

AUID: 4724638
 Professor Barker
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Literature Review on the Development and Impacts of Digital Fundraising

In today's political climate, politicians and campaigns are in constant need of financial support and therefore perpetually fundraising. As internet usage has expanded, it only made sense for campaigns to start turning to the internet to fundraise. However, the reasons that motivated this expansion and the way in which digital fundraising developed are very complex and compelling. While still a new topic, scholars have started exploring the topic of digital fundraising and its impacts. This literature review examines that body of research by asking how and why digital fundraising developed and how it has impacted modern campaign strategy.

Scholars tend to point to Howard Dean's campaign for President in 2004 as the first successful digital fundraising campaign. Dean rose "from little known Vermont governor to serious contender for the Democratic nomination in 2004" (Anstead & Chadwick, 2008, p. 105). He was considered a political outsider who was very unlikely to win the nomination, so his early rise as the Democratic frontrunner was unexpected and remarkable (Anstead & Chadwick, 2008, p. 105; Hindman, 2005, p. 121). Dean was the first major campaign that was able to harness online donations into large fundraising numbers (Hindman, 2005, p. 124). Dean's interactive website provided an easy way for voters to learn about him, donate to his campaign, and sign up to volunteer (Hindman, 2005, p. 121). And by fundraising online, Dean became the "most successful primary fundraiser in the history of his party" and "shattered previous fund-raising records" (Anstead & Chadwick, 2008, p. 105; Hindman, 2005, p. 121).¹ This successful fundraising allowed Dean to be taken seriously as a candidate, giving him momentum early in the campaign (Hindman, 2005, p. 124). The novelty of his online, small-donor fundraising also garnered him serious media attention,² "a priceless publicity boon for a candidate who began as a dark horse," which in turn gave him more momentum and more donations (Hindman, 2005, p. 124). While Dean's campaign did not succeed, scholars agree that his campaign was a major turning point in how political fundraising was viewed academically (Hindman, 2005; Anstead & Chadwick, 2008; Carpenter, 2010). Dean was able to translate small donations into a campaign war chest; non-wealthy donors comprised a much greater percentage of his fundraising, and many of these donations were unsolicited (Hindman, 2005, p. 124-125). Ultimately, despite his loss, many of the digital fundraising techniques Dean pioneered would be used by the Obama campaign in 2008 (Anstead & Chadwick, 2008, p. 105; Borins, 2010, p. 183).

Similarly to Dean, Barack Obama was a political outsider who excelled at digital fundraising, but unlike Dean, Obama was ultimately able to use digital fundraising to win his

¹ By the end of January of 2004, Dean had raised over \$41 million, much of which was from online donations. 61% of Dean's total fundraising came from donors giving under \$200 (Hindman, 2005, p. 124).

² According to Hindman (2005), "1,325 stories in major papers [...] mentioned Dean's Internet effort during the six months preceding the New Hampshire primary. [...] Both the scale of Dean's online organization and his unprecedented success at raising large amounts of money in small donations qualified as newsworthy" (p. 124).

party's nomination and ultimately the Presidency. Through the primary and general, Obama's campaign utilized a "massive email list [...] to send out updates and fundraising appeals to supporters" (Anstead & Chadwick, 2008, p. 104).³ In the primary, scholars agree that this email list was able to help Obama instantly capitalize on his early victories in Iowa and South Carolina and turn that momentum into hundreds of thousands of small donations (Anstead & Chadwick, 2008, p. 104; Christenson & Smidt, 2011, p. 23-24). Obama was able to achieve "financial parity with the Clinton fundraising machine" and win the Democratic nomination (Anstead & Chadwick, 2008, p. 104). There is widespread agreement that "Obama's online tools were decisive in his defeat of Hillary Clinton" (Anstead & Chadwick, 2008, p. 103). Christenson & Smidt (2011) contrast the notion that digital fundraising is game-changing by pointing to a few unique attributes of the Obama campaign that likely led to his unprecedented success, such as his organizational strength and the "phenomenon" that his campaign became due to his widespread public appeal, his charismatic persona, and the favorable media narratives surrounding him (Christenson & Smidt, 2011, p. 23-24). Obama's success in online fundraising continued into the general election, where ultimately, Obama's campaign "raised nearly \$750 million from 4 million donors, 550,000 of whom were contributing for the first time" (Borins, 2010, p. 182). According to Carpenter (2010), "Barack Obama's record fundraising enabled him to outspend Republican rival John McCain's campaign through traditional television ads in key battleground states as well as to develop the offline physical infrastructure needed to organize volunteers" (p. 224). Obama's fundraising also allowed him to decline public financing for his campaign, the first major-party candidate to ever do so (Carpenter, 2010, p. 224). So while scholars may disagree as to whether digital fundraising caused Obama's success, there is general agreement that digital fundraising greatly helped his presidential campaign in 2008 and laid the groundwork for future potential digital fundraising-oriented campaigns.

Now that this literature review has explored the first campaigns to successfully utilize digital fundraising, it is important to examine why digital fundraising developed. There are several theories among academics as to what motivated turning to the internet for fundraising; many academics support multiple of the following theories. There is not necessarily one correct theory, but rather multiple variables that pushed campaigns towards digital fundraising. One prevailing theory is that digital fundraising was predominantly developed by candidates due to the unique nature of primary campaigns. Anstead & Chadwick (2008) point to how many internet innovations were developed by candidates during the primaries, such as John McCain, Howard Dean, and Barack Obama. Primaries can often be uncertain in their outcomes, which "forces candidates to experiment with new technologies and cast around for opportunities to build what are often fragile and fleeting coalitions of support" (Anstead & Chadwick, 2008, p. 107-108). This theory of the development of digital fundraising during primaries goes along with the theory that it is outsider or dark horse candidates that have turned to the internet to garner support. Because primaries cannot be controlled by the political party, outsider candidates without establishment support are free to run for the nomination, and they frequently have turned to the internet to gain support outside the party establishment (Anstead & Chadwick, 2008, p.

³ People who signed up on his website would received frequent emails asking for small donations, which were "almost always presented in terms of a specific cause (such as fundraising for a certain state in the primaries or the general election), a specific amount of money – especially if small donations were being matched by large donors – and a deadline" (Borins, 2010, p. 184).

107-108). Internet donations allowed dark horse candidates to show their viability and translate that success into real-life volunteers and voters (Anstead & Chadwick, 2008, p. 107-108; Hindman, 2005, p. 121-124; Christenson & Smidt, 2011, p. 23-24). Examples of these political candidates are Howard Dean, Barack Obama, Bernie Sanders,⁴ and even Donald Trump⁵ (Anstead & Chadwick, 2008, p. 107-108; Magleby, 2019, p. 3-15). Another theory is that candidates turned to digital fundraising as a new way to generate donations after stricter campaign finance regulations were passed. In 2002, the Bipartisan Campaign Reform Act was passed to regulate campaign finance, including limiting soft money donations. This heavily impacted Democrats' fundraising strategies, which had been very reliant on soft money from large donors (Carpenter, 2010, p. 223; Panagopoulos & Bergan, 2009, p. 128). Therefore, Democrats then had to learn how to successfully fundraise from small donors. The internet made sense to carry out this objective because it was cheap and easy to reach many possible donors (Carpenter, 2010, p. 223; Anstead & Chadwick, 2008, p. 108). For example, the Obama campaign was able to use his website to lower the barriers of entry to political donating by making a website that was easy to access and use to donate small amounts (Carpenter, 2010, p. 223). Another factor that motivated campaigns to engage in digital fundraising was the increasing need to raise large amounts of money to run a successful campaign and show viability. Raising vast sums of money allows candidates to appear viable and run successful campaigns, especially during early states in presidential primaries (Christenson & Smidt, 2011, p. 6-8).⁶ Because of this need for vast sums of money, "new sources of revenue, such as online donations, have an obvious attraction, especially since Americans have a long established tradition of seeing voluntary political donations as a civically virtuous activity" (Anstead & Chadwick, 2008, p. 108). The last prominent theory is that Democrats developed digital fundraising out of necessity because they were the party out of power. Karpf (2013) argues that Democrats had to develop these technologies in "a period of counter-mobilization against George W. Bush that DailyKos and ActBlue were launched" (p. 420). Karpf believes that there is only an incentive to innovate when the party is losing, which resulted in Democrats developing digital fundraising technology in order to oust the Republicans while Republicans did not have the same pressure to innovate (Karpf, 2013, p. 420). In closing, academics do not agree on one single reason as to why digital fundraising developed.

Despite the growth in digital fundraising, there is a clear partisan divide between Democrats and Republicans when it comes to digital fundraising. The most obvious distinction observed by scholars is the "surprising absence of conservative equivalents to well-known progressive online successes such as MoveOn.org, ActBlue.com, and DailyKos.com, dating back through much of the past decade" (Karpf, 2013, p. 420). While some versions of these technologies have been attempted by Republicans, there has not been as much success with those

⁴ Bernie Sanders had an "Obama-like campaign with small-dollar fundraising and volunteers" that surprised researchers with his success in challenging the establishment-based campaign of Hillary Clinton (Magleby, 2019, p. 15).

⁵ According to Magleby (2019), "Small donors were also important to the fundraising of Donald Trump, especially in the general election" (p. 3).

⁶ While the exact influence of money on nomination victories is unclear, "it is generally accepted that having large sums of money is a necessary component for candidates to compete and win their party's presidential nomination" (Christenson & Smidt, 2011, p. 4).

platforms (Karpf, 2013, p. 420). Karpf (2013) argues that since Democrats developed these strategies in a period of counter-mobilization against Republicans, that there has not been that same motivation among Republicans to develop digital fundraising tools, which resulted in Democrats developing this technology while Republicans did not. (Karpf, 2013, p. 420). Republicans were also less impacted by campaign finance regulations from the Bipartisan Campaign Reform Act because they were not as reliant on soft money (Carpenter, 2010, p. 223; Panagopoulos & Bergan, 2009, p. 128). Therefore, they did not need to turn to the internet for new sources of revenue. Another factor is that liberals tend to be more active in politics online, so it may just be easier for Democrats to find potential donors online than Republicans (Hindman, 2005, p. 122-123). However, that is not to say that no Republican candidates have benefitted from digital fundraising. For example, in the 2000 Republican presidential primaries, Senator John McCain was able to use his surprise victory in the New Hampshire primary to raise over \$4 million on the Internet (Carpenter, 2010, p. 219). Overall, McCain was able to raise \$6 million on the Internet during that campaign, which was nearly one-quarter of his individual contributions (Panagopoulos & Bergan, 2009, p. 127). Another Republican candidate that effectively used online fundraising was President Donald Trump in 2016. Trump's fundraising was highly reliant on small donors in both the primary and general election (Magleby, 2019, p. 3). It is possible that despite the digital fundraising technology divide between Democrats and Republicans, as non-establishment candidates, both McCain and Trump had to turn to more innovative fundraising methods to fund their campaign (Anstead & Chadwick, 2008, p. 107-108). So while academics agree that Republicans as a whole have currently not been as effective as Democrats at digital fundraising, there is still the potential for Republicans to further expand their digital fundraising efforts in the future.

Scholars believe that the proliferation of digital campaign fundraising has significantly altered the strategies of modern campaigns. Scholars agree that digital fundraising has proven its success as an effective way to fundraise for political campaigns.⁷ Digital fundraising is also incredibly cheap, especially compared to direct mail costs. When sending emails to donors, a campaign can scale up “near-costlessly from 500 recipients to 5 million recipients” (Karpf, 2009, p. 162-167). This highly alters the strategies campaigns use to reach voters by switching over to contacting voters and donors online, rather than more expensive direct mail options” (Nickerson, 2009, p. 141). It also allows campaigns to reach “the broadest possible audience rather than confining itself to those members with a high propensity to give” (Karpf, 2009, p. 167). The increased shift towards digital fundraising has also led to an increased emphasis in campaigns on data and analytics. This focus on analytics started in the Obama campaign, which utilized “randomized A/B testing to optimize every element of their online communication strategy” (Karpf, 2013, p. 418). Campaigns focus on aggregating large amounts of data to optimize their campaign choices, rhetoric, and voter outreach to be most effective and precise (Carpenter, 2010, p. 217-218; Karpf, 2013, p. 414). The immediate nature of the internet also allows campaigns to target “fundraising appeals to whatever issue dominates the current media cycle” (Karpf, 2009, p. 168). This increased focus on data analytics is not just a tiny change, but something that “is substantially changing resource expenditures and work routines” (Karpf, 2013, p. 413). Another

⁷ In 2008, the group MoveOn had 4.5 million people on its email list and “raised over \$88,000,000 for Barack Obama” (Karpf, 2009, p. 158). And as of 2012, ActBlue had bundled more than \$400 million in donations since its founding in 2004 (Karpf, 2013, p. 416).

one of the impacts of digital fundraising is a tilt towards polarizing candidates and fundraising pitches. According to Karpf (2013), “fundraising from small donors is about partisan taunting and ideological appeals” (p. 417). Polarizing candidates get more attention, more internet interactions, and more donations because polarization energizes the public and keeps them engaged in politics (Karpf, 2013, p. 417). Therefore, candidates are incentivized to be polarizing to optimize online fundraising. Academics agree that digital fundraising has significantly impacted campaign strategy, but more research needs to be done as to what other impacts there are and how they vary from campaign to campaign.

There are still significant gaps in the research surrounding digital fundraising in political campaigns. A lot of the academic research that is available regarding online campaigning focuses more on how campaigns communicate over the internet and engage supporters rather than how they fundraise. And much of the information that is available is outdated and does not apply to modern digital fundraising practices and technology. David Karpf (2013), one of the predominant scholars on digital fundraising, attributes this gap in research to the constant flux and growth of the internet. He describes how the internet is difficult to research due to the internet being “a medium that is in continuous, rapid, disruptive change,” which can result in more questions than answers (Karpf, 2013, p. 414). This constant change also undermines the validity of research because how digital fundraising worked five years ago is completely different than how digital fundraising works today, resulting in incomparable data that is difficult to analyze. It then takes years to complete and publish any scholarly research, meaning that any research released is out of date and no longer applicable to the present state of digital fundraising (Karpf, 2013, p. 422). However, despite these challenges in research, scholars need to do more to explore the impacts of digital fundraising and the different strategies and technologies utilized. As more campaigns and candidates continue to raise large amounts of money online, it is crucial for scholars to take a more in-depth look at the intricacies of digital fundraising and how it impacts the strategy and operations of those campaigns.

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