

Introduction: Political Parties, Funding and Democracy

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Modern political systems face a major and persistent problem: ensuring that ethnic, religious and other socially and economically distinct parts of their societies enjoy an equal opportunity to participate in the political processes and decisions which affect their well-being and status. This problem can result in conflict, and undermines the democratic and peaceful management of social contradictions. The harsh reality is that it is often the lack of financial resources which prevents the leaders and supporters of such groups from achieving political participation through representation which would foster the democratic protection of their interests.

Thus the achievement of sustainable democracy demands that particular attention must be paid to the issue of political finance, or the financing of politics. This is as important as other factors such as the appropriate electoral system (see *The International IDEA Handbook of Electoral System Design*) and selection of the best institutional design for governance, such as a parliamentary versus a presidential system. Over the years established democracies have experienced and sought to deal with the issue of money in politics, and their experience can provide useful lessons. However, these more or less satisfactory experiences with the management of political finance issues cannot ensure that unintended effects will be avoided. Thus this *Handbook* seeks to provide a menu of options and a guide to efforts made in the search for sustainable democracy, emphasizing the problems and the solutions adopted in the interests of achieving better political competition through financial regulation.

1. Sustainable Democracy: The Common Goal of a Global World

The transition to democracy has been and remains a time-consuming process involving many years and many mistakes. An estimate of how long the process takes would depend on what stages are identified as “transitional” and a judgement as to when the process “ended”. For example, Britain became a constitutional monarchy in 1689, introduced universal suffrage in 1918, and evolved the current alternation between

Conservative and Labour Party governments in 1945. France became a constitutional monarchy in 1790 and a democratic republic in 1871, and established a stable democracy (the Fifth Republic) in 1958. Germany became a constitutional monarchy in 1871, made its first attempt at democracy in 1919 and established the present system of stable democracy in 1949. The USA became an independent state in 1783, started with party government in 1824 and established the present party system in 1856. Japan became a parliamentary monarchy with party government in 1945, and experienced an electoral defeat of the governing party for the first time in 1993. On the basis of this evidence the process of democracy building took between 27 and 256 years in Britain, between 78 and 168 years in France, between 30 and 80 years in Germany, between 30 and 70 years in the USA, and about 50 years in Japan. Meanwhile, in all these countries and other established democracies popular sovereignty, the protection of human rights, pluralism of political forces, a universal franchise, elections based on a free and secret ballot and institutionalized control of power are the practical concepts on which the political system is based.

1.1. Sustainable Democracy is Party Democracy

An important part of the transition to democracy is the formation of effective political blocs – the organization of political pluralism.

There is a contemporary tendency, especially in newly democratizing states, to overemphasize the significance of non-governmental organizations (NGOs) as the link between the grass roots of society and those who make and implement decisions. While NGOs clearly have an important role to play in the development of pluralist structures in society, the experience of the pluralist democracies of Western Europe and North America is the experience of *party* democracy. Nobody planned for it, it was not part of any blueprint put into practice, but for all practical purposes it turned out that way.

Past attempts to build a democracy without parties have failed. Notable examples are George Washington in North America at the beginning of the nineteenth century and General de Gaulle in Western Europe in

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the mid-twentieth century. These two examples of military leaders who became national heroes during a fight for national independence or liberation and then leading politicians may provide telling lessons: generals Washington and de Gaulle deeply disliked political parties. Nevertheless each of them contributed to the establishment of a new political system which is still in operation. Both critics thus ended up founding a stable party democracy.

Presidents Mikhail Gorbachev and Boris Yeltsin are more recent examples. Gorbachev brought about the end of the Soviet empire when he tried to modernize the political system without replacing the Communist Party with an intermediate structure of competing political forces. Yeltsin organized regular competitive elections in the emerging Russian democracy but left the problem of effective political organizations unsolved. Political organizations competing effectively with each other were also anathema to post-communist leaders Walesa in Poland, Landsbergis in Lithuania and Havel in the Czech Republic. It seems that great men have difficulty accepting rivals, and at the very core of political parties is the idea of rivalry (competition) on equal and equitable terms.

On the other hand, Turkey, India, Taiwan and Mexico provide examples of a revolutionary movement producing a dominant party which was successfully challenged in competitive elections – in the Mexican case only after 70 years, demonstrating the fact that the consolidation of democracy takes time. In the cases of Austria and Israel, national independence and a democratic political system were initially based on the support of different groups which still form the effective backbones of political competition in these countries.

The attempt to transfer experience has to start with the recognition of differences. In some countries parliamentary elections are centred around individual candidates; in others elections are controlled by political parties. This is above all the effect of voting systems and the existence of regional strongholds of party support. In the age of television the importance of parties has increased in some countries and decreased in others. In the USA political scientists have been surprised by processes that have considerably altered the long-standing models of parties' roles in a democracy and have argued that we are observing a decline of parties. What they have really observed is a change in party organization and in citizen involvement. But the basics remain unchanged: A competing set of loosely coupled

subsystems composed of organizational nuclei, conventionally called parties, still provides labels for political conflict.

These formal organizations, built around the interests or common ideas of people who seek to participate, are institutionalized mediators between civil society and those who decide and implement decisions – government and the administration. Parties enable the social demands of their different supporters, and thus potential voters, to be represented in parliament, government and administration. Parties compete for access to political power, generate democratic governments and shape public policies, reflecting a variety of demands by interest groups. Today, although the position of parties is being challenged, especially by the media, and they are not the only bodies that perform the following functions, they nevertheless remain the only institutions that carry out *all* these functions which are necessary for the democratic process:

- Parties mediate or arbitrate between a pluralistic society and its political institutions of government.
- Parties organize political campaigns in order to mobilize voters to participate in an election.
- Parties recruit political personnel by selecting and nominating candidates who stand for public office in an election.
- Parties aggregate a plurality of interests into a reasonable number of political alternatives or policy options, and thus channel conflicts between government and opposition.
- Parties enable people to generate a plurality of opinions in public debate, elaborate projects or proposals for society, and transform policy options into political decisions.

Parties link particular interests with the “commonwealth” by means of a process of interest aggregation and majority building, if need be by wheeling and dealing. Aggregated in this way, the demands of the people amount more or less to public involvement in social security or economic affairs and the advancement of ethnic, religious, ecological or gender issues. Parties striving to win an election or to participate in power (e.g., in a coalition government) will be able to aggregate different groups of people and to take in newly emerging problems, thus reflecting changes in society. (A major problem arises when parties

do not accept competition but insist on the authoritarian rule of a single “state” party.)

If a party is not able to establish and maintain ties between civil society and the politicians who decide in the name of the people they represent, it will wither away. Other parties tied more closely to their voting clientele will survive or gain in strength. Such ties change over time and in different societies, according to changing lifestyles and priorities. The parties have to meet these challenges by organizational innovation.

Electorates may split over ideologies, interests, leaders or policies; parties can organize and manage any of these differences. In all sustainable democracies the party system must be deeply and durably entrenched in specific substructures of the specific society. **Parties link the institutions of government to the elements of civil society.** The strategies, forms and means of linkage may vary greatly but they represent lines of response and control between a party and its clientele.

There has been no mass democracy without parties during the past two centuries. In all Western democracies, as well as in India, Israel, Japan, Chile, Costa Rica and Uruguay, parties have provided the orientation for individuals and groups of citizens. In continental Europe some but not all parties have engaged in additional activities and have kept up permanent field organizations for over 100 years. In what I refer to as the “Anglo-Saxon orbit” (the title of the chapter indicates traditions in the public law system in general and the law regulating political finance in particular – cf. Michael Pinto-Duschinsky 2001:15, 19) most parties have been weaker but have been operating for an even longer period of time, that is, since the transition to responsible and popular government, which in Canada and the USA took place during the nineteenth century.

Over the decades the basics have remained unchanged. Wherever non-partisan elections have been held they were either partisan in all but name or non-democratic despite the name. Obviously, for the near future there will be no democracy without parties. If parties in general wither away, as has been predicted for some of the most advanced democracies, the institution called “party” will be replaced by some other type of political organization which will have to perform many similar functions.

Political competition demands that at least two parties effectively contest an election. Anything less is the end of democratic government.

Although a multiparty system is necessary, ups and downs in the levels of party support are quite common. For the proper functioning of the democratic system there is no need for a specific party to survive after it has lost the support of the electorate. The party system of any democracy is a never-ending dynamic process in itself. Parties are instruments of change as well as being themselves subject to change. In the long run each major party should have the opportunity to govern once and each party should learn how to survive in opposition as a minority party.

Modern political parties face a number of new problems and difficulties. People are less interested in party politics and there is a lack of personal involvement. Thus, the media are of major importance in enabling parties to get their message through to and mobilize the people. The fact that some or all media operate as commercial enterprises is one reason why funding is critical for party activities.

1.2. Functioning Party Democracies Need Appropriate Funding

Obviously, political financing is one vital aspect of party politics (although it would be a mistake for any party to become preoccupied with survival strategies based on safeguarding its financial status). There are other reasons why parties can decline, for example, if they allow their main objective to become the re-election of established leaders. The experience of the Italian Democrazia Cristiana (DC) shows that even a well-established, long-standing “cartel” party has to fear decline when grass-roots dissatisfaction results in alienation.

1.2.1. Party Competition Demands Political Spending

In newly democratizing countries the spotlight is on charismatic politicians, who are seen as essential for victory. In the short run this may be true, but in order to build sustainable competition among parties other resources have to be available. Among these prerequisites for party competition three stand out as pillars on which any party relies: **organization, volunteer labour and money.**

Organizational models and practices may differ widely but all parties operate decentralized structures consisting of a national headquarters and some regional or local chapters. This structure comprises a combination of a paid permanent staff, which may be

large or small, and fluctuating numbers of volunteer party workers. The backbone of each party organization is offices and meetings. The scale and frequency of these may differ widely but at least a few offices and a handful of staff have to be available and occasional meetings of party activists have to take place in order to initiate grass-roots involvement and political discussions, for example, for the selection of candidates at local, regional and national levels. Any degree of organization will pose a considerable need for funds for the operation of a party. Paying for media time and poster space or printing leaflets and brochures during an election campaign will add to the amount of money needed to fund party activities.

1.2.2. Definitions of Political Financing

The money needed flows legally or illegally into the various elements of a political system – the politicians, the administration, pressure groups and, not least, party coffers. It would be tempting to tackle the much broader aspects of this subject. Unfortunately, distinctions between political finance and money in politics, political money and politicians' money, the costs of democracy and the costs of democratic politics cannot be pursued here; nor can pressure-group influence and non-party political institutions, especially third-party advertising, which also raise important questions. A much narrower definition of the subject will be applied here. This *Handbook* will focus essentially on the financing of parties' activities (a) in elections and (b) during non-election periods. This is in order to highlight more precisely what financing is needed for sustainable democracy.

Although this is a limited definition – campaign and party financing – there will be brief background discussions of some broader aspects, for instance, scandals and corruption.

Even within the narrow definition applied here, there are still many gaps in our knowledge of the sources of money. These include international money, pressure-group activity, secret funds (of parties, politicians and governments), personal wealth and the changing flow of money in response to regulation.

Although campaign finance in North America is more closely regulated than party activity in Western Europe, there are unreported monies as well as unregulated areas on both sides of the Atlantic (Gunlicks 1993:238–239). These include the line of demarcation between public administration and party

activity, including the abuse of legislative privilege (e.g., franking or telecommunications facilities); the diversion of services or allowances provided for office-holders (e.g., the administrative assistant of a legislator acting as a local party agent, or the government car or aeroplane used for campaign “blitzes” by cabinet ministers); and the abuse of government-sponsored advertising during and before the official campaign periods.

Political finance is both the object and the result of political processes. The funding of parties and campaigns is determined by the policy decisions of politicians. This *Handbook* will provide indications to decision makers who have to work out specific regulations to cover both the needs of sustainable democracy and those of their different political cultures.

1.2.3. Campaign and Party Expenses are Costs of Democracy

Approaching the financial dimensions of party activities means assessing the costs arising from a specific political system. Each political system operates at specific material and immaterial, social or economic costs. In a democracy, policy concessions offered to pivotal groups in the decision-making process are a part of the overall cost of democratic politics. For the sake of precision such opportunity costs in economic terms will not be considered here; nor will the income of politicians. This *Handbook* will deal with all funds raised and spent in order to **influence the outcome of elections** and to support the **routine operation of political parties**, including the provision of services to citizens and party leaders, the training of party workers and the recruitment of candidates and volunteers, treating these as costs of democracy. Except in the exceptional circumstances of foreign sources being successfully tapped (e.g., for the process of transition to democracy), it is always the citizens at large who pay for the **costs of their democracy**. They may do this in different capacities – as party members, as voluntary donors, as the providers of “interested money”, as the consumers of goods and services, or as taxpayers.

**FIVE KEY POINTS FOR THE FUNDING OF POLITICAL PARTIES
LESSONS LEARNED FROM THE EXPERIENCE OF ESTABLISHED DEMOCRACIES***

1. Political parties and their competition for political power are essential for sustainable democracy and good governance. Viable party competition requires well-entrenched political parties. They need to be encouraged to develop, strengthen and consolidate. Competing parties need adequate resources for necessary activities.

2. Money is an essential part of this process and should be treated as an essential resource for good political practice. Thus in new democracies it should not be treated solely as a problem but as a means to create a basis for democratic government. The challenge is to find the best ways of matching the need for a sustainable financial base for parties with the wider public interest of curbing or curtailing corruption and avoiding undue influence in politics.

3. Unfortunately some activities of political parties are purely partisan. Such activities will do no good either to civil society or to the political system. Which activities of political parties are deemed necessary to run a democracy and how much money is enough for these activities? Which sources of political funds are acceptable to pay for such activities?

4. The funding of political activity by parties and candidates should be made an issue of public debate. Disclosure and reporting rules and their implementation can provide for adequate transparency of political funds. Transparency allows voters to make better decisions about which party or candidate they want to support.

5. Too much reliance on funding from either the private or the public sector of society is unwise. Democracy involves pluralism in all things, including sources of funds for political activity. New democracies should try to encourage a mixture of public and private funding when designing laws to regulate political finance.

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2. Basic Assumptions about Money in Politics

Many writers on the role of money in politics invariably see it as the main driving force for modern competitive political systems. A frequently quoted remark by Jesse Unruh, a leading Californian politician of the 1960's, describes money as "the mother's milk of politics", that is to say it is the political resource that matters most. Scholars of the subject though with differing degree of emphasis agree that money serves as a highly significant medium. K.Z. Patel (1981:138) observed that with the aid of money "shortages of manpower may be mastered and virtually all other deficiencies overcome". Or as H.E. Alexander (1992:362) has put it: "Money can buy goods, skills and services".

2.1. Political Contributions are a Means of Participation

Legitimizing decisions in a political system by encouraging the potential subjects to participate in such decisions is widely accepted as a necessary feature of popular government in liberal democracies. Participation as a principle of democracy has its own contradictions: The inalienable right to participate is inextricably linked to obvious practical difficulties. Unequal opportunities for participation and an unequal propensity to participate are relevant features of the very concept. A realistic view of democratic government has to accommodate the general claim to participate as well as the actual variations in the degrees of participation caused by economic inequality and the voluntary nature of that participation.

Modern democracy as a form of mixed government applies different rules at one and the same time. The principle of "one person, one vote" coexists with the concept of the legitimate use of money for political purposes. In societies with a broad middle class the tension between these two principles is not as great as it is in developing countries, where it can result in the rich having overwhelming influence. The poor may use their right to vote, but sometimes without real choice because the competition is unfair.

The claim of pure democracy, that political action should be paid for by those who take a voluntary interest in ideologies, issues and candidates, has led to **overemphasis on the idea of grass-roots financing**. No reliable concept can obscure the fact of life that the flow of funds into any party system reflects the economic and

social structure of its society. Parties trying to fund themselves often rely on financial sources that presuppose inequality and illegality. The search for funds may induce politicians to listen more to those who give to their campaigns than to those who vote for them, or for their party (Paltiel 1981:138).

On the other hand, politicians are sensitive to factors that may influence the outcome of an election, one of which may be the availability of funding. If this is so, and if elections are the mainspring of responsive and responsible government, money becomes a vital influence on democratic government. Government of the people for the people by the people (i.e., democracy) is a regime of political elites: The use of money as a resource in politics necessarily imports the unequal distribution of income and wealth among members of a modern society into the political process. One way to deal with this financial problem is to make money available from different sources.

Participation by way of financial giving is not widespread, even in affluent societies. Political participation in established democracies is by no means a general activity of all citizens. On the contrary, it seems to be acceptable to see political participation as a minority activity. Active and interested minorities manage the political process. They must rely on the consent or at least the tolerance of a population which remains generally passive. Political parties are a democratic avant-garde; card-carrying members of political organizations and people who donate money for political purposes are overlapping segments of an elitist minority. As long as the democratic elite remains relatively open to any individual who claims access, and as long as people can exercise the liberty to drop out of donating or participating and have the opportunity to replace elites, elitism does not endanger representative democracy. Within the democratic elite there is change and competition as well as hierarchy. At the top of this hierarchy, the people holding elective office must be subject to the will of the voters who are able to promote some and to remove or dismiss others.

Because democratic systems, and their subsystems such as parties and pressure groups, depend on voluntary participation (membership as well as activism), they need to be able to offer reasonable incentives for participation. Social incentives – honour, rank or money – channel individual activity into functions that are necessary to maintain the political system. Division of labour, democratic participation

and individual selection of the preferred means of participation are in competition, but they are certainly not in contradiction.

The general principle of the democratic participation of a mass public has to be contextualized by recognizing the range of intensity of participation. This varies with the degree of input as well as output, with investment as well as impact. The different forms of participation available to the general public and its active members can be seen as a continuum. This continuum starts at one end with voting, the form of participation enjoyed by the largest number of people. Then there is voluntary campaign work for issues, candidates and parties which means “donating” leisure time for political purposes. Writing letters to politicians or newspapers, making telephone calls or meeting influential leaders, and contributing money for issues, parties and candidates are other points on the scale. People who prefer to participate by making a financial contribution probably fall at the other end of the continuum.

The selective citizen who participates, choosing between the political resources available to them – voting or giving time, money, information, knowledge or social standing – will be part of different participating elites. Among those elites, only the voting elite – in modern democracies – involves a majority of the population. The debating minority, however, seems to constitute a larger constituency than the joining elite (i.e., citizens who actively join a political organization) or the contributing elite (i.e., people who actually donate money for political purposes). The contributing elite is nevertheless usually larger than the campaigning elite, which consists of those citizens who actively work for any political candidate, party or issue during campaign periods (Nassmacher 1992:152–155).

In most Western democracies, despite their high standards of living, parties and candidates face increasing difficulties in collecting the funds they consider necessary to support their routine and campaign activities. Parties find that they are no longer able to raise sufficient income to meet increased costs. In many countries **public subsidies** granted freely by parliamentary decision have bridged the gap between voluntary giving and necessary party spending. A flat grant to national party headquarters is the standard method of subsidization on the continent of Europe.

There are, however, risks involved in this secular trend. Citizens and parties in democratic countries have become accustomed by “pathological learning” to a

situation in which democracy demands political opinions and occasional voting, but never any additional activity or even money from personal funds. This trend has to be reversed if amateur democracy is to survive. Some established democracies have developed sets of rules for public funding of political parties which deviate significantly from the general pattern of subsidization. If citizens decide to contribute their own money to party coffers and campaign chests, a financial link of grass-roots support for party politics is maintained. In these cases the political finance regime takes special care to make sure that politicians will continue to seek donations from their supporters.

2.2. Political Fund-Raising Provides Linkage

In a democracy the allocation of political power depends on the result of an election, which is a competition with an uncertain outcome. The risk of losing an election forces governments to care about the continued support of the electorate. The hope of winning the next election helps the opposition to accept the lack of power resulting from its minority position.

Grass-roots support for a party may find expression in various acts by individuals or groups of citizens. The financing of party activity or a “cause” is one of those means which provide and sustain linkage between leaders and supporters. If a particular segment of society that supports a party happens to be more affluent, individual citizens will be able to donate freely from personal income or wealth. If grass-roots supporters are less well-off, they need to collect “big money in little sums” (Heard 1960:249) in order to promote their political cause, as all working-class parties did in Western Europe during the nineteenth and twentieth centuries. This very process of raising “big money in little sums” helped to fund movements working for the independence of many African states.¹

A party leadership striving for success must reach out to different audiences and listen to those who can vote as well as to those who may contribute their time and money. Responsiveness towards society is necessary if people are to be willing to invest any part of their own income or wealth in the future success of a political party. Such investments, possibly on a large scale, enable the party to spend either on campaign activities or on organizational efforts. Financial contributions from a minority of donors help a party to communicate with the majority of voters. Reliable links with both groups are useful for any party in a sustainable democracy. If

either link breaks down in a working democracy, the loss of power becomes inevitable.

Thus a party should never allow itself even for a short period to neglect to seek financial support from its voting clientele. Obviously there are times and circumstances when this may seem either unnecessary or extremely difficult for a particular party. The bitter consequence of neglect, however, is not only a loss of fund-raising potential but also a loss of grass-roots linkage, and eventually the loss of political power and the end of a party’s very existence – as happened to the DC in Italy during the 1990s. A prudent care for traditional links is in the best interest of each individual party. Because peaceful change rather than dramatic turmoil is at the core of sustainable democracy, such continuity is also a service to the political system.

As emerging democracies shape their rules for a stable party system they have to be aware that vigorous parties need vital links with social groups that support their values, aims and policies. The formation of goals, interest aggregation and voter mobilization depend on unceasing communication – and that includes successful linkage with party supporters.

Despite such advantages, there are risks involved in the search for funding. Problems can arise from:

- **scarcity of resources**, either in society in general or in specific segments thereof. Scarcity of funds may lead to various undesired situations. If a society is poor the funding of politics may be too limited to be effective in a mass democracy. Parties may also turn to foreign or undesirable sources, which could lead to dependence or to a loss of legitimacy;
- **inequality of resources** available for competing parties. First, governing parties have easier access to funds and are thus able to stabilize their position against parties or groups in opposition. Second, there are always segments of society which are better off than others. The unequal distribution of wealth will translate into unequal terms for political competition and the democratic principle of a “level playing field” is at stake; and
- **interested money**. Special interests can be influential in motivating a political contribution. Anyone who benefits from the status quo may be inclined to give financial support to parties that do not favour change. Parties of the “haves” may raise more funds than parties of the “have-nots”. Besides a legitimate interest in the outcome of democratic

politics there may be ulterior motives for political contributions. For example, donations by corporations and trade unions reveal the difference between grass-roots funding and “plutocratic financing”. The issue at stake is whether interested money should be allowed to override equal voting rights. For all practical purposes this cannot be handled as a problem of principle, but rather as a problem of size of donations.

Certainly a distinction has to be made between small and large donations. Some amount should be fixed as a useful threshold between “participating financially” and “buying access or influence”. All individual donations exceeding a certain (but not universally defined) amount should be seen as crossing the line towards plutocratic financing. Large donations may originate from organizations such as trade unions or other interest groups, corporations and individuals. Individual donations by persons entitled to vote (citizens) from their own funds raise the question decided by the US Supreme Court in 1976: Is money constitutionally equivalent to speech? The court decided that the inalienable right of any citizen in a democracy to speak up on political issues in public debate automatically includes the liberty to spend unlimited amounts of his or her own money on behalf of any personal opinion, preferred candidate or political party.

The next question to be considered is whether a wealthy person or organization should be allowed to provide political funds in exchange for specific favours. Such favours can be ranked by the risk they pose to democratic politics, for example, the chance to meet a famous personality, the opportunity to present particular views to an office-holder, the privilege of being granted a licence or contract, or the chance to bring influence to bear on a government decision in a field of public policy. Whereas the first two examples are more or less part of routine politics, the two latter would be widely regarded as examples of corruption.

In response to repeated cases of corruption, different means of regulation have been implemented during the past three decades. In some countries bans on corporate donations and contribution limits for individual donors, set by political agreement or national legislation, were meant to put an end to any dependence on plutocratic financing. By introducing a combination of disincentives and incentives, political reformers have sought to channel private money of

appropriate scale and origin into party coffers. Disclosure provisions have been designed to discourage corporate and large donors. Tax credits and “matching” provisions have been created to induce individual donors to give fairly small amounts to political causes, candidates and parties.

2.3. Public Funding

The insufficiency of the income from parties’ fund-raising efforts and the desire to achieve more equal opportunities in political competition have led to public money being made available for parties in many democracies. The rules for providing these funds should neither discourage individual supporters from voluntary giving nor parties from seeking private money.

This is important, because the measures to regulate and subsidize political parties have resulted in many unintended consequences and risks. These include:

- The independence of parties may be undermined by financial reliance on the public purse. This is a major problem in countries during transformation, where dominant parties are in power.
- Decisions about the amount and allocation of public funding may be unfair to opposition parties.
- Opinion polls have shown that financial subsidies for parties are extremely unpopular with ordinary citizens.

In democratic systems public funding to political parties has to address two major goals:

- first, granting to parties and candidates the essential resources for the exercise of their functions, promoting equality in their access to and use of resources, and correcting any privileges which may affect that equality; and
- second, promoting and stimulating citizens’ participation and involvement through private funding and achieving the maximum impact of civil society in politics. This objective also imposes limitations on the amounts and the modalities of private contributions.

The models for handling political financing should be tested in relation to the problems pointed out above.

3. How to Deal with Party and Campaign Funding?

There are different strategy options for dealing with “money in politics” as a political issue. Starting from their own specific experience, many democracies have attempted to deal with some of the issues mentioned here. Different problems have led to a variety of approaches which can best be summarized by identifying two groups of issues and two types of solutions favoured by legislators. There are regulative as well as distributive public policies. “States may affect political financing in two different ways, by regulation and by financial subsidies” (Pinto-Duschinsky 2001:7):

- If interested money and incidents of corruption have spurred **regulation**, the emphasis has been on rules for the financial conduct of parties, candidates and their supporters.
- If lack of funds and a desire to level the playing field have stimulated **distributive measures** (direct or indirect), **public support** has often been the cure applied to deal with shortcomings.

The extremes of the legislative approaches to political finance are typified by Malaysia and South Africa. In Malaysia there is no public subsidy but no shortage of regulations – among others a ban on foreign donations and on paid political broadcasts, as well as a ceiling on candidates’ campaign expenses. By contrast, South Africa concentrates on subsidies rather than on regulatory measures. Although there are various public subsidies, South African parties are not required to disclose their funds to the public (Pinto-Duschinsky 2001:15). In most countries the means of regulation and support are combined in current political finance regimes.

3.1. *Distributive Policies*

Distributive policies provide public support in different ways. A wealth of detail is presented in the following chapters, which cover different regions of the world. Although they were introduced early by some countries, the worldwide spread of **cash subsidies** – direct state funding – to parties and candidates is relatively recent. In a few younger democracies, such as Spain and Portugal, cash subsidies to political parties have been widely available from the very beginning of the transition process. This is not true of the new

democracies in Central and Eastern Europe (see chapter 5). Their turning away from communist traditions produced a reluctance to finance political parties mainly from the state budget, which had been common under the former regime. In Latin America there now seems to be a cross-national trend in favour of public subsidies because private funds have frequently been related to scandal (see chapter 6).

In many countries the bulk of public money is provided practically without any **obligation** for the recipient. **Earmarking** for campaigns or other purposes is rare. In most cases public cash subsidies are provided for the whole range of party activities, including campaigns, because it is not easy to differentiate between the day-to-day operations of parties and their campaign activities. The most common criterion for the distribution of money is the number of seats and/or votes achieved. Different thresholds for access are used, sometimes within the same political finance regime for different kinds of subsidy.

In many European countries public support is traditionally provided indirectly. Such **indirect support** for parties is available currently and is the only source of public support in countries which do not have cash subsidies for parties and candidates. All started with generous allowances for individual members of parliament and parliamentary party groups (caucuses). These public subsidies are often transferred in part to national party organizations. In some countries public money is provided earmarked for specific tasks, such as the work of youth organizations, political training for adults or political research. Sometimes only specific elections are funded (e.g., the US presidential election).

In affluent societies **incentives** for fund-raisers and donors are a method of indirect public funding. Some public cash support is given as matching funds, adding public money to private funds which individual supporters of parties and candidates have donated in small amounts. Some countries have introduced tax incentives for political contributions.

A major **subsidy in kind** in all the continental European countries (see chapter 7) is the preparation of an official voters’ register by public authorities (the state administration or local authorities), which renders US-style voter registration drives unnecessary. The provision of **media time free of charge** by public broadcasters has become more and more important. This subsidy in kind is provided in all the established democracies except the USA. Others, like postal

services, free use of halls and offices, and free poster space, are less frequent and less important but perhaps worth considering.

3.2. Regulatory Policies

Where regulatory policies are used their impact on the funding of politics will be determined by the rules on and practice of enforcement (see chapter 8). Individual systems of regulation differ greatly among the democracies. Nevertheless two major items can be identified which are the subject of regulatory efforts. **Bans and limits** will restrict anonymous, foreign or corporate sources of funds or spending on politics. **Disclosure and reporting rules** for parties and candidates will aim at the transparency of political money.

The whole range of detailed measures will emerge from the systems of regulation in the major regions of the world, as presented in the following chapters of this *Handbook*. The more general **problems** of such rules (the autonomy of parties, transparency of funds and implementation of the rules) are now analysed in terms of options. Three of the four options (see boxes 2–4), focus on one important aspect of the problem each: the autonomy of each party, the transparency of all political funds, and the concept of advocacy on behalf of the general public. The fourth country presented (box 5) combines these three elements.

3.3. The Autonomy Option

This treats parties as voluntary associations entitled to the unregulated privacy of their internal organization and financial transactions.

A naive version of this option would assume that under the democratic principle of equality (“one person, one vote”), the principle of free and fair elections, and the practice of secret balloting, each voter is assured of the right to decide their fate freely. No amount of money spent on propaganda, it is assumed, will have a serious impact on the rational choice of grown-up citizens. A less naive version would take into account that many voters are influenced by emotion, the mass media, party campaigns and interest groups. These, however, are also an essential part of the democratic process. The multitude and variety of forces at work makes sure that the pressures balance one another out, creating a pluralistic balance of forces, and thus having no major impact on the individual citizen. This less naive version might further assume that any

interference of state agencies in the process of democratic politics would endanger the liberty of the people, the freedoms of opinion and expression for all voluntary associations and thus the very principle of elections as a free competition for the voluntary support of the citizens.

However, some of the underlying assumptions are unrealistic.

- Differences in party fund-raising will not automatically balance one another out. Some parties may solicit corporate donations “by the

BOX 2.

THE AUTONOMY OPTION: SWEDEN

The Swedish debate on the funding of political competition has been terminated three times by a decision to abstain from statutory regulation and to respect the internal autonomy of political parties as private, voluntary associations of civil society.

1. As early as 1951 a committee of inquiry presented a detailed scheme for the reporting of party funds, but did not support any legal stipulation to implement such measure. The Swedish Parliament followed this recommendation.
2. When in 1965 the Swedish Parliament decided to provide public support for party activities (*partistöd*) from general revenue funds this subsidy was not tied to any statutory rules, e.g., for making information about party funds public.
3. Although in 1973 a motion by a parliamentary majority urged the government to propose legislation to disclose corporate donations, no bill was introduced.
4. The issue was resolved when in 1977 Moderaterna (the Conservative Party) followed the example set by Folkpartiet (the Liberal Party) in 1971 and decided “voluntarily” not to accept corporate donations in the future.
5. The parliamentary motion of 1973 was finally put to rest when, in 1980, all five parties represented in parliament concluded a “voluntary agreement” for the annual mutual exchange of their balances of income and expenditure and to make these balances available to others upon request and thus avoid legislative action on the transparency of political funds.

million”; others will collect subscriptions “from the millions”, i.e., a large membership of faithful supporters.

- Over time the amount of money needed for party activity will increase significantly because there will be an “arms race” in terms of campaign technology and/or professional organization.
- The willingness of party supporters in different segments of society, for example, business and labour, to provide funds will depend on the intensity of ideological “warfare” over values or belief systems.

BOX 3.

THE TRANSPARENCY OPTION: GERMANY

Following the assumption that German industry was instrumental in the rise to power of Hitler and his Nazi party, the German Constitution of 23 May 1949 (Grundgesetz) stipulated: “Parties . . . must account to the public for the sources of their funds” (article 21, section 1, clause 4). Detailed rules on this constitutional stipulation were laid down in the Law on Political Parties (Parteiengesetz) of 24 July 1967, chapters 23–31.

After a major decline of public confidence in political parties as a result of a political finance scandal (the “Flick affair”), the constitution was amended in 1983. Since 1 January 1984 under the constitution parties have to “publicly account for the sources and use of their funds and for their net assets”. The Parties Act was amended accordingly to provide for annual reporting of

- a balance of income and expenditure, and
- a balance of assets and liabilities.

These annual reports are verified by chartered accountants and presented to the speaker of parliament no later than 30 September by the treasurers of the national parties. Reports include data for all levels of a party organization, federal headquarters, regional sections and local chapters. Parties have to attach to their annual report a list of all donors who contributed during the year a total amount in excess of DEM 20.000 (Int’l \$ 10.000) (For an explanation of the use of International Dollars, please see *Methodology*).

3.4. The Transparency Option

This emphasizes the right of the people to know, as well as their ability and determination to judge, all aspects of party behaviour, including fund-raising and spending, when casting a vote. The major issue of party and campaign funding under this option is the quest for transparency achieved by rules enshrined in national legislation.

Economic theory suggests that fair competition is not a self-sustaining process, and the history of democratic politics has taught us that moneyed interests will try to influence the outcome of elections. At this point the idea of transparency becomes crucial.

In any democracy the constitution may stipulate that political parties and/or candidates for elective office disclose the sources of their income publicly. Two basic assumptions underlie this rule: (a) that parties raise their funds solely from private sources; and (b) that some of these sources can be dangerous for the recipient. Some parties may depend on specific donors without their voters even knowing about it. Contributions from wealthy individuals, business enterprises, trade unions or business associations may be given with secret strings attached. Donors may intend to buy access to politicians or policy decisions in order to suit their personal or institutional interest. Banning this source of party funds would restrict individual freedom for the donor and/or the recipient. Transparency of such financial links passes the judgement on these questions to the voter, who is the sovereign in a democracy. He or she may take a personal position on a specific source of funds and vote accordingly. Parties, it is assumed, will be careful when taking contributions from dubious sources because this may cost them dearly in terms of votes.

In two respects this model may be regarded as politically unrealistic.

- If voters are expected to apply an effective sanction they will need to benefit from such financial transparency close to “judgement day”, when they cast their ballot, not afterwards or up to three years in advance.
- Financial data made available to the public does not reach individual citizens automatically. Agents acting on their behalf – the administration, scholars, news editors or reporters – have to prepare the information for presentation in the print media, on radio or on television and explain the facts to the

voting public. Without the entertaining element of scandal attached to such data there may be a tendency to ignore it.

3.5. *The Advocacy Option*

Transparency of financial operations may not be enough. As voters will rarely care for details of party funding, the anticipated sensitivity of parties, leading to sound fiscal behaviour, will be limited. Public policy must create a public agency which is expected to monitor and check the flow of political funds on behalf of the general public.

Whereas the transparency option assigns wide margins of decision to individual voters, such a public agency will need a set of reliable yardsticks. Statutory rules of conduct, bans, limits and controls have to be legislated for and implemented. This procedure seeks to make sure that no financial malpractice or ultimately corrupt practice between parties, candidates and their sources of funds will happen.

Four basic assumptions may induce legislators to pursue this option.

- No measure of transparency applied to political funds will suffice to create a level playing field for all political competitors.
- No automatic supervision will effectively regulate the financial conduct of parties and candidates.
- A detailed set of rules will be able to close off dangerous sources, restrict excessive spending, avoid unwanted dependence and root out corrupt practices related to the funding of party activity.
- Only an independent public agency can be a non-partisan guardian, a public watchdog, of the financial rules of political competition.

At first glance these arguments provide a strong case for a tightly-knit system of political finance regulation. A closer look, however, indicates that major findings from policy analysis in other fields of public policy also apply in this area. The implementation of policy through any state agency involves more than the simple application of rules. The agency is only one of the actors in the policy arena. Regulatory measures have to be backed up by incentives in order to be effective. The more detailed a set of rules is the more intensive, and probably successful, the search for loopholes will be. In a modern society no complex or complicated issue can be addressed head-on. A multifaceted, piecemeal

approach based on trial and error may be more promising.

BOX 4.

AN ADVOCATE FOR THE PUBLIC INTEREST: THE UNITED STATES

Political finance regulation in the USA started early and the first measure addressed a specific issue head-on. In 1907 corporate contributions were banned by federal law. Statutory disclosure and reporting rules, and spending and contribution limits were added step by step in 1910, 1925 and 1940. The ban on corporate donations was extended to labour unions in 1943. This comprehensive set of rules looked quite impressive, but it had little impact during the 1950s and 1960s.

The Watergate scandal spurred Congress to pass the Federal Election Campaign Act (FECA) in 1974. The FECA consolidated and tightened regulatory provisions and created an enforcement agency, the Federal Election Commission (FEC). The FECA had to be partly revised and the FEC reconstituted after the Supreme Court ruling in 1976 (*Buckley v. Valeo*).

Ever since, the independent, or more accurately bipartisan, FEC

- supervises all financial transactions by all bodies (known as political action committees, PACs) soliciting and spending money to support or defeat federal candidates;
- verifies all reports presented and discloses to the public and the media all information available; and
- implements the specific rules which apply to the financial aspects of nomination (the primaries and conventions) and the election of presidential candidates.

3.6. *The Diversified Regulation Option*

This option takes account of the different, interrelated issues which need to be tackled by a carefully designed policy mix of benign neglect, precise regulation, public incentives and occasional sanctions. Learning from experience with the three options presented above, this approach tends to be more comprehensive in scope and more modest in expectation. Walking the tightrope between laissez-faire and perfect rules, any realistic approach to the multitude of issues raised by any

DIVERSIFIED REGULATION: CANADA

Following the example of one province (Quebec, 1963) the Canadian federation addressed a variety of issues of political finance in the Canada Elections Act (CEA) of 1974. The new regulation

- limited a further escalation of campaign costs by: spending limits for political parties and limits on the provision of television time;
- provided additional funds for political activity by: a partial reimbursement (public subsidy) of campaign spending and a tax credit for small donations to parties and candidates;
- stipulated transparency of political funds by: reporting of income and expenses for both parties and candidates and disclosure of donations in excess of CAD 100 (Int'l \$ 81) to parties and candidates; and
- created an independent agency in charge of all enforcement activities, especially: control of public funding and supervision of application of the rules.

Various amendments to the CEA have tried to tackle the specific issue of "third party advertising" during election campaigns. The most recent (and most promising) attempt restricts such spending and provides for its transparency.

attempt to regulate political finance needs to be modest in its expectations. Nevertheless, basic rules which have some impact are absolutely necessary if the present state of political finance in democracies is to improve.

Established democracies have created a variety of sets of rules which provide examples for the different areas of political finance regulation. Emerging democracies will find a variety of options for their individual policy mix or package of reform measures. The major elements of the package should be **transparency, encouragement, public support and supervision.**

4. Standards of Good Practice for Political Finance

The rules and regulations for the financial aspects of party competition may be called a **political finance regime**. The best practice in an adequate regime for party and campaign funding will consider the specific

features of the national polity as well as the general problems of democratic governance. Rule-making for the role of money in politics has to be a multifaceted search for the optimum, not the mere transfer of a perfect set of rules applied somewhere else. Nevertheless, a "toolbox" of options can be offered which is based on experience so far.

4.1. No Perfect Solution

The development of a useful and efficient political finance regime has to start with the acceptance of a basic piece of anthropological wisdom: nobody is perfect or will ever be.

If common sense applies to people, it will apply to rules set up for their behaviour. If the US example of a political finance regime (as set out in chapter 3) has proved anything to the rest of the world, it is the commonsense insight that the flow of money is rather like the flow of water. No obstacle set up for control purposes will stop trickles from flowing and siphons from being applied. As long as human creativity is confronted by legal frameworks, **loopholes** will be sought, found and used. **The more perfect the rules designed, the more perfect the evasion will be.**

Accepting such facts of life should not mislead legislators and administrators into thinking that all regulation is useless. Existing and potential loopholes have to be identified, major loopholes closed and minor loopholes tolerated in order to keep the regulatory regime operational. A carefully designed set of rules which demands neither too much nor too little of parties and candidates, their treasurers and agents, the public purse or the individual citizen will help to stop past practices and improve the future working of a democracy. No meaningful political finance regime will be content to apply merely symbolic restrictions to the flow of funds used for political purposes. The late K. Z. Paltiel may have hit upon the major elements of an efficient regulation when he stated as early as 1976:

A system of public financing, full disclosure and an enforcing agency backed by legal sanctions are essential to the success of a reform for party finance. Disclosure requires systematic reporting, auditing, public access to records and publicity. Enforcement demands a strong authority endowed with sufficient legal powers to supervise, verify, investigate and if necessary institute legal proceedings. Anything less is a formula for failure.

Although some authors and legislators believe that money in politics ought to be regulated tightly, the case studies in this *Handbook* (see chapters 2–7) provide many reasons for doubt. The persistent problems in Italy and Spain may be ascribed to lax implementation. Recent problems in the UK, Germany and Israel may be due to under-regulation or imperfect phrasing of the law. However, it is the examples of France and the USA which highlight the most important problem: attempts at a perfect solution are bound to fail.

4.2. Vigorous Parties

Any financial regulation for political parties has to enable parties to perform adequate services to the democratic public. Which services are to be considered indispensable?

The answer to this question depends very much on the political traditions of each individual country. In general terms parties participate in the process of democratic politics. This may include the articulation and aggregation of political interests and the development of policy options. The “minimum” service, however, to each specific polity is to nominate candidates and mobilize voters for nationwide elections. Because this is a public service provided by voluntary associations, some financial support from general revenue funds seems appropriate. The volume, scope and details of public subsidies have to be adjusted to the actual need and the available resources.

4.3. Equal Opportunities

An adequate system of rules for the funding of political parties should improve the equality of opportunity for all parties competing in an election rather than work against it.

Like other rules for the political process, party finance regulation overall should favour neither big and established nor small and new parties, neither governing nor opposition parties, neither rich nor poor parties, neither parties of the “small guy” nor those of “big money”. Public subsidies will extend to minority opposition parties some of the benefits which are always available to the parties in power and supporting the government.

If the funding system includes public subsidies, access for small and new parties deserves special consideration. The threshold for access to public funding is an important dimension of the level playing field that will enable small and fringe parties to be

serious contenders which can challenge incumbents effectively. Political innovation can originate either within the established parties or through the founding of new ones.

To some extent precautions against frivolous candidates are legitimate as long as such discrimination does not exclude new political movements from effective participation in the political competition. Political finance regulation has to be adjusted to other rules governing the electoral process, e.g., the voting system, nomination procedures, access to radio and television time and government advertising, and the privileges of incumbency. All parties and their candidates need equal opportunities to increase their support or to fail.

Concerning equal opportunities as between large and small, old and new parties, the modalities of party registration are important. Legal definitions of “party” which emphasize standards of organization, programme and membership might be considered useful. For the regulation of party finance matters a specified definition is not necessary. Some private organizations, called “parties” by themselves or others, which compete for representation in parliaments have to be made legal subjects with public obligations and privileges by registration. Because of the differences between political traditions there will be no single set of provisions for the registration of political parties that is easily transferred from country to country.

Challengers to established organizations and groups should not be obstructed. To avoid splintering of small new groups and discourage frivolous challengers and purely personal or opportunistic initiatives, organizations seeking registration should demonstrate a minimum (sizeable) number of supporters or a small number of members in the current legislature.

Because parties cannot become public agencies but have to remain private organizations, **public funding should only partly cover party expenses**. To give new competitors a realistic chance, an equalized minimum sum payable to all registered parties and the distribution of the remaining subsidy according to size is reasonable.

In supporting party activity, **subsidies in kind** such as printed ballot papers, public billboard space, the use of public halls for party rallies, a free mailing to individual voters, and free air time on public or publicly licensed radio and television are **preferable to cash subsidies**, and **indirect support preferable to money transfers**. **Matching funds are more appropriate than flat grants**.

The most efficient forms of indirect subsidy to political parties are **tax exemptions** and **income tax benefits**. Parties should generally be exempt from income, property, sales and inheritance taxes. Tax deduction means that the donor may subtract the amount of a donation from his or her taxable income. Tax credit means that the donor may claim some part of the donation against his or her income tax liability. With progressive income tax schedules the latter provides more incentive for the small taxpayer. In addition, tax credits may be made more advantageous to political than to charitable donations. (For details see Nassmacher 1992:161–162; and Nassmacher 1994:148–152.)

4.4. Grass-Roots Linkage

Any system of public funding of political party activities has to take account of the fact that the linkage between a party and its voting clientele is essential. Financial support from the grass roots should take precedence over any other source of funding. Accordingly a set of rules for state aid (public assistance) should identify the potential for grass-roots funding and provide incentives (e.g., tax benefits or matching funds) for individual contributions as well as fund-raising efforts. If the initial transition to democracy calls for a massive infusion of public money into party coffers, the political finance regime should provide for such subsidies to be terminated or reduced after a period of time. If parties do not develop permanent linkages with segments of civil society they will not contribute to sustainable democracy. Equally, if such linkage does not produce financial rewards, in the long run it will not be rooted deeply enough.

Whereas tax benefits are an incentive for the potential donor, matching funds provide an incentive to the fund-raiser. If a party has collected a lot of money in small donations, the total amount will be matched by public funds. (For details see Nassmacher 1992: 166–170; and Nassmacher 1994:152–154.)

4.5. Balanced Sources

We have seen that generally speaking there are four major sources of funds for party activity and election campaigns: grass-roots support, interested money, public subsidies and foreign funding. Each of these potential sources is closely associated with specific risks which may endanger the successful operation of a democracy.

The most obvious danger comes from foreign

funding. If a governing party depends heavily on financial resources provided by foreign governments or especially multinational corporations, their influence may undermine national sovereignty and the democratic principle of self-determination.

If public funding is the dominant source of party and campaign funds this reduces the financial linkage between a party and its supporters, the party leadership and the grass roots. It also poses additional problems. How much money is necessary to keep parties working without inviting them to waste public money or just fund an “arms race” in political competition? Alternatively, if a party relies solely on limited individual contributions because its particular clientele or the citizens in general are poor, funds available for political activity may be limited – to the point where organizational or publicity efforts almost cease to exist.

This is, however, less dangerous than having politicians in search of funds turn to interested money or even corrupt practices. “Just as there are needy politicians and greedy donors ... there are greedy politicians seeking out needy donors” (Alexander 1992:356). Although in theory the borderline between influence trafficking and institutional donations is quite obvious, in day-to-day politics this is less clear. Interested money may be given because the business community or the trade unions support a wide range of policies on which a party and a group of donors are in agreement. Some donations may be given because a donor wants to “buy” access to a governing party or even influence specific policy decisions. Politicians may demand a contribution to party coffers in exchange for granting a licence – “toll-gating” – or a commission on government contracts – “kickbacks” (Paltiel 1981:151).

A legal ban on such sources may seem the obvious solution. Another is making contributions visible to the public, and this depends largely on the media. A more promising approach is to **open up different channels for political fund-raising** so as to counteract the risks inherent in each individual source by creating some kind of balance among the different sources. Although no perfect mix can be identified, the very idea of balancing a variety of risks through a variety of opportunities seems an important basis for any good political funding practice.

The most important item on the agenda for regulation is the general aim to establish and reinforce public confidence in the soundness of financial sources and funding practices.

4.6. Reinforced Confidence

A political finance regime is not an end in itself but a means to promote the confidence of the general public in the financial operations related to the political process. The demand for transparency of political funds is incompatible with a claim to privacy for political donors and voluntary associations. Nevertheless both demands are legitimate. Complete transparency will not be achieved; complete privacy cannot be granted. Public confidence has to be the yardstick which applies when a reasonable demarcation line is drawn.

The aim of promoting and if necessary reinforcing confidence will also shape the overall composition of any political finance regime. Separate sets of rules for federal and state parties, party and candidate funding, campaign and routine spending will create loopholes. Such loopholes tend to undermine the credibility of any regulation. Regulation should aim to be comprehensive in scope and practical in design if it is to contribute to public confidence.

Money is an important resource and is instrumental to the competition for political power in any democracy. This competition, especially at election time, has to be free, fair and equitable. Does this require complete transparency of all funds used for political purposes? Not necessarily, because minor amounts of cash contributions are unlikely to disguise undue influence. A demarcation line between voluntary work by party supporters and in-kind contributions provided by the same people is difficult to draw. On the other hand, the flow of interested money into the political process should be monitored, and transparency is an important means to this end. Each democracy will have to work for its own measure of adequate transparency.

Transparency should ensure information for the voting public. Who is giving financial support to a party? How do the financial operations of one party compare to those of others? Thus any transparency regulation has to address two dimensions of the issue: the disclosure of large donations, and the reporting of income and expenses, debts and assets. Items identified by the reporting rules should strike an adequate balance between the party's right to privacy as a voluntary association and the public's right to know the important financial details of the struggle for power. The disclosure provisions' details on the sources and amounts of large donations must take into account the potential to identify interested money and the desirability of confidentiality in grass-roots support to

parties and candidates. The usual and practical solution is to establish a **threshold amount** that will determine differential treatment – either transparency or privacy.

Another area where the political finance regime has to strike an adequate balance between what is too loose and what is too strict is that of **bans and limits**. Both devices can be applied to income and expenditure, although it is most likely that specific types of income, such as foreign or anonymous donations, will be banned and expenses, especially campaign expenses, will be limited. Some countries apply contribution limits for specific categories of donors. The greatest danger inherent in bans and limits is that they will be introduced symbolically, without account being taken of the need to enforce them or the possibility of their actually being enforced. Thus, a ban on corporate and/or foreign donations is not worthwhile if multinational corporations continue to buy highly-priced tickets for fund-raising events and to send senior management to attend. Unenforced bans may thus create a credibility gap for the political finance rules and endanger public trust in democratic procedures. Ceilings for expenditure pose a similar problem. Sometimes they seem quite effective, as they do in British constituencies or US presidential campaigns. In both countries, however, other campaigns provide a safety valve where any excess funds can be spent without restriction.

Regulators who are primarily concerned with the idea of a level playing field prefer to provide a minimum level, a “**floor**”, which will enable minor parties and candidates to compete effectively against incumbents. The provision of services in kind by public agencies, such as the free use of meeting halls, mailings, poster space, air time on radio and television or the reimbursement of costs incurred, is the best way to achieve this. Nevertheless there is a problem involved with the provision of floors for political competition. How can frivolous candidates and serious contenders be distinguished? Neither a free-for-all approach nor a restriction to “established” participants should be the appropriate solution.

In general **any rule which cannot be enforced should not be enacted**. Experience from France, Israel, Spain and the United States shows that lack of enforcement destroys the good intentions of reformers. Evidence from Italy, Japan, the Netherlands and Sweden demonstrates that political parties prefer public money with no strings attached.

Any “best practice” of campaign and party financing would strive to:

- contribute to public confidence by means of improved transparency, without aiming at perfection;
- encourage grass-roots funding without trying to make it the only source of financing for party activity, including election campaigns;
- discourage dangerous sources of political funds without expecting too much of “catchy” bans and symbolic limits;
- provide public funding as a partial substitute, but tie subsidies to parties’ own fund-raising efforts via matching or reimbursement provisions;
- create legal incentives to address potential contributors as well as potential fund-raisers;
- exclude public funding for all parties which fail to comply with transparency obligations as prescribed by law; and
- create a supervising agency which strikes an adequate balance between law-enforcing authority, judicial independence, public auditing of political funds and the practical needs of competing parties.

In order to keep party financing on track, in other words, mid-way between a shortage of party funds, which is not good for a sustainable democracy, and a waste of money, which is not good for a healthy democracy, there must be checks imposed by the democratic sovereign – the voting public – and statutory incentives for proper fund-raising.

Such checks require:

- reliable information; and
- sanctions for misbehaviour and breaches.

5. The Form and Objectives of this *Handbook*

The *Handbook* is intended to provide comparative information of practical value on the various methods of political funding and their implications. It describes the different types of party financing, offers the comparative international experiences of countries with legislative and constitutional provisions regulating party funding, and analyses the choices and options for the funding of political parties. In so doing it focuses attention on the implications and consequences for

FIVE RULES FOR THE REGULATION OF PARTY FUNDING LESSONS LEARNED FROM THE EXPERIENCE OF ESTABLISHED DEMOCRACIES*

1. **Be innovative.** This *Handbook* describes a number of innovative approaches to the funding of parties and candidates, election campaigns and routine operations, e.g., the Canadian tax credit scheme, that may be useful and adaptable to other countries.

2. **Generate grass-roots contributions.** Parties which have strong ties to the core of their supporters (party members as well as small donors) are likely to conduct their roles, e.g., representation of the people, interest aggregation, policy formulation and the recruitment of candidates, much more effectively than those which have no such links.

3. **Focus on incentives, not constraints.** Because of the unceasing problems of established democracies with the funding of political parties, most of the material in this *Handbook* looks at the latter, but a key message is that the “carrot” is more useful than the “stick”. Incentives for parties to develop a sustainable funding base work much better than attempts to penalize wrong-doers, e.g., those who over-spend their campaign limits or try to circumvent other rules.

4. **Keep it simple.** As in most things, simpler rules and regulations are much more likely to be understood, enforceable and complied with. This *Handbook* lists many cases of overly complex regulations which are unenforceable in practice. In addition, simpler regulation can be adapted more easily to changing political circumstances.

5. Finally, **be realistic.** Money and politics are inextricably entwined and are going to stay that way. Focus on achievable ways to promote an efficient party system which links civil society to political institutions and to provide all the *necessary* information to the public, rather than trying to wish the problem away.

* The author gratefully acknowledges the help of Ben Reilly, formerly of International IDEA, who developed the idea for this box and most of its contents.

political parties' organization, accountability and sustainability. As a reference guide the *Handbook* draws together evidence from an unusually large number of countries.

In some of the developed countries there has been extensive research on a broad spectrum of aspects of funding and regulation for political parties. Among others, the work done by various royal commissions in Canada, committee reports from the UK, and reports prepared by the US Library of Congress and the National Democratic Institute have been used wherever possible in preparing the case studies for this *Handbook*.

This introductory chapter sets the context and indicates the areas the *Handbook* will cover. It tackles issues concerning the funding of political parties specifically – not just electoral campaigns in general terms.

The objective of this *Handbook* is to provide a “How to do it” guide. The following chapters examine the issues more closely and allow the reader to benefit from a wide range of experience from different countries, organized by regions of the world. Chapters 2–7 present regional case studies to illustrate how party financing is regulated and is operating in practice. The aim is to present examples of good practice that may be beneficial to new or emerging democracies. Individual chapters for different regions cover in detail all the important aspects of political finance that are legally regulated, especially disclosure rules, restrictions on donations, limits on campaign spending, and direct as well as indirect forms of public funding for parties and candidates.

Whereas **Anglo-Saxon** democracies have preferred a regulatory approach (see chapter 3), those in **Western Europe** have emphasized distributive measures, especially cash subsidies to political parties, and introduced less strict regulations (see chapter 7). In **Central and Eastern Europe**, after severe financial shortfalls and serious inequalities of private support, public subsidies are now an almost common feature; however, they are less important than private donations (see chapter 5). Parties have been subject to detailed regulations (bans on donations and limits on expenditure), but these rules have proved to be a legal fiction and illegal spending is significant. While several countries in Western Europe support fund-raising from individuals by tax incentives, the emphasis in **Latin America** is on public cash subsidies which are expected to prevent parties raising income from undesired –

often drug-related – sources. The regulatory approach is well developed. However, its impact varies from country to country (see chapter 6). In **South Asia** countries have responded less comprehensively to the issue of party finance. Many of them lack a system of regulation, and with one exception – Sri Lanka – public funding is non-existent. In **East Asia**, elected representatives are expected to be linked to their constituencies by financial obligations. This increases enormously the cost of being a representative. However, in Japan, South Korea and Taiwan, public opinion is swinging away from the toleration of past practices, and the chances of candidates with less resources being elected are therefore increasing (see chapter 4). **Africa** shows a picture of more or less unregulated self-help, including foreign money as well as kickbacks, returns from business investments and a few instances of public funding. The phenomenon of a candidate owning a party as a businessman is fairly frequent. The difference in financial resources between governing and opposition parties seems to be appreciably greater than elsewhere. If there are strict regulations on the statute book they are often not enforced (see chapter 2).

The issue of **compliance and enforcement**, which seems to be the most delicate problem right across the globe and is crucial for each and every set of formalized rules created to deal with money in politics, deserves and receives a thorough discussion in chapter 8.

Drawing this *Handbook* to a close, a separate chapter deals with a very important and often neglected issue – it examines the implications which the funding of parties and candidates has or may have on **gender issues**; whether insufficient resources can be one of the reasons behind the apparently small pool of women candidates; and what tools exist for supporting them (see chapter 9).

The last part of the *Handbook* is an extensive **matrix on political finance laws and regulations**, and a short concluding chapter.

One of the challenges in writing this *Handbook* was the audience to be addressed. We have tried to make it useful to a diverse cross-section of users. We aim primarily to help practitioners such as:

- senior political party officials with responsibility for making policy decisions on matters related to the funding of parties;
- politicians, legal experts, policy makers and legislators practically involved in the development of legislation on party funding;

- election administrators, officials and managers at all levels with functional responsibility for particular aspects of electoral management, including campaign funding for political parties;
- individuals and organizations that undertake advocacy work in election-related matters;
- international political organizations with responsibility for coordinating fraternal party-to-party development relations;
- research and political institutes conducting research on and analysis of the roles, functions and funding of political parties and the implications for the process of democratic consolidation; and
- intergovernmental, parliamentary and non-governmental organizations providing assistance to election management bodies.

As the following chapters of this *Handbook* elaborate in more detail, the issue of party and campaign financing in both established and emerging democracies can be compared to a mechanical problem which needs to be tackled using a number of different instruments. When it comes to dealing with the flow of money into politics, policy makers and practitioners have to recognize the complexity of the matter and the need to apply different regulatory mechanisms and incentives to minimize its corruptive effects. This *Handbook* has been written with the objective to provide different experiences on a variety of tools and instruments that political leaders, election managers, civil society groups and political parties themselves can choose from to address the growing challenge of regulating the flow of money into politics in their countries.

Endnotes

¹ I am indebted for this point to Yaw Saffu who mentioned it during a workshop held by International IDEA and the Commonwealth Secretariat in cooperation with the Election Commission of India and the Confederation of Indian Industry in New Delhi in November 2001.

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