



February 11, 2008

Letter from Washington

Now it all comes down to money.

Both the Democratic and Republican races saw major shifts this past week after the votes were tabulated from the "Super Tuesday" primaries in 22 states.

On the Democratic side the Tuesday result did not produce a clear leader, and the race between Hillary Clinton and Barack Obama remains too close to call. Clinton enjoys a slight advantage in pledged delegates, but Obama is riding a groundswell of positive momentum, as younger voters, minorities and independents are swinging to his increasingly well-articulated message of change. The likelihood that their contest will be unresolved prior to the party convention has become stronger (to the dismay of party leaders).

On the Republican side, the Tuesday results clearly favored McCain and provided him with a commanding and all but insurmountable lead. This result is even more surprising in that the right wing of the party had declared war on him for his lack of conservative orthodoxy in a number of key areas. McCain's amazing political resurrection came about as the result of a combination of miscues by his opponents as much as his own political attractiveness. Rudy Giuliani's dropping out prior to Tuesday left the center of the party with no candidate other than McCain as Romney and Huckabee split the right wing vote, effectively canceling each other out. On Thursday, Romney reassessed his situation and decided to do the "statesman-like" thing and drop out so the party could unite behind McCain. More likely he also reassessed his bank account and decided that the hill was too steep to climb financed by his personal fortune.

Huckabee and Paul remain in the Republican race, but their funding will dry up as the pragmatic donors decide they are wasting their money, and McCain will be declared the party's choice. Huckabee is likely running for vice-president at this point, and wants to position himself with more delegates than Romney going into the convention.

All of this gives McCain a tremendous advantage compared to the Democrats in that he will be able to start fundraising for the November general election, and can start running against Clinton-Obama instead of other Republicans.

Meanwhile the Democrats appear to be locked in an increasingly hostile civil war. Both Clinton and Obama are having to tap their contributors again and again, risking serious donor fatigue.

Clinton set off a small panic among her donor base when her campaign announced that she had augmented her effort with US\$5M of personal funds prior to Tuesday. Obama has raised almost twice as much money since the first of the year, and Clinton's donors are beginning to sit on their hands rather than writing checks. Following the Obama sweep of weekend primaries, Clinton's campaign also announced that her campaign manager was being replaced. Throwing her own money on the table and dumping the campaign director at this point smells like increasing desperation, and a lack of resources for the unexpected long campaign ahead.

Clinton's donors are more affluent but reaching their maximum allowable contribution limit of US\$2300, while Obama's base has been much larger but writing smaller checks, so he can keep returning to them for more. This is increasingly problematic since she requires big media buys in the upcoming delegate-heavy primary states, Ohio, Texas and Pennsylvania, which are also the most expensive media markets.

From here on out until one of them is anointed as the party candidate, Clinton and Obama have to run against each other *and* McCain. Democratic Party Chairman Dean has openly speculated about one of the candidates withdrawing "for the good of the party", and throwing their support to the other so that the party can unite against McCain. Fat chance.

Dean's real concern is that the donor base on the losing side will have such hard feelings that they will decide to sit out the general election, giving the Republicans the fund-raising advantage --- especially since McCain is already raising general election money now.

And so it all comes down to money...