass media and a drop in the percentage of total expenditures made for administration. This fact is depicted in Figure 2, which compares combined primary and general election expenditures for 1985 with those for 1981. During the 1981 primary and general elections, expenditures for administration amounted to 29 percent of the total expenditures whereas for mass media, costs totaled 71 percent of all expenditures. In 1985, administrative costs decreased to 21 percent while media costs increased to 79 percent of total expenditures.

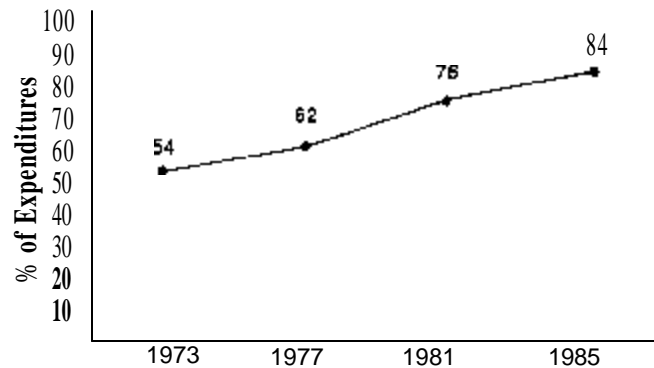
Figure 2.
Comparison of Type of Expenditures: 1981 and 1985 Gubernatorial Elections



Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44, and *New Jersey Public Financing: 1981 Gubernatorial Elections*; Table 6.1, p. 6.7 and Table 6.3a, p. 6.10.

This trend toward increased emphasis on mass media in gubernatorial campaigns began before the 1981 elections, however. The strategy of intensified reliance on mass media technology as opposed to the more traditional methods of campaigning, such as reliance on political party organizations and people-to-people efforts by volunteers and candidates, was certainly in evidence in the 1977 general election, and to a degree, even during the general election of 1973. Since 1973, for instance, there has been a 56 percent increase in the percentage of total expenditures made for mass communication by general election candidates for governor. As shown in Figure 3, 54 percent of all expenditures went toward mass media in 1973, compared with 62 percent in 1977, 76 percent in 1981, and 84 percent in 1985.

Figure 3.
Expenditures for Mass Media as a Percentage of Total Expenditures:
1973-1985 Gubernatorial General Elections



Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44, and *New Jersey Public Financing: 1981 Gubernatorial Elections*, Table 6.1, p. 6.7.

This steady but significant increase in the use of mass communication techniques in Statewide campaigns for governor promises to continue. While changes could be made in the electoral system to strengthen political parties and make them more powerful players in elections at all levels, including the gubernatorial level, the impact of the new forms of mass technology is not likely to decrease. If anything, the use of mass communication in campaigns probably will continue to increase. Society in general is reliant upon mass media. It will continue to be so with respect to the information it receives regarding elections as well. For many reasons, among them the decline in party identification by voters, socio-economic changes, and cultural developments, the sun appears to have set on the days of dependence upon volunteers.¹²

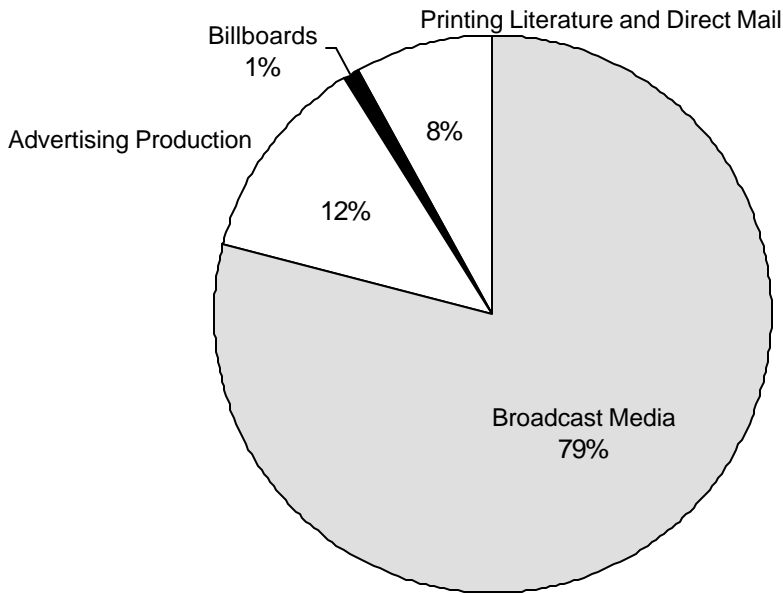
TRENDS WITHIN MASS MEDIA SPENDING

The Election Law Enforcement Commission has divided the category of mass communication into six subcategories. As stated above, these subcategories include broadcast media time, advertising production, newspaper or print media advertising, billboards, printing literature and direct mail. While the overall trend toward high levels of spending on mass media will continue, changes over time can be detected with respect to spending among the subcategories of mass media.

1985 Campaign Spending Emphasizes Broadcast Media

The emphasis in 1985 was on spending for broadcast media. Broadcast media includes radio and television. As Figure 4 indicates, spending on broadcast media amounted to more than for all the other subcategories of mass communication expenditures combined.

Figure 4.
Spending by Type of Mass Media: 1985



Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44.

Spending on broadcast media for air time alone, for the 1985 primary and general elections, totaled \$6,533,436 or 79 percent of all media expenditures. Spending for advertising production, the printing of literature for direct mail, and for billboards made up the remaining 21 percent of mass communications expenditures.

In the primary election, expenditures for broadcast media time, expressed as a percentage of total expenditures for communication purposes, were somewhat less than for the general election. Primary spending for broadcast media equaled 73 percent of the communications expenditures, compared with 87 percent for the general election. A comparison of categories of communications expenditures between the primary and general election of 1985 is contained in Table 1.

Table 1
Primary and General Election Communications Expenditures: 1985

Communication:	Primary	General	Total
Broadcast media time	\$3,451,390.97	\$3,082,045.19	\$6,533,436.16
Advertising production	587,844.39	419,384.02	1,007,228.41
Newspaper advertising	16,091.23	2,210.29	18,301.52
Billboards	66,478.65	3,204.30	69,682.95
Printing literature	359,368.75	41,794.48	401,163.23
Mailing literature	231,275.10	6,736.34	238,011.44
	<u>\$4,712,449.09</u>	<u>\$3,555,374.62</u>	<u>\$8,267,823.71</u>

Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44.

Trend Toward Television and Radio Advertising Since 1977

The accent on spending for broadcast media has been increasingly evident since 1977. In fact, it was in this general election that spending on broadcast media first occupied a greater proportion of communications expenditures than all the other types of media expenditures combined. Needless to say, within this broad category of communications spending, a definite trend has emerged toward the use of television and radio advertising to communicate the candidate's message to the voters.

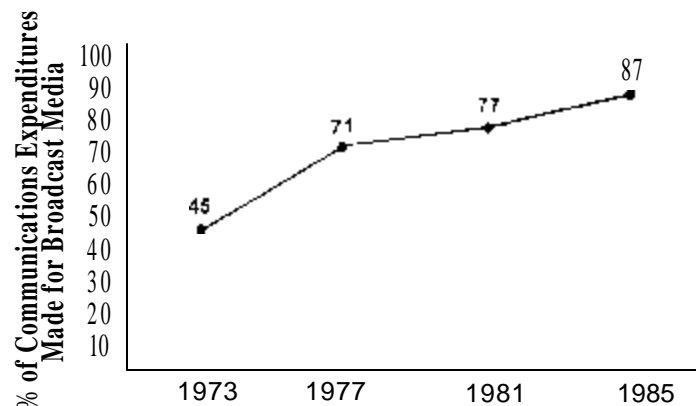
Statistics from the 1973 general election indicate that gubernatorial campaigns utilized television and radio advertising to a much lesser degree than they do now. Once again, expressed as a proportion of total communications spending, then Democratic gubernatorial candidate Brendan T. Byrne spent 45 percent of his communication expenditures on broadcast media. There is no comparable breakdown for communications expenditures by 1973 Republican gubernatorial candidate Charles W. Sandman, Jr. All 1973 statistics in succeeding paragraphs of this section, which deal with subcategories of mass communication, therefore reflect only candidate Byrne's figures.

Contrast the 1973 statistic with the general election of 1977. During this contest, Democratic Governor Byrne and Republican challenger Raymond H. Bateman combined to spend 71 percent of their communications expenditures on broadcast media. In 1981, that figure increased again. Combined expenditures for broadcast media by Republican Thomas H. Kean and Democrat James Florio reached 77 percent of communications spending.

Finally, in 1985, as indicated above, the pattern continued with 87 percent of all media expenditures made for television or radio advertising. Figure 5 illustrates this trend in media spending.

This trend is also detectable in primary elections as well, although it can only be traced over two gubernatorial primary elections (1981 and 1985). While the proportion of spending on broadcast media in these elections is less than in the general elections, the percentage of expenditures for broadcast media rose from 60 percent in the 1981 primary to 73 percent in the 1985 primary.

Figure 5.
Comparison of Spending for Broadcast Media:
1973-1985 Gubernatorial General Elections



Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44, and *New Jersey Public Financing: 1981 Gubernatorial Elections*, Table 6.1, p. 6.7.

Spending on Other Types of Media Decline

At the same time that there has been a pattern of increased spending on broadcast media advertising since 1973, there has been an accompanying decline in spending on print media advertising. As a percentage of total mass communications spending, advertising in newspapers, for instance, steadily dropped from eight percent in the 1973 general election to zero percent reported in the general election of 1985.

Similarly, spending on billboard advertising, between the general elections of 1973 and 1985, also declined. In 1973, billboard advertising constituted nine percent of communications expenditures compared with zero percent in 1985.

Spending on printing literature and sending direct mail has had a more uneven history. Even so, since 1973, spending for this purpose has never exceeded 20 percent of the communications expenditures in any gubernatorial general election.

Former Governor Byrne's printing and mailing expenditures amounted to 18 percent of his mass media spending in the 1973 general election. His opponent's figures are not available. When compared with spending for this purpose by the two major party gubernatorial candidates in 1977, this 18 percent figure decreased to only 6 percent of communications expenditures. In 1981, the two general election candidates again spent a larger proportion of money on printing and direct mail.

Republican Kean and Democrat Florio made 17 percent of their communications expenditures for this purpose. In 1985, this figure dropped to 1 percent of the total. Table 2 breaks down mass media spending in general elections since 1973.

Table 2
Media Expenditures in Gubernatorial General Elections: 1973-1985

	Communications Expenditures			
	1973*	1977	1981	1985
Broadcast media time	45%	71%	77%	87%
Advertising production	20	13	6	12
Newspaper advertising	8	6	0	0
Billboards	9	3	0	0
Printing & direct mail	18	6	17	1

*1973 figures include only Candidate Byrne because Candidate Sandman's figures are unavailable.

Source: New Jersey Election Law Enforcement Commission, *New Jersey Public Financing: 1985 Gubernatorial Elections*, Table K, p. 44, and *New Jersey Public Financing: 1981 Gubernatorial Elections*, Table 6.1, p. 6.7.

SUMMARY

In the relatively brief period between the general election of 1973 and the general election of 1985, there has been a noticeable increase in the importance of broadcast media in Statewide gubernatorial campaigns. Broadcast advertising played an important role in 1973, but its influence continues to grow and the great emphasis placed upon this type of mass communication in the most recent gubernatorial campaigns illustrates that growth.

Beyond broadcast advertising, however, there also is a pattern that has emerged generally since the Commission began compiling statistics in 1973. As indicated above, spending for the broad category of mass communication has increased at the expense of other, perhaps more traditional campaign expenditures, which for purposes of simplicity, have been grouped under the category of administration.

Shifting Campaign Strategies

Clearly campaign strategies have shifted. Mass communications techniques and technology have replaced historical ways of campaigning. In addition to the intensified use of broadcast media to communicate with the voters, candidates for governor also have employed computers to assist them with tasks previously undertaken by volunteers or paid personnel, or perhaps never undertaken at all. Thus, campaigns have become infinitely more sophisticated and automated. To quote from the *Election Law Enforcement Commission's Cost Analysis Report of 1984*, computers, for instance, "now merge lists of registered voters, past voting records, census data, survey research information and commercial marketing data." They also, along with word processors, "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; (f) maintaining files of volunteers and contributors; (g) maintaining and preparing financial records and disclosure reports; (h) fundraising; (i) analyzing polling results; and (j) designing media buying strategies."¹³

Besides the advent of computers, other new media also may play an increased role in campaigning, including but not limited to cable television, home video and microwave satellite dishes. Technology, for instance, is now available for campaigns to transmit via microwaves "video press releases" to broadcasters. Moreover, videos of campaign events are able to be transmitted by the campaigns to television networks as they are happening. There is now a video alternative to traditional news releases and radio actualities.¹⁴

The potential influence of the new media upon Statewide campaigns for governor looms large. For all intents and purposes, use of these new technological applications to politics, in conjunction with the high level use of broadcast advertising, is certain to grow. The effect will be a continuation of reliance by campaigns on mass communications technology and a further movement away from traditional methods of campaigning. The impact on the costs of campaigns of the new campaign strategy will be discussed in the following sections, illustrating dramatically the need to modify the public financing program in ways that insure its future viability.

3. GENERAL INFLATION 1981-89

ECONOMIC TRENDS

Since the gubernatorial elections of 1981, there has been a significant improvement in the nation's economy. In New Jersey, this improvement has not only been equaled but in some ways surpassed, as its economy heated up to become one of the major industrial states with the strongest economies.

Low Unemployment

Based on statistics compiled by the Bureau of Economic Analysis of the United States Commerce Department, the nation has been experiencing an expansion for 61 consecutive months (December 1982-December 1987). This statistic marks the third longest peacetime expansion since monthly records were first maintained in 1854. Since the end of the recession in November 1982, the unemployment rate has fallen to 5.7 percent (January 1988) and more than 13 million jobs have been created.¹⁵ Inflation during this period has risen gradually as well, equaling 22.8 percent during the last six years at an average yearly rate of 3.8 percent.¹⁶

In New Jersey, the economic expansion has been strong and sustained, and the Garden State in 1987 enjoyed its best year in almost two decades. In New Jersey unemployment has been reduced to an average 3.4 percent (February 1988) of the workforce and record high employment levels prevail. In 1987, non-farm employment averaged about 3,573,000.¹⁷ The Consumer Price Index in the northeastern region of the country, of which New Jersey is a part, has moved ahead at a rate that is just slightly higher than for the nation, at a six-year rate of 25.8 percent and an average yearly rate of 4.3 percent.¹⁸

Consumer Price Index

The Consumer Price Index increase for the nation in 1987 was 4.4 percent. For the two year period following the last gubernatorial election, December 1985-December 1987, the Consumer Price Index has increased by about 5.6 percent. If this figure is included with the cumulative inflation rate of the four previous years following the gubernatorial election of 1981, it is clear that the nation has experienced a rise in the CPI of 22.8 percent over the last six years. Finally, using the CPI projection formulated by the Congressional Budget Office for 1988 and 1989, it is estimated that the eight-year inflation rate for the period between the 1981 and 1989 gubernatorial elections will be 35.4 percent.¹⁹

EFFECT ON PUBLIC FINANCING PROGRAM

While the CPI is not directly applicable to the cost of campaigning (there is no operational campaign price index), it does show that prices in general have nevertheless steadily moved upward, though moderately, during the last six years. This fact certainly impacts upon the cost of campaigning for governor and upon the viability of various thresholds and limits of the public financing program.

Impact on Contribution Limit

Using the projected inflation rate for the eight-year period between 1981 and 1989 as a guide, the projected erosion in value of an \$800 contribution over this period of time amounts to \$209. In other words, the real value in 1989 of a 1981 maximum contribution is projected to be \$591.

The fact that there has been no increase since 1981 in the contribution limit, coupled with the fact that the price of goods and services has increased, will have a direct bearing on the viability of the public financing program. Candidates will have to spend more of their time, especially in the early stages, on raising funds. Moreover, these funds will not buy as much as they did in 1981 or to a lesser extent in 1985. Taken together with no change having been made in the expenditure and other limits, this could create very easily a situation in which candidates may not be able to communicate adequately their messages to the voters. Possibly one of two things could happen: (1) the public would be shortchanged because candidates would not be able to run effective campaigns; or (2) candidates, particularly strong ones, might choose not to participate in the public financing program in order not to subject themselves to the expenditure limit and other programmatic restraints.

Cost Data Relative to Campaigns

Another, and perhaps more apt way of using general economic trend data to understand how inflation, however moderate, might adversely impact the State's public financing program, is to review cost data relevant to campaigns taken from the Producer Price Index (PPI) and the Consumer Price Index. These individual indexes have been compiled by the Bureau of Labor Statistics in the United States Department of Labor. They are shown here because many of their components are employed in election campaigns. Table 3 lists costs extracted from the Producer Price Index and Table 4 provides costs from the CPI. The cost increases of the various goods and services are for the six-year period beginning in 1981 and ending in 1987, which is the same period of time during which there have been no parallel increases in the various limits and thresholds comprising the Gubernatorial Public Financing Program.

Table 3
Comparison of Goods and Services: 1981-1987 (PPI)

1981-1987	Goods or Services	Increase
	Pens and pencils	8.0%
	Unwatermarked bond paper	5.0
	Commercial furniture	25.8
	Typewriters/word processors	15.7
	Photo supplies	11.0
	Paper office supplies	12.7
	Overall (finished goods)	7.8

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 4
Comparison of Goods and Services: 1981-1987 (CPI)

1981-1987	Goods and Services	Increase
	Food	20.6%
	Electricity	8.1
	Fuel & oil	-31.9
	Public transportation	37.9
	Food away from home	26.9
	Lodging out of town	47.1
	Local telephone service	35.3
	Local telephone charges	62.4
	Overall	22.8

Source: U.S. Department of Labor, Bureau of Labor Statistics

During the period 1981-1987, the general Producer Price Index for finished goods increased by approximately 7.8 percent and the Consumer Price Index, as reported above, by 22.8 percent. Further, these indexes can be projected into the future to provide an estimate for price increases over the next two years, or for the full eight-year period between the gubernatorial elections of 1981 and 1989.

The Producer Price Index as projected through 1989 is 7.8 percent.²⁰ While these figures represent estimates of future price increases, this figure suggests an eight-year producer price inflation rate of about 16.2 percent. Similarly, the Consumer Price Index projection through 1989 by the Congressional Budget Office is approximately 10.2 percent, for an estimated eight-year inflation rate of 35.4 percent. The Federal Office of Management and Budget also has projected the Consumer Price Index through 1988. According to its estimates, inflation will increase by about 8.8 percent over the next two years, making the eight-year figure 33.6 percent.

In terms of the future viability of the Gubernatorial Public Financing Program there are PPI and CPI estimates through the year 1993, prepared by Data Resources, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO). For the six-year period beginning in 1987 and running through 1993, the Producer Price Index is expected to rise by 29.3 percent and the Consumer Price Indexes of the Congressional Office and OMB by 30.9 percent and 21.9 percent, respectively.

Year by year projections for the PPI and CPI are shown in Tables 5 and 6.

Table 5
Producer Price Index Projections: 1988-1993

Year	Projected Increase
1988	3.9%
1989	3.8
1990	4.3
1991	4.5
1992	4.8
<u>1993</u>	<u>5.0</u>
Compounded six-year projected increase	29.3%

Source: Data Resources, Washington, D.C.

Table 6
Consumer Price Index Projections: 1988-1993

Year	Projected Increase	
	CBO	OMB
1988	5.2%	4.4%
1989	4.8	4.2
1990	4.4	3.7
1991	4.4	3.9
1992	4.4	2.7
<u>1993</u>	<u>4.4</u>	<u>2.0</u>
Compounded six-year projected increase	30.9%	21.9%

Sources: Congressional Budget Office and U.S. Office of Management and Budget

SUMMARY

The importance of the foregoing information to a credible Public Financing Program is clear. Using the six-year CPI projection of the Congressional Budget Office and adding it to the actual six-year period, 1981 to 1987, it is conceivable that a compounded twelve-year inflation rate of about 60.8 percent could be reached. In addition to the toll current inflation could take on an unchanged Public Financing Program in 1989, its effect on the program in the 1990s would be severe if thresholds and limits remained at 1981 levels. In fact, it is difficult to see how the program could survive. If the twelve-year inflation rate is even close to 60.8 percent, without the proper adjustment for such an inflation rate, the public financing effort would be seriously weakened.

These general inflation figures point to the need to modify the various thresholds and limits of public financing in ways that will keep the program viable and attuned to inflationary levels. Moreover, the following section, discussing media cost inflation-an area that is so essential to modern-day gubernatorial campaigns in New Jersey-will not only reinforce the argument for adjusting the provisions of the program but will demonstrate the absolute necessity of following the prescription for keeping the program viable as recommended by ELEC in its report on the 1985 gubernatorial elections.

4. MASS MEDIA INFLATION

It was established above that since the 1973 gubernatorial elections, expenditures for mass communication purposes, as a proportion of total campaign spending, have steadily increased. In fact, in the general election of 1985, 84 percent of all campaign expenditures went for mass media. Additionally, within this category of mass communication, spending on broadcast media increased precipitously, to 87 percent of mass communications spending in the general election of 1985.

Taking this fact into account, this section will examine the costs of mass communications, with specific emphasis in the area of broadcast media. In today's Statewide contests no other single factor affects the ability of candidates for governor to run effective campaigns nor speaks more loudly for the need to modernize the various thresholds and limits of New Jersey's gubernatorial public financing program than does the cost of political advertising on broadcast media.

IMPORTANCE OF TELEVISION ADVERTISING IN CAMPAIGNS

That the use of television has become so much a part of Statewide campaigns for governor should surprise no one. Approximately 88.6 million households throughout the nation contain television sets. Moreover, 60 percent of these households boast more than one set. In an average day, 88 percent of households will have had at least one member watching television, for a daily viewing average of seven hours and 35 minutes.²¹ More time is spent by adults watching television than with every other form of mass media combined.

According to statistics compiled by TVB/R.H. Bruskin, in January, 1985, adults spend 60 percent of their media time watching television and 29 percent of that time listening to the radio. These same statistics indicate that adults spend seven percent of their mass media time reading the newspaper and four percent reading magazines.²²

Television Advertising Grows

In addition to the general information presented above, statistics show that advertising on television continues to grow as both a local and national advertisement medium. As a local advertisement medium, television is the fastest growing of all types of advertising. While newspapers (retail and classified advertising) share a larger proportion of the local market, television has shown the fastest growth between 1985 and 1986. Holding an 18 percent share of the local advertising market, use of television advertising jumped by 14 percent during that year. Nationally, television is by far the top advertisement medium. Estimated to share 53.7 percent of the national advertising market, television far outdistances magazines at 18.1 percent, newspapers at 11.5 percent, business papers at 8.1 percent, radio at six percent, and cable at 2.6 percent.²³

Television Advertising Most Influential

The study by TVB/R.H. Bruskin in January 1985 also indicated that by wide margins adults considered television advertising to be the most influential, exciting and authoritative of the major media advertising categories. Compared with radio, magazines and newspapers, television was cited as the most influential source of advertising by 80 percent of the adults surveyed. It was cited as the most exciting by 81 percent of adults and the most authoritative by 57 percent of adults.²⁴

As painted by these statistics, this picture shows why political professionals and Statewide campaign experts have increasingly relied upon broadcast media, particularly

television, to get their candidate's message to the voters. The power and influence of television have not been lost on these skilled campaign personnel as they struggle to reach as many people as possible in the most effective and efficient way.

IMPACT OF MASS MEDIA COSTS ON PUBLIC FINANCING

With these facts in mind, the importance to the public financing program of mass media costs, especially as they apply to television, should not be overlooked. New Jersey viewers are served by the New York and Philadelphia markets, two of the most expensive media markets in the country. Accordingly, New Jersey is among the most expensive areas for television advertising to reach.

Cost of Television Advertising in New York/Philadelphia Markets

As an example, a prime time 30-second advertisement in New York would cost upwards of \$20,000.²⁵ WNBC, New York City, for instance, recently charged \$24,000 to place a 30-second, non-preemptable political advertisement in prime time.²⁶ Certainly the other major network stations are competitive.

In Philadelphia, the average market rate for a 30-second political advertisement placed in prime time is \$9,500.²⁷ WABC, Philadelphia, recently charged as high as \$14,000 for a prime-time spot.²⁸

Obviously, many factors determine television rates. Computerized and subject to change at anytime, the cost of an individual political advertisement varies according to time of day, day of the week, and whether the campaign chooses a "preemptable" or "non-preemptable" advertisement. A preemptable advertisement is one that can be bumped by the station to make room for another advertisement which has been purchased by a second customer. This second customer is willing to pay a higher price for the same spot. In other words, the campaign can never be certain that a preemptable commercial will be run during the time period for which it planned. In choosing this type of advertisement, the campaign continues to be in competition with other customers, subject to the highest bid. A non-preemptable advertisement, on the other hand, is locked in at the time of purchase. In this case, the advertisement cannot be bumped by any other.

Naturally, non-preemptable political advertisements are more expensive than preemptable ones, and are comparable in price to that for advertisements for regular advertising. Not surprising either is the fact that non-preemptable spots are the ones most likely to be chosen by the campaigns. Candidates, like other advertisers, want to get the most for their money and want to be sure that their advertisement will be shown during the time slot they have chosen. They know "who is watching when" and their advertisements are designed to appeal to targeted audiences. Moreover, pricing also is determined by the latest Nielsen ratings.

These figures indicate how expensive it is to advertise on television. A statewide gubernatorial campaign, attempting to formulate and implement an effective media strategy, will necessarily encounter a huge expense in doing so.

Inflation in Television Advertising

Looking at television costs, and their impact on the public financing program from another perspective, it is important to note that these costs, like the costs for other sectors of the economy, are subject to the pressures of inflation.

According to media unit cost indexes developed by McCann-Erickson, the overall cost of advertising on television has increased by approximately 57 percent during the six-year

period between 1981 and 1987. As shown in Table 7, network or national advertising costs have increased at a slightly faster rate than local or spot advertising costs.

Table 7
Television Advertising Cost Increases: 1981-87

	Increase Per Unit Cost
Network	58%
Spot	55
Overall	57

Source: McCann-Erickson Cost Indexes, December 1987.

In any case, spot advertising, which is the type of advertising utilized in New Jersey gubernatorial campaigns, has increased in cost by 55 percent, or more than double that of the national inflation rate for the same period. If one calculates in an estimated two-year increase of 12 percent as projected by McCann-Erickson, then spot advertising compounded costs can be estimated to increase by about 74 percent during the eight-year period between 1981-89.

Ted Bates C-P-M media cost survey for Television Advertising Bureau (TVB) also has followed advertising cost increases in the television industry. Its findings suggest a high rate of increase in media costs as well. During the six-year period of 1981 through 1987, Ted Bates reports the compounded yearly C-P-M increase in overall television advertising to be about 50 percent. While no estimates for 1988-89 are available from Ted Bates, the six-year C-P-M rate as calculated by him corroborates McCann-Erickson findings of television unit cost inflation that is more than double the CPI for the same period.²⁹

In short, these statistics show that television advertising costs will have increased at a higher rate than most other sectors of the economy by 1989, a reality that should not be lost on reformers of the public financing program.

Inflation in Radio Advertising

The other broadcasting medium utilized in Statewide campaigns for governor is radio. The majority of radio spots purchased by campaigns are 60-second spots which are bought in bulk. Rarely do campaigns purchase radio spots individually. The unit cost is less when bulk plans are purchased. Moreover, it also is a better media strategy to purchase plans consisting of a number of different radio spots. Saturating the air waves for several consecutive days is much more effective than purchasing a spot here and there.

Radio station WNBC, New York City, sells plans to political advertisers consisting of either 12 spots or 20 spots. A "12 plan," which consists of morning, mid-day, and afternoon spots interspersed throughout the week, costs approximately \$1,800. A "20 plan" costs about \$2,400.³⁰

Depending upon a campaign's media strategy, advertising on the radio could be quite expensive. There are 94 radio stations throughout New Jersey, not to mention those airing from New York and Philadelphia and reaching New Jersey audiences. Campaigns could choose a number of stations which are regionally situated and place advertisements to blanket the State with their candidate's message. These radio stations are subject to the same pricing pressures as television stations. Rates depend upon where a radio station's

programming falls in the ratings picture. The New York City and Philadelphia stations would be subject to radio's equivalent of the Nielsen ratings, namely, ratings developed by the Radio Advertising Bureau. Part of the cost workup for local New Jersey stations would be predicated upon a station's broadcast radius. Accordingly, an effective radio campaign, while not as expensive as television would be, is costly.

Inflation has affected this sector of the economy as well. Since 1981, inflation, calculated on a unit cost basis, has amounted to 52 percent overall (Table 8) and is expected to increase at a compounded rate of almost 68 percent during the eight-year period, 1981-89.

Table 8
Radio Advertising Cost Increases: 1981-87

	Increase Per Unit Cost
Network Radio	61%
Spot Radio	43
Overall	52

Source: McCann-Erickson Cost Indexes, December 1987.

Thus inflation throughout the television and radio industries has outdistanced that for the general economy, and the implications are obvious for the public financing program. Since broadcast media comprises the largest portion of mass communications expenditures in current campaigns for governor of New Jersey, and expenditures on mass communications comprise the bulk of campaign expenditures in general, it is apparent that the various thresholds and limits must be adjusted for inflation to insure that public financing remains strong and viable.

Newspaper Advertising Cost Increases

Aside from broadcast media, other mass media also have experienced inflation over the last six years that is greater than that for the general economy. Newspaper advertising unit costs have increased greatly since 1981. As Table 9 shows, newspaper advertising costs have jumped by 61 percent during the period, 1981-87.

Table 9
Newspaper Advertising Increases: 1981-1987

	Increase Per Unit Cost
1982	10.3%
1983	9.0
1984	8.9
1985	7.9
1986	7.0
<u>1987</u>	<u>5.9</u>

Composite six-year percent increase	61%
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Source: McCann-Erickson Cost Indexes, December 1987

Using the Future Trends unit cost indexes established by McCann-Erickson, overall newspaper advertising is projected to increase at a compounded rate of 78 percent for the eight-year period beginning in 1981 and ending in 1989.³¹

Direct Mail Advertising Cost Increases

Finally, inflation also has affected the cost of undertaking direct mail ventures. Since 1981, the unit costs of direct mail have increased by 20 percent and are projected to increase by 35 percent between 1981-89. Outdoor advertising unit costs from 1981-87 have increased by 54 percent and are estimated to increase by 68 percent through 1989.³²

SUMMARY

In conclusion, mass media is an essential part of any modern day campaign for governor of New Jersey. The increases in this sector of the economy demonstrate the need to modify the public financing program so as to maintain it as an integral part of the electoral process. Without changes in the various thresholds and limits which take into account the significant cost increases that have affected mass media advertising, the very health of the program could be placed in jeopardy.

5. CONCLUSION

Since the gubernatorial elections of 1981, the last time that the various limits and thresholds of the public financing program were modified, general inflation has increased at a rate of 22.8 percent. For the eight-year period ending with the gubernatorial elections of 1989, inflation is projected to be 35.4 percent.

Inflation in many of the sectors of the economy which directly affect the costs of campaigning has increased at an even greater rate. Inflation in the mass communication sector of the economy, which is critical to the Statewide campaigns for governor, will have reached 67 percent for the eight-year period, 1981-1989.

ESTIMATE OF COSTS OF CAMPAIGNING FOR GOVERNOR

Taking these two factors into account, general inflation and media inflation, the Commission estimates that the costs of running a campaign for governor between the 1981 general election and the 1989 general election will have increased by 60.3 percent.

Assumptions

Consistent with its gubernatorial cost analysis report in 1984, the Commission made the following assumptions in calculating the percentage of increase in gubernatorial campaign costs for the eight-year period under study:

1. the mix of communication expenditures and non-communication expenditures in the 1989 gubernatorial primary and general elections will be the same as for 1985;
2. the projected eight-year, 1981-1989, increase in mass communication costs will be 67 percent, which includes actual inflation between 1981-1987 and industry projected inflation for 1988 and 1989 (see Table 10); and
3. the projected increase in non-media, or administrative costs, will parallel the projected 35.4 percent increase in the CPI for the eight-year period between 1981-1989.

Table 10
Mass Communication Increases: 1981-1987 and 1988-1989 Projected

Media Type	Increase
Broadcast	
-Network television	79%
-Spot television	74
-Network radio	79
-Spot radio	56
Print	
-Newspapers	78
-Magazines	64
-Outdoor	68
-Direct mail	<u>35</u>
Composite mass communication increase	67%

Sources of index: McCann-Erickson Cost Indexes
and Future Trends Indexes (unit cost)

Formula

With these assumptions in mind, the Commission arrived at an estimated eight-year campaign cost increase of 60.3 percent using the following formula:

1. multiply the 67 percent increase in communication costs by the proportion of all campaign expenditures made for media in 1985, 79 percent ($67 \times .79 = 52.93$);
2. multiply the 35.4 percent projected increase in the CPI by the proportion of all campaign expenditures made for administration in 1985, 21 percent ($35.4 \times .21 = 7.43$); and
3. add the increase of 52.9 percent for communication costs during this eight-year period derived from step one to the increase of 7.4 percent for administrative costs derived from step two to arrive at an estimated eight-year campaign cost increase of 60.3 percent.

Without doubt, New Jersey's Gubernatorial Public Financing Program has acquired an institutional stature in the State. The program is respected by Republicans, Democrats and Independents alike; it has fostered an atmosphere of gubernatorial elections free of influence buying and one that has permitted quality candidates of limited personal wealth to make strong runs for the office of governor.

Surely a program of this importance and magnitude should be strengthened and supported and not allowed to lose its viability because necessary and essential modifications to its limits and thresholds were not enacted into law.

The Commission has presented an estimate of the expected increase in campaign costs over an eight-year period ending with the gubernatorial elections of 1989. Indeed, the actual increase in campaign costs might even exceed the 60.3 percent estimate. Nevertheless, the point has been made that the costs of campaigning will almost be double the general

rate during this period, and that the price to be paid by the public financing program of any failure to modify it by the next gubernatorial elections will be high.

The Commission, in its 1986 report, made several recommendations that, if enacted, would bring the program in line with inflation and maintain, with certainty, its viability in the gubernatorial election process. Among these is the innovative recommendation which calls for the program's contribution limit and other limits and thresholds to be linked to the CPI. Clearly, enactment of this proposal would permanently insure the health of gubernatorial public financing in New Jersey. The CPI linkage together with the enactment of the Commission's other recommendations would bring the program in line with inflation for the 1989 and future gubernatorial contests.

With this report, the Commission urges the Legislature to pass these 1986 recommendations, or some variation that would accomplish the same goal, so that public financing, which yearly receives tremendous support from the citizenry through the tax checkoff, can continue its vital role in elections for governor.

NOTES

1. New Jersey Election Law Enforcement Commission data on the gubernatorial elections of 1977, 1981 and 1985.
2. New Jersey Election Law Enforcement Commission audits of the 1985 public financing program conducted by Farida Maneckshana, CPA PA.
3. *N.J.S.A.* 19:44A-7.1.
4. The Commission's recommendations are included in its report on the 1985 elections: New Jersey Election Law Enforcement Commission (ELEC), *New Jersey Public Financing: 1985 Gubernatorial Elections*, (September 1986), pp. 9-15. For reports on the 1981 and 1977 elections see the "Suggested Reading List."
5. *Ibid.*, p. 11.
6. United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index Detailed Report, January 1988.
7. McCann-Erickson, Media Unit Cost Index, December 1987.
8. ELEC, *New Jersey Public Financing: 1985 Gubernatorial Elections*, (September 1986), p. 11.
9. *Ibid.*, p. 1.
10. *Ibid.*, Table K, p. 44.
11. *Ibid.*
12. Dan Weissman, *The Star-Ledger*, "Election Costs Boosted By Need For Ad Men, Pollsters, Other Experts," July 19, 1987, p. 21.
13. New Jersey Election Law Enforcement Commission, *Analysis of Cost of Election Campaigning and Recommendations for Altering Contributions and Expenditure Limits for Gubernatorial Elections*, (May 1984), pp. 9-10.
14. Discussion with Edward W. Vogelsong, New Jersey Press Office of the Governor, August 10, 1987.
15. Discussion with Larry Moran, United States Department of Commerce, Bureau of Economic Analysis, April 11, 1988.
16. See CPI Detailed Report, January 1988, note 6.
17. New Jersey Department of Labor, Division of Planning and Research, *New Jersey Economic Indicators*, December 1987.
18. See CPI Detailed Report, January 1988, note 6.
19. 1988 and 1989 CPI projections taken from Congressional Budget Office Midsession Review of FY 1988 federal budget.
20. 1988 and 1989 PPI projections derived from discussions with Bart Seeman, Data Resources, Washington, D.C.
21. Television Information Office and A.C. Nielsen, TV Homes, January 1987, time spent, 1986 annual average and A.C. Nielsen daily television viewing per home annual averages.
22. Television Bureau of Advertising, Inc. (TVB)/R.H. Bruskin, January 1985.
23. McCann-Erickson, May 1987.
24. See note 21.
25. Discussion with Mose Flasche of WCBS Television, New York, November 18, 1987.

26. Discussion with Jay Linden of WNBC Television, New York, December 2, 1987.
27. Discussion with Joseph Masapollo, WCBS Television, Philadelphia, December 21, 1987.
28. Discussion with William Jackson, WABC Television, Philadelphia, December 8, 1987.
29. TVB, Ted Bates C-P-M Media Cost Survey, 1987.
30. Discussion with Tony Murray, WNBC Radio, New York, December 21, 1987.
31. McCann-Erickson, Future Trends Unit Cost Index, December 1987.
32. *Ibid*

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