

Background Paper

**MONEY IN POLITICS:
SOUND POLITICAL
COMPETITION AND TRUST
IN GOVERNMENT**



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TABLE OF CONTENTS

1. MONEY IN POLITICS – WHAT IS IT ALL ABOUT?.....	3
1.1 The difficult task of defining political financing	4
1.2 What has been done so far and what is new about this initiative?	6
1.2.1 Taking stock on regulations.....	8
1.2.2 Universal standards and best practices	10
2. A FRESH LOOK AT MONEY IN POLITICS.....	13
2.1 Enabling role of money in politics	13
2.2 Money influencing political competition	14
2.2.1 Donations from the private sector	14
2.2.2 Abuse of administrative resources.....	16
2.2.3 Public funding and cartelization	17
2.3 Money undermining trust and integrity.....	17
2.4 Wrapping up: Three new ideas	19
3. LINKING PROBLEMS TO SOLUTIONS: POLITICAL FINANCE REGULATIONS AND BEYOND	21
3.1 Strengthening political competition	21
3.1.1 Fighting abuse of administrative resources	21
3.1.2 Limiting the influence of large private donations on elections	24
3.1.3 Shaping political competition between parties	30
3.2 Strengthening democracy within party organizations.....	33
3.3 Fighting undue influence	34
3.3.1 Responding to campaign donors or to the voters: a matter of trust	34
3.3.2 Corrupting influence of campaign donations: breaching the law	35
3.4 Closing the gap between law and practice and reestablishing trust	36
3.4.1 Passing reforms: Conflict of interest and political finance reform.....	36
3.4.2 Implementing laws: Effective state oversight.....	36
3.4.3 Public scrutiny: civil society oversight.....	37
3.4.4 Building trust through transparency	38
4. SUMMARY	41
REFERENCES	45

Tables

Table 1. Assessments on political financing.....	7
Table 2. Topics mentioned in recommendations on political financing.....	11
Table 3. Linking problems to solutions: overview	42
Table 4. Text of International Conventions and Agreements on Political Financing.....	43

Figures

Figure 1.	Defining political financing.....	5
Figure 2.	Fundraising and vote shares in US Senatorial elections, 1990-2010.....	15
Figure 3.	Fundraising and vote shares in Brazilian local elections for major, 2012.....	16
Figure 4.	Ban on political donations by government agencies (except public funding)	23
Figure 5.	Economic inequality in OECD countries	25
Figure 6.	Electoral volatility in OECD countries.....	26
Figure 7.	Bans and limits on corporate contributions	27
Figure 8.	Public funding for parties and candidates.....	28
Figure 9.	Balance of Power: Trade Unions and Corporations	29
Figure 10.	Spending limits.....	30
Figure 11.	Public funding and free airtime	31
Figure 12.	Accounting, reporting and disclosure requirements	39
Figure 13.	Donor identification.....	40

1. MONEY IN POLITICS – WHAT IS IT ALL ABOUT?

1. This section provides key definitions and describes the extent and limits of this paper.

2. Democratic regimes and representative institutions are based on free and fair elections. Political parties play a key role in representative government by nominating candidates for office, running governments when they are the ruling party, or holding governments accountable when they are not. Trust in the political system depends on the extent to which officeholders and political parties are responsive to the citizenry between elections. The media, interest groups and nonprofit organizations all find ways of rallying the citizenry to hold politicians and parties accountable between elections.

3. Money is ubiquitous in politics. Election campaigns, political parties, interest groups, nonprofit organizations and the media depend heavily on money, or more broadly speaking on material resources. Both organizing collective action and reaching out to voters, journalists or politicians depends on funding for staff and rent to run offices or for communication services to reach out to citizens. This paper will focus on the money raised and spent by parties to fund political competition.

4. Since the early times of representative democracy politicians have struggled to develop ways of financing political competition that enhance democratic process without putting at risk key values of democracy. The negative effect of money on politics has been denounced by reformers and in the literature. At best, money has been looked at as a necessary evil. The ability of money to enhance the democratic process has deserved less attention.¹ We will shed some light on both aspects. For this purpose we will contend that there are three ways in which money affects political competition.

5. **Money is a channel of political participation.** Donating money is one form to participate in the political process, complementary to giving time, expressing an opinion or other form of collective action. When members pay membership fees to political parties, activists make donations to election campaigns and interest groups fund lobbying activities they participate in the political process, providing the means necessary to run elections campaigns and political parties. By giving their time, providing financial support or engaging in public debate citizens connect to political organizations and campaigns. Through the lenses of equal participation, freedom of expression or accountability financial support has different facets.

6. **Money both reflects and shapes political competition.** Money enables political parties to recruit and train new political leaders from different social backgrounds and make politics more inclusive. Money allows candidates with new ideas to communicate with voters and challenge traditional political elites and makes politics more competitive. Access to resources for political parties and candidates shapes political competition. Candidates that are well funded are likely to defeat opponents who have less money. The amount of money in a candidate's war chest can determine victory or defeat.² Within certain limits, the regulation of money in politics can influence the process of political competition, fostering party organizations, setting incentives for new competitors or consolidating existing parties. Again, the appraisal of unequal funding of parties depends largely on what donations represent for analysts of political competition. Scholars reading fundraising as the outcome of candidate performance in gathering support for his race will see unequal funding as a natural outcome of the election race itself. When donations are

1 There are a few exceptions, including Ware/Burnell (2007).

2 Weeks 2008 and Silver 2013 show the basic correlation between campaign spending and vote shares for US House and Senatorial elections. Milyo (2007) explores different possibilities of linking correlation to causal inference.

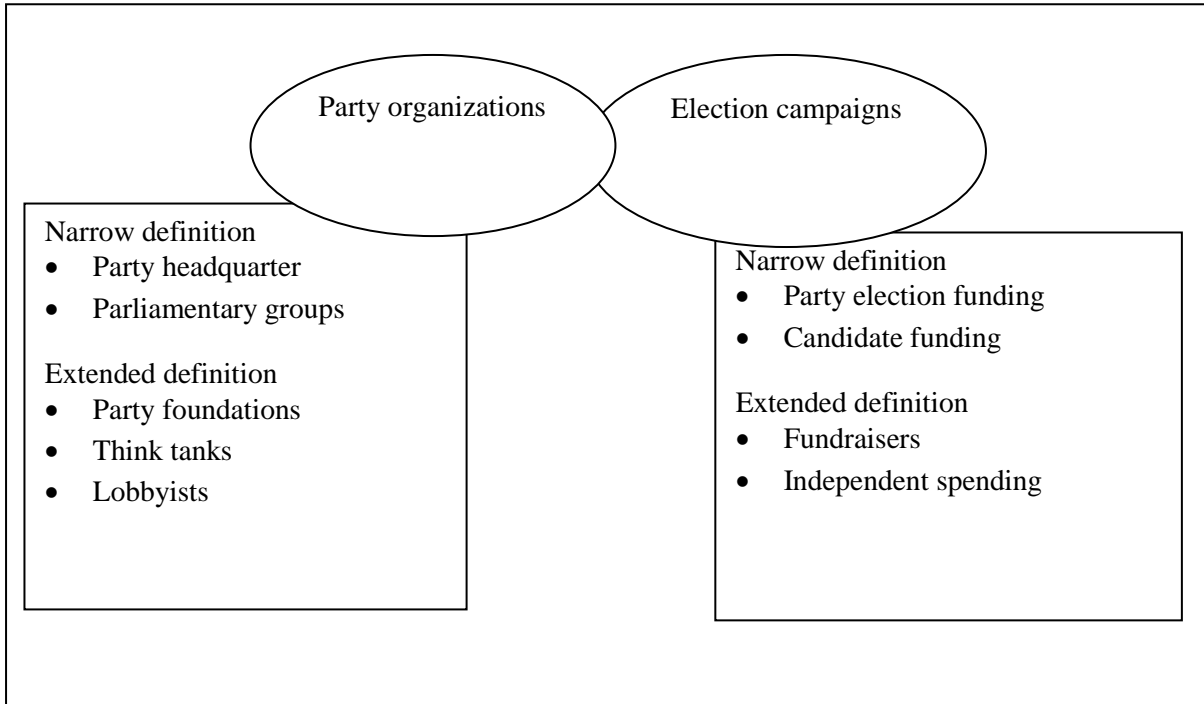
viewed as an external factor influencing politics, funding tends to be viewed as a source of unleveling the playing field of elections.

7. **Money influences politics.** Parties and candidates are answerable to their donors. Political participation via financial support is ensued by responding to donors. Citizens or organized interests will abstain from donating when disagreements with candidates or political parties arise. Donors' expectations and the means officeholders use to meet them vary extremely. Where parties or politicians are responsive to a group of donors rather than to other stakeholders or where donations earn financial benefits in dealings with public administration, financial support corrupts representative government. When lawmakers represent or appear to represent financial interests rather than the voters, the voters lose trust in representative government. Benefitting political donors will often include breaking laws by civil servants, thus undermining the integrity of public administration.

1.1 The difficult task of defining political financing

8. Political financing includes financial resources raised and spent by parties in the process of political competition. This core concept develops in different directions, depending on the political system of the country (Figure 1). Where strong party organizations exist, the demand for resources will come from the need to cover annual expenses for headquarters, for public outreach, recruitment of members, and for selecting and grooming candidates. In other political systems party organizations are weak, but the mobilization of voters reaches its peak during election campaigns, with spending on communication with voters, including professional campaign management along modern standards of marketing. As a consequence, the debate on political financing develops around the topic of party funding in some countries, with the bulk of costs going into continuous expenses for maintaining party headquarters, while in other political systems political financing is a synonym of campaign funding, with the bulk of money being spent during a few weeks of election campaigns. Apart from the amount spent on party organizations or on election campaigns, which separates both groups, the legal framework tends to express the same difference. In the first group a single law regulating party financing covers both parties and elections, while in the second case separate laws for the organization of party finance and campaign finance prevail.

Figure 1. Defining political financing



9. Both in party centered and campaign centered systems the core definition of resources raised and spent for political competition become fuzzy when it comes to identifying relevant players involved. Apart from political parties themselves other organizations like *party foundations* (Germany, Austria, Netherlands, United Kingdom, United States)³, *political think tanks* (Chile, Bolivia, Colombia, Ecuador, Peru)⁴ or other organizations close to parties raising and spending funds on behalf of political competition have to be included. Parties holding seats in parliament receive considerable public resources for their *parliamentary group* (i.e. Germany), while in other political systems elected officeholders are granted generous public funding for *office expenses* (i.e. Brazil). Such sources of funding have to be included for a complete picture on relevant resources for political competition. Looking at elected officeholders and interest groups, *lobbying* activities also have to be accounted for as resources spent to influence political opinion. While interest groups may spend money on parties and campaigns, they also mobilize considerable resources on influencing public opinion, experts and political decision makers through different activities.

10. The boundaries become fuzzy also for election centered political systems. While parties continue raising and spending funds, in candidates centered systems a considerable amount of money is raised, spend and accounted for by *individual candidates*. Organizations raising and spending funds *other than political parties* (“Amigos de Fox” in Mexico⁵, “Political Action Committees” in the United States⁶) may

3 For an overview on financial resources of party foundations see Wersch and Zeeuw (2005). For cases studies Nassmacher (2001), Pinto-Duschinsky (1991).

4 According to Cociña and Toro (2009) political think tanks are closely linked to party politics in Chile during the military regime (1973-2000) and after transition to democracy.

5 “Amigos de Fox” (Friends of Fox) was a fundraising organization supporting the election of Vicente Fox in the 2000 Presidential elections in Mexico.

play an important role in fundraising. And political advertisement by citizens, companies or organized interest groups during election campaigns may be accounted for as part of political competition (“Issue advocacy ads” in the United States⁷). Even *personal wealth* is an important factor of political campaigns, where wealthy businesspeople enter political races, with a potential of raising close to unlimited campaign funds.

11. In practice the idea of limiting resources to financial assets and transfers is not satisfying. In *kind donations* and *discounts* are substantially not so different from donating money. Whether a car shop donates money that will be used to rent a car or lends the candidate cars during the campaign does not make a substantial difference, but it would not be accounted for as a campaign contribution was the definition limited to financial transfers. Same with discounts on services or goods from providers for election campaigns. Even *loans* to political parties or election campaigns can have political significance, since access to extra funds can leverage a campaign while denying loans can restrict political aspirations.

12. When in kind donations are included, the difference from other kinds of resources becomes fluid. One might even think about the role of opinion leaders, celebrities, religious leaders or representatives of powerful interest groups, local or foreign, when endorsing or rejecting candidates as an important resource of political campaigns. But does that mean any voluntary engagement of activists has to be accounted for as a donation, too?

13. The system of election administration has also a huge impact on the costs of election. Where voters have to *register* for each election, where parties have to print the ballot and where voting is not *compulsory*, higher costs of mobilizing voters and providing the means to cast a valid vote bear on parties and candidates. The number of *voting stations* does equally impact the cost of voting, which candidates have to co-finance if they want to convince voters. Where more voting stations exist, such costs are assumed by the system of election administration.

14. Summing up, while the topic of political financing has at its core the resources mobilized during the political campaign, it is hard to define clear boundaries. It depends on the local context which activities to include, which players to cover and which kind of resources to account for.

1.2 What has been done so far and what is new about this initiative?

15. In this section we will give a summary on the main initiatives on money in politics with a focus on transnational, comparative efforts to assess the legal framework regulating political financing in contemporary democracies. This includes initiatives of nonprofit organizations like Transparency International (TI), the International Foundation for Electoral Systems (IFES), The International Institute for Democracy and Electoral Assistance (IDEA) or The Carter Center, but also transnational organizations like the Council of Europe (GRECO) or the United Nations (UNCAC) who all launched initiatives in the field of political financing. Most of them have been implemented in the last decade.

6 Political Action Committees (PACs) in the United States are registered fundraising organizations set up to raise donations from citizen and support candidates or political parties in election campaigns. PACs surfaced in reaction to the prohibition of political donations from companies and labor unions (1947). Currently there are approximately 4000 registered PACs in the US.

7 “Issue advocacy ads” refer to independent spending on political topics during elections, which are not endorsed by candidates, but influence public opinion.

Table 1. Assessments on political financing

Organization	Identification	Countries covered	Content	Data gathered
European Commission	Greco Assessments (2007-2011)	46	Regulations and subsidies (Law and practice)	Qualitative
Global Integrity	National Integrity Assessments (2004-2011)	109	Regulations and subsidies (Law and practice)	Quantitative
IDEA	Political Finance Database (2003 edition)	111	Regulations and subsidies (Law)	Quantitative
IDEA	Political Finance Database (2011 edition)	180	Regulations and subsidies (Law)	
IFES	Political finance in Post-Conflict Societies (2006)	8	Regulations and subsidies (Law and practice)	Qualitative
NDI	Funding of political parties	11	Regulations and subsidies (Law)	Quantitative
NDI	Party finance reform in Africa (2005)	4	Regulations and subsidies (Law and practice)	Qualitative
NDI	Money in politics (2005)	22	Regulations and subsidies (Law and practice)	Quantitative
USAID	Money in Politics Handbook (2004)	118	Reporting requirements (Law)	Quantitative
Transparency International	Crisis Assessments (2007-2011)	17	Transparency (Law and practice)	Quantitative

16. These collective efforts of taking stock on where we stand and seeking guidance on where to head on political finance regulation fall into two separate groups, depending on the goal. One group of initiatives compiles information on the regulation of political financing. In some cases these assessments also cover what happens in practice. The description of the legal framework is central to such studies. The second group of activities suggests cross-national standards on political financing. The question is whether universal standards on political financing can be agreed upon or whether best practices for solving specific problems can be recommended.

1.2.1 Taking stock on regulations

17. Many institutions have made valuable contributions to describing the ways in which contemporary democracies regulate political financing. These assessments have helped systematize our understanding of the regulatory environment. Current assessments of political finance regulation are based on regulation of finance flows, state subsidies to political competition, transparency requirements, and oversight.

Bans and limits

18. Regulating private financed flows underlies a concept of *banning or limiting sources or amounts* of financing. Sources considered inappropriate and therefore banned include foreign financing, financing from state organizations, from corporate donations or from Trade Unions. Limits on the amounts of private donations are concerned with the extent of influence of single donors on the outcome of elections or on the process of policy making after Election Day. Another approach limits expenses of political parties and candidates. Political candidates running for the same office have to abide by equal absolute spending limits. Spending limits are based on the idea that all competitors should have access to similar amounts of speech during campaigns.

19. Assessments on bans and limits to political financing have proven to be valuable base of knowledge we did not dispose of 20 years earlier. Reformers interested in learning about countries banning corporate money from political financing and scholars analyzing the relation between campaign finance regulation and trust in institutions will find the necessary data available at the IDEA website, which informs on political finance regulation in 180 countries.⁸ While the upside of current assessments is covering nearly all countries, breadth has not been followed by depth. There is still little knowledge about the extent to which bans and limits are implemented in practice. The Global Integrity assessment on political finance regulations in 31 countries in 2011 comes to a disillusioning conclusion: “With two exceptions, all countries assessed fit into one of two major categories: those with solid or even model sets of regulations that they fail to implement, or those that leave the flow of money into political campaigns entirely unregulated.”⁹ Another shortcoming of current assessments is the lack of information on how regulations have evolved over time. If we want to learn if the introduction of spending limits have increased political competition, information on the year such limits were introduced is crucial.

Public subsidies

20. Public subsidies to political parties can take a variety of forms, including tax breaks, free access to public services including airtime, access to public buildings, provision of goods and allocation of financial resources. Considering the impact of resources on political competition the two most important forms of public subsidies are *financial support and free airtime*.

8 The IDEA database can be accessed at <http://www.idea.int/political-finance/>

9 Global Integrity Report 2011: Main findings <http://www.globalintegrity.org/report/findings#money-in-politics>

21. There are different for public funding. Supporting political parties can help parties to cover costs as democratic institutions with public utility (Biezen 2004). Political parties recruit candidates and present citizen with alternative candidates for political office during elections. They also spend money on informing voters during election campaigns. Other scholars consider public funding as part of a strategy of established parties improving the chances of reelection. Public funding proportional to electoral success in the past consolidates the balance of power between parties and thresholds to access public funding close out new competitors (Katz and Mair 1995). Another justification of public funding is replacement of undesired private sources of funding. In some cases this connection is explicit, where lawmakers when introducing public funding limit the sources or amount of private funding. Rather than replacing large donors public funding has been rather complementary to private funding. According to scholars the success in limiting the risk of corruption has been limited (Wewer 1990).

Reporting and disclosure

22. While most countries have introduced requirements concerning *transparency* of political financing, the devil is in the detail. In many countries reporting are limited to how subsidies received from the state have been spent. In this case reporting requirements that apply to all recipients of public funds also extend to political parties. For the discussion on how money influences politics such information has limited value. Where reporting includes private income of parties the rationale of transparency is for public oversight institutions to be able to check if the books of parties, candidates and donors comply with the law. Reporting varies widely concerning activities and organizations covered (party organizations, candidates, fundraising organizations, donors) and the detail of information (assets and liabilities, income and expenses, organization costs, electioneering activities, political advertising). The variety within countries reporting on private funding ranges from parties informing on the total amount of private funds received to electronic reports identifying all individual donations. Where campaign finance information is made public, scrutiny from the media and civil society is an important complement to state oversight. Again, the details of disclosure matter. In many countries campaign finance regulations still deny public access to data on political funding. The long way to full disclosure includes access on demand (citizen have to ask for information) or publishing reports in public gazettes or websites. However, just a few countries have implemented modern standards of disclosing detailed electronic records on political financing to the public.

23. USAID published a first assessment with a focus on reporting requirements in 118 countries (USAID 2004). In 2007 Transparency International developed a tool for a comprehensive assessment of reporting and disclosing requirements on political financing covering both the law and what happens in practice. The Crinis project has been implemented in countries in Latin America, Asia, Africa and Europe, uncovering a lack of access to credible and intelligible information in most countries (Fontana 2007).

State oversight, media and watchdogs

24. In many countries there is a wide gap between the law and its enforcement. *State oversight* has a prominent place in assessments on political finance regulations. The first question concerning public oversight is which institution holds the power to review reports on party and campaign financing, followed by the question how independent such institution is from political influence. Two additional criteria on the long way to an efficient system of oversight on party and campaign finance are whether the institution has the resources and expertise to investigate malfeasance. Finally, assessments have focused on which sanctions exist for transgressions and whether these have actually been applied.

25. A few studies have focused on the legal environment of election management bodies and on sanctions available (UNDP 2000, IDEA 2006). Assessing the effectiveness of institutional arrangements in

practice has proven more difficult. IFES has launched a handbook on the main challenges in overseeing and implementing laws on campaign and party financing (IFES 2005).

26. A second topic is the role of the *media and civil society*. In many countries civil society activists have kept the debate on campaign finance reform on the political agenda. They put pressure on state oversight bodies to enforce compliance with legislation and they engage with parties, candidates and donors to commit to standards beyond the text of the law. Where records on party and campaign finance are disclosed to the public, civil society organizations have gathered, analyzed and translated information on campaign finance.

27. Despite an increased interest in gathering information on how civil society organizations engage in the debate on political financing (TI 2007) and in providing guidance for activists (OSI 2005), we still know little about how nonprofit organizations evolve and become important stakeholders on political financing, how they balance independence and activism and whether they prove effective in informing voters and pushing for reforms.

1.2.2 Universal standards and best practices

28. Several organizations have launched initiatives to set international standards on political financing. *Transparency International* promoted the idea of international standards in its Global Corruption Barometer (2001), where Keith Ewing argued strongly in favor of transparency requirements, spending limits and regulations for private funding. In 2003 the *Carter Center* discussed the topic of political financing at a Council of Presidents and Prime Ministers of the Americas who issued a statement on principles and measures that should guide countries in how to finance parties and election campaigns. From 2001 to 2003 the *Council of Europe* addressed political financing several times, issuing guidelines and recommendations to member states. As illustrated in table 1 these recommendations by different organizations cover the same range topics of topics, although with different emphasis on specific recommendations. The Council of Europe documents show a strong concern with the corruption influence of political donations. They also mention the need to limit the amount of public subsidies. Transparency International is concerned with disclosure and the role of media and watchdogs. The Carter Center showed concern with increased costs of political financing.

29. In addition, several efforts to build a transnational legal framework to fight corruption such as the *OECD Convention on Combating Bribery of Foreign Officials* (OECD, 1997),¹⁰ the *United Nations Convention Against Corruption* (UN 2003) and the *African Union Convention Preventing and Combating Corruption* (AU 2003) have included provisions on how to regulate party and campaign financing.¹¹ Finally the private sector has also included the topic of political donations in its recommendations in the *Partnering Against Corruption Initiative* (PACI), launched by the World Economic Forum and Transparency International in 2005.

30. Table 2 lists initiatives since 2001 fleshing out recommendations on regulation of political funding.¹² Researchers and practitioners have worked on principles that all stakeholders can agree upon.

10 While the original text of the OECD Convention does not make explicit reference to political donations, the Commentaries adopted in 1997 and the Recommendations adopted in 2009 extended the Convention to political donations to parties and elected officeholders.

11 Other conventions against corruption like the Inter-American Convention Against Corruption (OAS, 1996) and the Criminal Law Convention Against Corruption (COE, 1999) do not make explicit reference to political financing.

12 Table 5 at the end of the document includes the text in international agreements making reference to political financing.

While most initiatives touch on similar topics, the documents vary widely in substance. The attempt to define common denominators had limited success so far.

Table 2. Topics mentioned in recommendations on political financing

Organisation	Identification	Year	Bans Limits Private	Spending limits	State funding	Free media	Reporting	Disclosure	Oversight	Watchdog
Transparency International	Text Ewing	2001	X	X	X	X	X	X	X	X
Council of Europe	Venice Commission	2001	X	X	X	-	X	X	X	-
Council of Europe	Committee of Ministers Recommendation Rec20034	2003	X	X	X	-	X	X	X	-
Council of Europe	Text Biezen	2003	X	X	X	X	X	X	X	-
Carter Center	Meeting	2003	X	X	X	X	X	X	X	X
United Nations	Convention against corruption	2003	-	-	-	-	X	X	-	-
African Union	Convention on Preventing and Combating Corruption	2003	-	-	-	-	X	X	-	-
Transparency International	Transparency International's Standards on Political Finance and Favours	2004	X	X	X	X	X	X	X	X
World Economic Forum/ Transparency International	Partnering Against Corruption Initiative	2005	-	-	-	-	X	X	-	-
OECD	OECD Guidelines for Multinational Enterprises	2011					X	X		

Common ground

31. What comes closest to a universally accepted principle is transparency. Transparency has been mentioned in all initiatives as a fundamental principle of political finance regulation. There are exceptions, though where transparency can shock with values like freedom of political expression. In countries where the government forces companies to abstain from financing opposition parties transparency undermines open and fair elections.

32. Another principle broadly accepted, though not explicitly listed in recommendations, is government should abstain from influencing elections. Experts agree abusing government resources to promote reelection of those in power or unilaterally subsidizing political parties unbalance the playing field of political competition. There is only scarce reference to measures against abuse of administrative resources during elections in the above mentioned documents.

33. Most experts would agree on the view that small donations from private citizens play a positive role in funding democratic parties. Small donations express linkage with the electorate and do not threaten equal access to policymakers. Explicit reference to grassroots funding in guidelines on political funding is scarce, though.

34. A third concern that has overarching application is closing the gap between law and practice. In many countries the legal framework does not reflect what happens in practice. Experts agree that pro forma regulations do undermine public trust in the system and should be avoided by a more active role of oversight bodies and application of sanctions.

Other topics have been more controversial.

Different philosophies

35. When it comes to limiting or banning corporate funding or contributions from labor unions, different concepts of democracy allow for different conclusions. Where citizens are at the core of political representation, the private sector and organized interest groups can disrupt the political process. A pluralist concept of democracy accommodates the influence of different groups and collective action provided they allow for a variety of political ideologies and a balanced contest.

36. Spending limits are equally controversial. Again advocates and opponents of spending limits base their arguments on different concepts of democracy. For advocates of spending limits candidates should not be able to dominate public opinion and crowd out opponents by resorting to unlimited spending. Spending limits are a safeguard for plurality of information. For opponents, spending money on political campaigns stands for free speech and any limitation of spending equals censorship. This principle has led to rulings by the United States Supreme Court declaring spending limits in conflict with the First Amendment and therefore unconstitutional.¹³

37. Public financing is equally controversial, though there is a trend in providing some kind of public funding in many countries. Where practitioners and experts diverge is the balance between public and private funding. Those who favor private funding for its linkage with the electorate and see a potential threat of public funding disconnecting parties from the electorate favor a mixed approach. Others who distrust private resources for its deficits of equality and the risk of increasing corruption tend to favor public funding as a prevailing or even exclusive source of funding.

13 Two important Supreme Court decisions suspending spending limits were *Buckley v. Valeo* (1976) and *Citizens United v. FEC* (2010).

2. A FRESH LOOK AT MONEY IN POLITICS

38. Past efforts have focused on describing existing regulations and on hammering out universal guidelines for regulation. Despite different approaches and priorities, the overall focus is on the unbalancing and corrupting influence of money in politics rather than on money providing linkage, democratizing politics and enabling political competition. In addition, the debate on political finance regulation during the last two decades has looked at money in politics separate from context. We suggest taking a step back and analyzing political finance regulation in the context of participation, competition and influence.

39. In relation to political *participation of citizen*, contributions and donations to political parties and election campaigns are alternatives or complements to voting, volunteering, protesting, and boycotting. The role of money connecting citizens, parties and officeholder has not deserved much attention by reformists. Despite the recognition of grassroots funding as supportive for modern democracies and political parties, it is considered an out dated model by most experts. Enhancing small donations requires a broader understanding of different channels of contemporary political participation.

40. *Political competition* pertains to the balance of power between parties and the dynamics of organizational development within parties. While campaign finance reformers have tried to shape political competition between parties, the role of money within party organizations has been neglected. Money does not only help parties to fulfill their role as “public utilities” in representative democracies.¹⁴ It also shapes relations among the branches of parties, between parties and elected officeholders and the role of party members and activists.

41. *Political influence* concerns the normative question of the extent to which elected politicians can be held accountable for their response to financial donors. Again, campaign donations are but one channel of influence for organized interest groups of individual companies to put pressure on lawmakers and governments. Understanding the role of campaign donations for interest groups requires a broad view on different channels of influence, including lobbying, personal networks between businesspeople and politicians, coordinated activities between political parties, trade unions and business organizations, and also outright bribery. Where campaign donations buy economic benefits for specific donors, reform initiatives should include public sector reform. Vulnerable areas like public contracting and political influence on civil service lay the ground for illegal kickbacks to campaign donors.

2.1 Enabling role of money in politics

42. The discussion on financing politics has overlooked the enabling role of money for *active political participation* in elections and public office. Historically party organizations enabled middle class or working class citizens to become political leaders. By raising resources to cover expenses for maintaining party bureaucracies, but also for providing the means for a new breed of half-professional politicians political parties helped overcome limitations from previous times. Before the invention of party organizations during the second half of the 19th century political engagement was limited to a select group of aristocrats and other members from the social and economic elite that could afford living for politics rather than from politics (Weber 1990. Without political parties, active political engagement in full time politics was a luxury for a few.

14 The concept of political parties as public utilities has been counted by Biezen (2004).

43. In contemporary democracies political parties play a similar role in democratizing politics by overcoming the economic threshold for active political participation. While political parties do not pay the salaries of elected candidates, they still support politicians in preparing for political office and running election campaigns, surviving after a defeat and preparing for the next election. The composition of the political elite, with a special focus on share of candidates and elected officeholders from the lower and middle class signals how successful political parties are in opening politics beyond members of the elite. In many countries millionaires running for political office indicate that the latter still enjoy preferential treatment either within political parties or through election laws allowing for unlimited self-funding of candidates. Recent examples come from the USA¹⁵, Austria¹⁶ or Georgia¹⁷.

44. In the context of political *participation by the citizen*, membership fees and donations to parties play an important role. Political scientists have diagnosed a shift in patterns of political participation. While traditional political engagement (voting, membership in parties) is in decline, new forms of political engagement (protesting, political consumer behavior, non-partisan civic engagement) are on the rise (Dalton 1998, Verba, Scholzman and Brady 1995). This also reflects on how citizens engage in politics via money. Citizens who have less time but are more affluent trade classic involvement in politics for participation via checkbook.

45. Against a common view in the literature on political finance reform which blames the amount of money in politics for damaging democracy, more resources can be a token of more democracy. In the context of political participation money plays a role both as channel for citizens connecting with political parties and as a means that enables parties to democratize active political participation. From this perspective money in politics is not an evil, but an opportunity for democracy.

2.2 Money influencing political competition

46. The international debate on campaign finance reforms focuses on three important sources of unfair competition: abuse of administrative resources, donations from the private sector and the public financing of political parties.

2.2.1 Donations from the private sector

47. Fighting distortion of a level playing field by powerful *companies in the private sector* has absorbed much of the attention of the debate on political financing. Despite this fact, there has not been a clear separation between two questions. How does corporate money influence election outcomes? How does it influence the behavior of elected politicians? This section on political competition answers the first question.

48. An assessment of the role of private donations can take advantage of seeing the broader picture of political competition. In addition to money enhancing election campaigns and promoting political parties political scientists have pointed out historic factors, shaping party systems and political competition in “third wave” (Huntington 1991) or new democracies. In countries where the private sector depends on

15 Open Secrets: Helping Themselves: 2012 Candidates Have Spent Over \$130 Million Funding Their Own Campaigns, August 2, 2012 <http://www.opensecrets.org/news/2012/08/helping-themselves-2012-candidates.html>

16 GlobalNews: Canadian billionaire Frank Stronach enters Austria’s parliament, September 29, 2013 <http://globalnews.ca/news/870487/canadian-billionaire-frank-stronach-enters-austrias-parliament/>

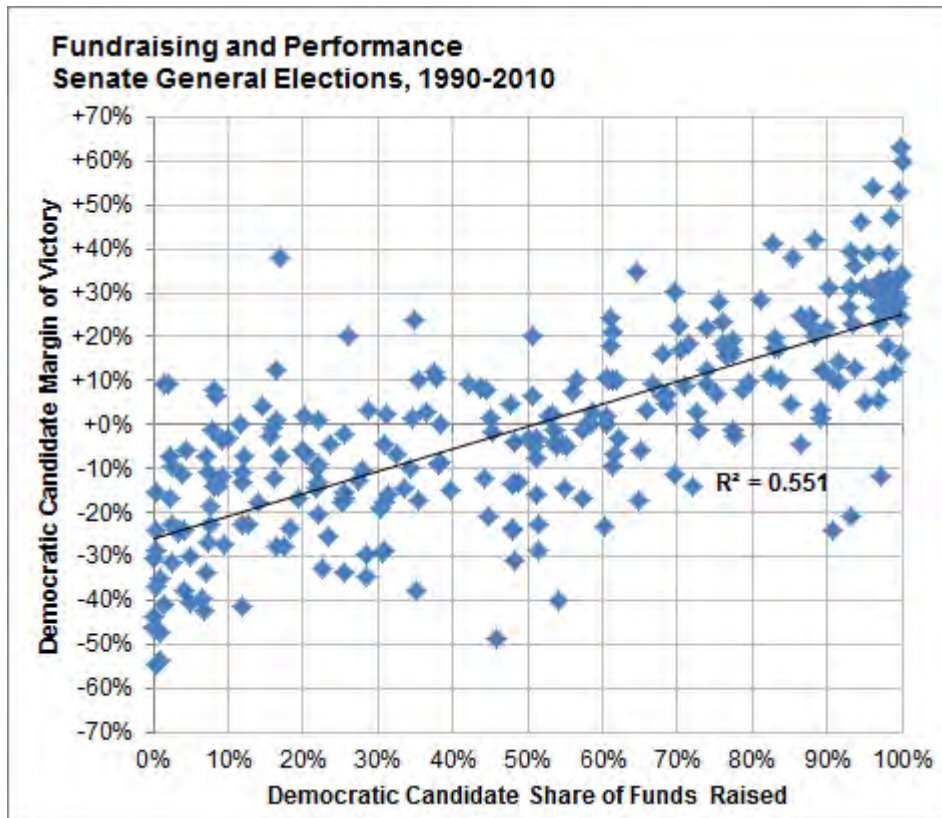
17 Bloomberg: Georgian Billionaire Premier’s Pick Wins Presidential Ballot, October 28, 2013 <http://www.bloomberg.com/news/2013-10-28/georgia-billionaire-pick-wins-presidency-early-results-show-1-.html>

contracts from the government or where state intervention in the economy is extensive, donations from the private sector reproduce the imbalance of power between government and opposition. When political financing is rather the symptom than the cause of the distortion, reform efforts focusing on the question of political financing might fail to reshape the political environment.

49. This is true not only for “defective” democracies (Merkel 2004), with a highly biased political competition. Political parties in western democracies have been shaped by socioeconomic and institutional factors. According to analysts of party systems Political parties in the 20th century organize along social and economic cleavages that evolved during the century before, in the process of urbanization and industrialization of societies (Lipset and Rokkan 1967). A later school has emphasized the role of institutional arrangements, mainly the electoral systems, on the party system (Nohlen 1984). While the evolution of party systems is based on long term trends, the legal environment of specific elections is equally important to guarantee a level playing field. The literature drawing on experience from election observation builds on these short term prerequisites for free and fair elections (Hanf 1995).

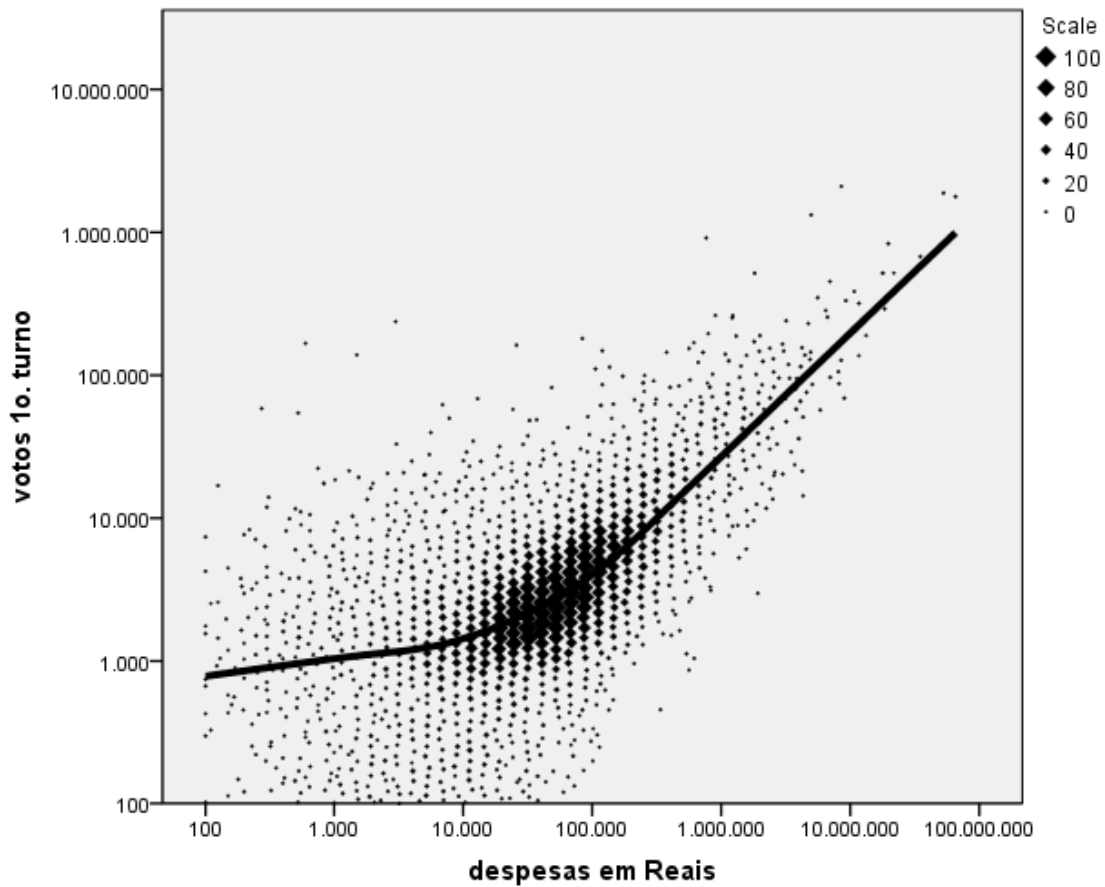
50. From this perspective, donations from the private sector to parties and candidates are an additional factor influencing party systems and election outcomes. The relative weight of political financing in shaping the environment of political competition remains to be clarified. It is up to case studies to gauge the extent as to which political financing plays an independent role in shaping political competition or whether it reflects the balance of power. Scholars have noted the high correlation between campaign spending and electoral success. Figures 2 and 3 illustrate the correlation between fundraising and vote share for US senatorial races and Brazilian local elections for majors. Similar correlations can be identified in other countries, where data on individual fundraising and candidate performance are available.

Figure 2. Fundraising and vote shares in US Senatorial elections, 1990-2010



Source: Silver (2013)

Figure 3. Fundraising and vote shares in Brazilian local elections for major, 2012



Source: Speck and Mancuso (2013)

51. Scientists have been less successful in settling the question on the cause and effect between donations and election outcomes. According to one hypothesis money influences election results, in which case political funding was able to shape the party system. An alternative hypothesis states that campaign donors prefer financing candidates who are expected to win elections, in which case money would reflect, but not frame the relation of power of political parties. If the latter was true, campaign donations might be less influential in tipping the balance between opposing candidates. Quantifying the extent to which election results depend on resources is one of the frontiers of recent research on political funding (Jacobson 1978, Stratman 2006).

2.2.2 Abuse of administrative resources

52. The topic of abuse of *administrative resources* has gained attention in the debate on political financing in new democracies. Election observation missions have provided plenty of evidence of abuse of administrative resources (IFES 2014). Additional studies analyze abuse in specific areas, including social welfare programs. Activists in emerging democracies have developed tools to monitor this aspect of distortion of political competition. The topic of abuse of administrative resources for political purpose has also gained recognition in guidelines for activists, like the Open Society Handbook (2004).

53. While the debate on solution for abuse of administrative resources tends to focus on legal measures, we recommend taking into account underlying historic and structural factors. In countries where one-party regimes were in place for a long time, the separation between the state and the ruling party is often still blurred. Regulatory measures like bans and limits for the government to use state vehicles, mobilize public servants or limit public propaganda may fall short of getting hold of the problem. The discussion on leveling the playing field should include the broader topic of *public sector reforms*, building an independent civil service and limiting political intervention in administrative matters.

54. Rereading the history of campaign finance in western democracies from that perspective is enlightening. The first significant reforms changing the landscape of political campaigns in the US were civil service reforms in the late 19th century, which set an end to the practice of extorting campaign donations from public servants (Speck 2012). As soon as civil service gained stability and independence from political parties, setting an end to the politicization of public administration, this source of funding of political campaigns, based on abuse of administrative resources, dried out. In this case reformists in emerging democracies can learn from the history of political financing in western democracies.

2.2.3 Public funding and cartelization

55. Political scientists studying party systems in established democracies have added another layer to the discussion on political finance regulation. According to Katz and Mair (1994) the extension of public funding of political parties during the second half of the 20th century has led political scientists to diagnose a *cartelization of political parties*. According to the hypothesis, while traditional parties survive on public subsidies, they deny small and new parties access to these resources. The cleavage is not between parties in government trying to prevent opposition parties from winning elections. The circle of cartel parties extends to established parties who alternate positions in government and opposition. According to the hypothesis this inner club of political parties has developed strategies to fence off small and new parties. The allocation of public funding plays an important role in this process of cartelization, since special barriers cut off new competitors from political funding. Public financing can therefore be a source of unfair political competition. While the cartelization hypothesis has influenced the debate in campaign finance reform, few studies have examined as to what extent resource allocation in new democracies supports the hypothesis (Biezen and Kopecky 2007).¹⁸

2.3 Money undermining trust and integrity

56. The key concern of political finance reforms is political donations from the private sector buying political decisions and influencing the policy making process. Neither activists nor the literature discuss in detail different categories of influence. We suggest a basic distinction between influencing where politicians make decisions based on their discretionary power, and intermediation of favors granted by public administration which typically includes transgression of laws and regulations. In the first case lawmakers and governments shape laws and regulations of economic activities taking into account demands and interests from campaign donors, but also from lobbyists, public opinion, guidelines from political parties and their own convictions. In the second case, elected officeholders use their influence on civil service to arrange for donors to earn contracts, get access to public loans or earn other benefits. This involves undue political influence on public service and unlawful behavior of public servants involved in public procurement, licensing, permissions or other areas where companies expect illegal favors in return for campaign donations.

18 A second part of the cartelization thesis hypothesizes about the impact of public funding on political behavior of the inner circle of political parties. This concerns the question of responsiveness and trust in political parties and falls under the topic of the next section. We will follow up in the next footnote.

57. Building on this distinction, this text claims influencing elected officeholders demands for two different responses. In representative democracies through elections a group of politicians is entrusted with the power of taking decisions in the best interest of the community. Elected politicians are subject to constant scrutiny by the electorate and those who speak in the name of it, like the media, organized interests or public interest groups. But representative democracy gives elected officeholders leeway to take decision based on how they interpret the will of the people. Trust in the commitment of elected officeholders to decide in the best interest of the community is a vital element of representative democracy.

58. Trust is a delicate plant. The citizens are sensitive to any sign of representatives serving interests other than the public. The suspicion of politicians abusing their position to extract financial benefits, even when the economic impact is negligible, has undermined trust in their commitment to serve the people. Similar to the case of allowances of members of the British Parliament, revealed by the Daily Telegraph in May 2009, the abuse of office has led to scandals in many countries.¹⁹ The remuneration of parliamentarians, travel expenses or other signs of self interest or luxury enjoy constant attention by a vigilant citizenry.

59. The buying of political decisions through campaign donations is another facet of the question of self-interested politicians. While public opinion might accept a representative speaking for the interest of a specific economic segment, trading his role as a representative in exchange for funding his party or his election campaign undermines trust in political officeholders. The Christian Democratic Party of Germany's Chancellor Merkel in October 2013 has received a large donation (EUR 690.000 from one of the owners of the automobile company BMW. In the same week the German government has used its powerful position in the European Commission to write exceptional rights for luxury cars, the BMW segment, into new regulations on car pollution. Despite the transaction being legal and immediate public disclosure this led to public outcry on the corrupting influence of political donations on policy.²⁰ Had the German chancellor acted the same way without receiving the donation, it would have been easy to sell the decision to the public based on the importance of the car industry. The vote would not expect any different from a government that always has been close to economic interests. The suspicion of putting party considerations ahead of other ones was the basis of the criticism. In most cases where parliamentarians act as lawmakers or regulators, similar conditions will apply. The damages of buying political decisions are far-ranging, but outlawing these cases will be hard, except donations are banned or limited. Transparency requirements can foster external oversight. Ultimately it is up to the media and the voters to buy into arguments justifying policy decisions or not.²¹

60. The second type of buying of economic favors by means of campaign donations evokes a different response. For elected officeholders to be able to grant or intermediate favors to individual companies, they need to have influence over segments of public administration responsible for public contracting, public loans, tax inspection or any other state activity that is in contact with the private sector. While the term of the corrupting influence of private donations on politics is often used metaphorically, it is in these cases that campaign donations come closest to bribery in its original sense.²²

19 BBC:MP's expenses http://news.bbc.co.uk/2/hi/in_depth/uk_politics/2009/mps%27_expenses/

20 Deutsche Welle: BMW donation to Merkel's Christian Democrats prompts criticism, October 15, 2013 <http://www.dw.de/bmw-donation-to-merkels-christian-democrats-prompts-criticism/a-17159007>

21 As noted in footnote 9, the cartelization hypothesis states a similar connection between public financing and the lack of accountability to the electorate. The hypothesis has not been tested in empirical studies and as a theory has suffered criticism (Klitschelt 2000).

22 We refer to Transparency Internationals definition of corruption as abuse of entrusted positions for personal gain.

61. Containing this threat from private political financing includes options like banning or limiting corporate donations, which is a strong argument in the community of campaign reformers. A broader perspective would require taking into account the mechanisms involved with conveying economic benefits to campaign donors. Two important elements are the politicization of public administration and weak regulation of procurement, permissions, tax administration or other areas where the state interacts with the private sector. Where political financing is able to produce rewards like overpriced public contracts civil service is not sufficiently insulated from political influence and loopholes in regulations and oversight allow for civil servants to illegally benefit campaign donors. The numbers of political indications in the civil service are one important indicator of political interference. An assessment of the relation between public administration and the realm of political parties is key for a comprehensive understanding on the driving forces behind the corrupting influence of campaign donations. The deficits may also extend to loopholes in the regulation of public contracting, tax administration or else. Public sector reforms are intimately connected to the question of political financing.

2.4 Wrapping up: Three new ideas

62. In the last two decades a number of policy experts in universities, nonprofit organizations, think tanks, oversight institutions and political parties have engaged in an intense debate on reforming political financing in old and new democracies. There have been several initiatives to gather knowledge and guide lawmakers how to reframe the role of money in politics. Recognizing the success of these initiatives in advancing our understanding of political financing, I suggest rethinking the role of money in politics on a number of topics. The following three ideas summarize this new approach.

63. Political financing is both a blessing and a curse for democracy. Previous studies have focused on the risks stemming from money in politics. We will also focus on money biasing political competition and corruption related problems, but in addition we will shed new light on the enabling and empowering role of money in politics. For the better or for worse, money is one out of several channels of political participation for citizen who engage in politics by giving time, making donations or voicing their opinion. Similarly, interest groups influencing politics through political donations also dispose of other channels like lobbying, building personal networks or outright corruption. Finally, for political parties money is a necessary means to make politics more inclusive by allowing working and middle class leaders to live from politics whereas otherwise political office was limited to a small group of the social and economic elite. This text recognizes the role of money as a vehicle for more participative and more inclusive democracies, in addition to the emphasis so far on money biasing political competition and corruption political representation.

64. The paper discusses political finance in context. Whereas previous initiatives have focused on money in politics as an isolated topic, our approach recognizes money is just one out of several channels of participation. Shaping political competition by regulating and subsidizing political financing might fall short from having an impact when more powerful institutional incentives like the electoral system are neglected. The historic background explaining dominant party systems or party fragmentation may also resist campaign finance reforms that are expected to change the balance of power. When campaign donations render kickbacks in public contracting, public sector reforms are a necessary complement to political finance reforms, drying out the supply side of corrupt arrangements. Our comprehensive approach to money in politics takes into account how money in politics interacts with other forms of political participation, competition and influence.

65. Knowledge gathering on laws and regulations on political financing has made progress in the last two decades. However, the search for universal standards has had limited success. This paper suggests taking advantage of these achievements and redirecting efforts towards connecting specific concerns to specific solutions. Instead of looking for universal standards, we suggest starting by assessing specific

deficits in citizen participation and interest group activities; the balance of power in the party system and the dynamics of party organizations; and scandals involving elected officeholders. The pledge is for moving away from a general debate on best practices and universal standards in political financing and engaging in a debate on how political finance regulation can make a difference in rectifying the problems in these areas.

3. LINKING PROBLEMS TO SOLUTIONS: POLITICAL FINANCE REGULATIONS AND BEYOND

66. Reform efforts on the financing of parties and elections are all the more meaningful when embedded in a clear understanding of political participation, political competition or political influence. Reform efforts should identify deficits or the main goals of reforms, and then identify what is needed for intervention. In the following we will list the typical problems. Table 4 on page x summarizes this section.

3.1 Strengthening political competition

67. Open and fair political competition is a hallmark of representative democracies. Political parties are at the core of this process. Access to resources influences the balance of power between parties.

68. As mentioned earlier, the focus of the debate so far has been on how regulations and subsidies can shape political competition. Important sources of biased political competition are abuse of *administrative resources* for political purpose and unlimited influence of powerful *private donors*. A third source of imbalance is *public subsidies* to political parties, which cartelize the party system.

3.1.1 Fighting abuse of administrative resources

69. Where governments make use of public resources during election campaigns, opposition parties face an uneven playing field to challenge the government at the polls. The same is true for challengers facing incumbent politicians who use public resources to spur their own reelection.

70. The abuse of administrative resources includes *governments* using official vehicles during campaigns, printing campaign material in national printing offices or holding party meetings and rallies in official precincts. In the case of *incumbent* officeholders running for reelection, abuse of public resources includes legislative office staff working for the campaign and travel costs being billed as expenses.

71. Since communication is a key asset in election campaigns, *public advertising* is a target for abuse during election campaigns. One indicator for abuse of public advertising for electoral purpose is increased spending on government advertising in election years. In Guatemala monitoring of government spending on advertising revealed a significant increase in spending during elections.²³ Where the state controls *broadcast media*, governments may also use them for political purpose. In Venezuela the opposition leader during the 2013 national elections reported extensive use of public broadcasting by the government while opposition parties had only very limited access to the media.²⁴ The regulation of access to broadcast media and free access to airtime are frequent targets of campaign finance regulation in Latin America (Griner an Arias 2007).

72. Members of the *civil service* are frequently targeted by governments running for reelection. Public servants are mobilized to attend campaign rallies. Public servants are required to make donations to the ruling party. In Honduras these donations are taken directly from the paycheck (Crisis Honduras 2009).

23 Digital hoy: Informe PC califica exorbitantes gastos publicidad estatal, May 12, 2010 <http://hoy.com.do/informe-pc-califica-exorbitantes-gastos-publicidad-estatal/>

24 RPP: Oposición venezolana denuncia abuso de poder de campaña oficialista March 23, 2013 http://www.rpp.com.pe/2013-03-23-oposicion-venezolana-denuncia-abuso-de-poder-de-campana-oficialista-noticia_578929.html

73. Similar forms of extorting donations are practiced with the *private sector*. Private companies depending on government contracts are either forced to make donations to the ruling party or prevented from supporting opposition parties. Companies offering services in communication and propaganda will offer campaign services at costs below the market to the ruling party and receive overpriced government contracts.

74. There are also more sophisticated, long term schemes of siphoning off *public funds* to political parties. Cases of diversion of resources from branches of the state or from state owned companies to political parties have been uncovered in Austria²⁵ and Chile.²⁶ Typically companies where the state participates as a shareholder provide the funds which then will be laundered through many transactions with the support of private companies before reaching political parties.

75. In some cases governments use *security forces* to intimidate voters of opposition parties or even design campaign finance regulations and state oversight discriminating against opposition parties. Where ruling parties have a large majority in the legislature and control state oversight institutions they may even give abuses a legal cover-up, designing campaign regulations against opposition parties. Before the 2012 parliamentary election in Georgia the government passed campaign finance laws with extreme low contribution limits and severe sanctions which would keep the only serious competitor, a multimillionaire, from challenging the incumbent (Fairbanks and Gugushvili 2013).

Bans and limits

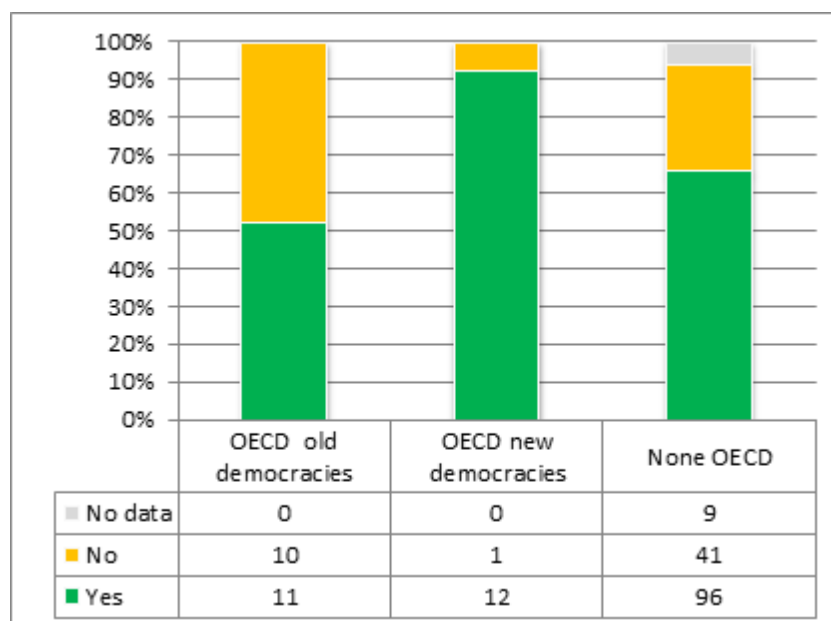
76. As stated earlier, regulators condemn the abuse of administrative resources.

77. The recommendations against abuse of administrative resources have been prohibitions of political funding by organizations that are part of public administration, by branches of indirect administrations like agencies, or foundations or companies owned by the state. Most OECD countries have such laws in place as indicated in figure 4.

25 Der Spiegel: Corruption Scandals in Austria: A Web of Sleaze in Elegant Vienna, October 13, 2011 <http://www.spiegel.de/international/europe/corruption-scandals-in-austria-a-web-of-sleaze-in-elegant-vienna-a-791113.html>

26 The Santiago Times: More heads roll in Mopgate Scandal, April 23, 2003 <http://santiagotimes.cl/more-heads-roll-in-mop-scandal>

Figure 4. Ban on political donations by government agencies (except public funding)



78. Prohibitions may also extend to organizations that rely on government permits or government subsidies and that do business with the state. In many countries such rules have been written into election law. In others the regulation of civil service prohibits the use of public resources for partisan purposes.

79. A *term limit* banning the incumbent president from running for reelection should prevent him from abusing state resources to boost the campaign for reelection and to stay in power. Many countries in the Americas have included term limits for Presidents in their Constitutions, following the example of the United States where the 22nd Amendment (1951 introduced a 2-terms limit for Presidents. In countries with a history of authoritarian rule the background for term limits was fear from a backslide to dictatorship. As Zovatto (2013 states "... indefinite reelection usually poses a threat on the principles of equality, equity, and honesty in the electoral race, because it grants undue advantage to the incumbent president, badly affecting the other candidates." This was the background for introducing more restrictive term limits in Colombia (in 1991, Nicaragua (1992, the Dominican Republic (1994, Paraguay (1995 and Peru (2000.²⁷

80. However, Presidents can mobilize state resources to ensure the election of a handpicked successor. Also, term limits bear a cost on the continuity of politics since presidents may not be able to implement plans in one term in office only.²⁸ Few countries apply term limits for legislators. In his study on legislative term limits in 22 states in the United States, Carey (1998 cites only four countries (Costa Rica, Mexico, Ecuador and the Philippines where term limits for national legislators are in place. Term limits do not apply to heads of government in parliamentary regimes. Provided they have the support of the majority in Parliament, they stay in power for several terms. Term limits for legislators are rare.

81. Some countries employ *short term measures* to prevent the government from abusing its advantage for reelection. There are bans on disproportionate government spending on advertising before elections (Guatemala, hiring new servants (Brazil, and signing public contracts (Brazil. In Panama and

27 Source: Zovatto 2011, available at: <http://www.mundoelectoral.com/html/index.php?id=751>

28 For this reason in the last two decades six Latin American countries have loosened the rules on reelection allowing for a consecutive term in office (Argentina 1994, Ecuador 1996 and 2008, Brazil 1997, Venezuela 1998 and 2007, Costa Rica 2003 and Bolivia 2009).

Costa Rica the government hands over control over police forces and national security to the electoral court, to prevent any abuse during election campaign.

Bringing in public sector reform and political party regimes

82. While these bans, prohibitions and limitations have been discussed in the debate on political financing, other preventive measures against abuse of public office have received less attention. This text suggests linking the debate on party and campaign finance to the discussion on public sector reform and to research on political party systems.

83. The rate of appointment of *party politicians* for positions in the civil service is an indicator for politicization of public administration. In Brazilian public administration 40,000 civil service positions are to be filled after each change in the national government. Such politicization of public administration takes a toll on the efficiency and neutrality of public administration. The tradition of swapping large numbers of public servants with a change in government, known as the spoils system, is conducive to the abuse of administrative resources. Bans and prohibitions on using state resources are ineffective punctual measures where *political parties* control large parts of public administration.

84. Under such circumstances preventing the abuse of administrative resources will have to be based on research on how political leadership can be strengthened by professional expertise and neutrality of public service. The record of campaign finance regulation in established democracies such as the United States teaches that *public sector reforms* limits the supply of public resources during political campaigns (Speck 2010). A statute for civil service, enjoying independence from political interference, establishing rights and duties of public servants and regulating the process of recruitment and promotion based on merit and professional experience can protect public administration from political interference. Bringing the expertise on public sector reforms to the discussion on political financing will lead to long-term strategies to preclude the abuse of administrative resources.

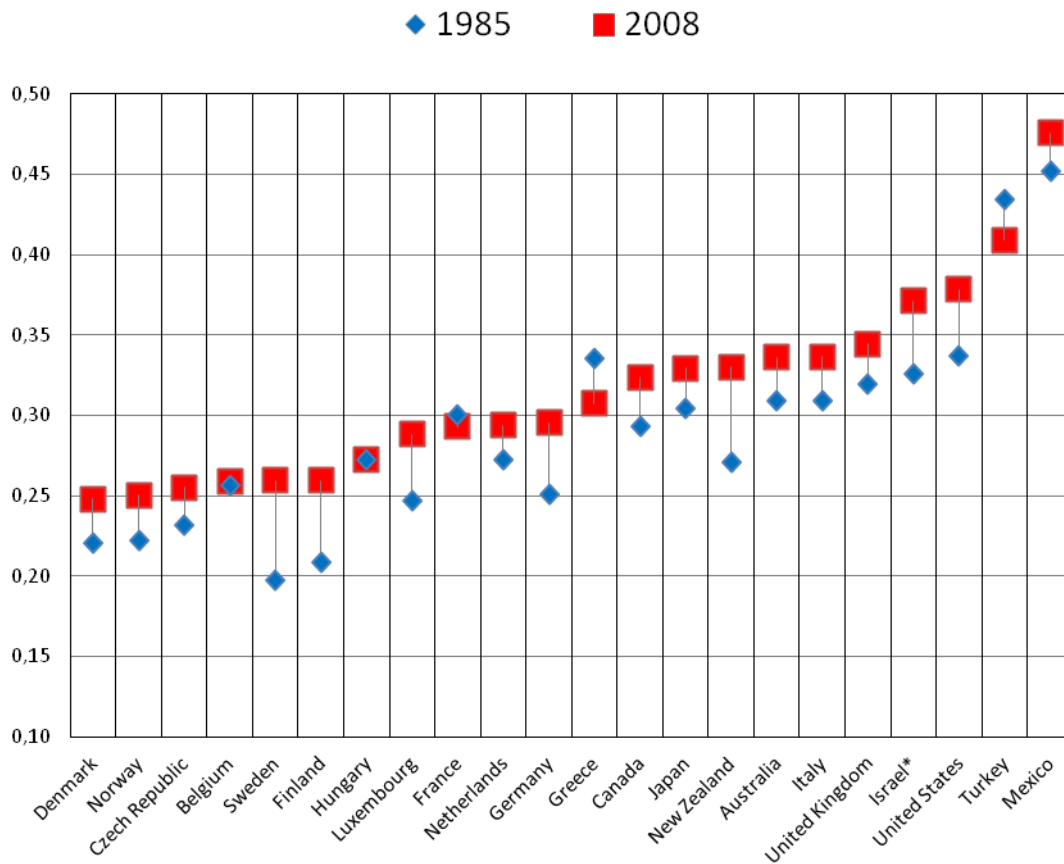
3.1.2 Limiting the influence of large private donations on elections

85. Powerful interest groups or even single players like big companies or billionaires *can* tip the balance of fair competition by supporting parties or candidates. Rich people *may* also run for office themselves and fund their own campaigns. Whether these remain theoretical scenarios or evolve into real threats for balanced political competition depends on the circumstances of each country.

86. Economic inequality in a country does have an impact on the pattern of political financing. Millionaire candidates running expensive self-funded races are more frequent in societies with a huge income gap, and superrich elite that can spend large sums of money on political races which do often have an uncertain outcome. Such candidates are frequent in the United States,²⁹ but also in countries like Brazil. The Gini Index on economic inequality can be an instrument for assessing this economic background of political funding. Figure 5 shows different levels of economic inequality in OECD countries in 1985 and 2008. Regulations should take into account this background of economic inequality in countries, to assess the need of bans and limits on donations from the private sector.

29 “About 1 percent of all Americans are millionaires. In Congress, that number regularly hovers between 40 percent and 50 percent...” Center for Responsive Politics <http://www.opensecrets.org/pfds/why.php>.

Figure 5. Economic inequality in OECD countries

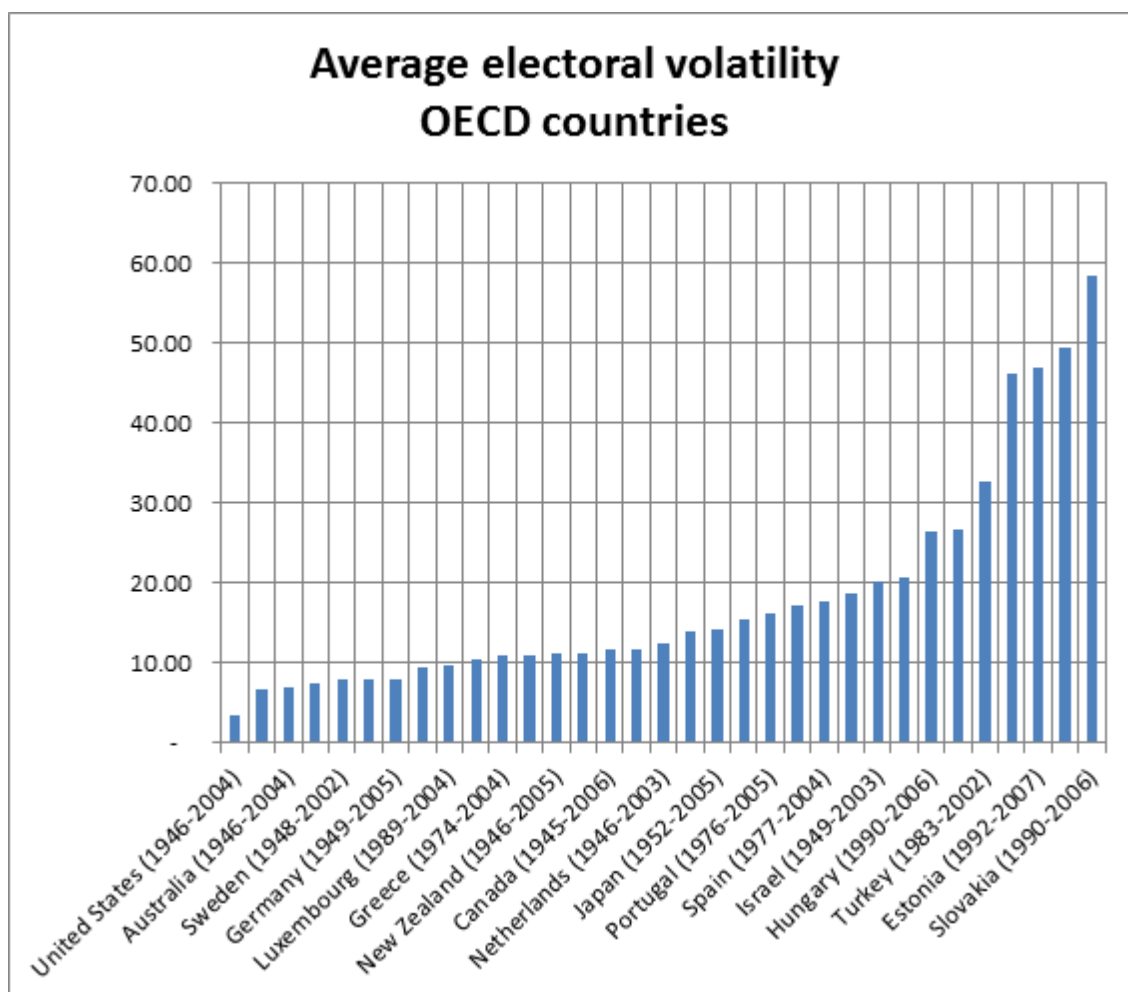


Source: OECD (2011)

87. The discussion on the role of large campaign donors also depends on the extent to which campaign resources are or are considered to be a relevant factor of electoral success. Expanding on an argument by Heidenheimer (1963) we contend that campaign funding has less an impact in party systems where voters are highly loyal to specific parties or politicians. Conversely, where voting behavior is highly volatile, campaign financing has a bigger impact on the outcome of elections since candidates and parties will have to win voters' hearts and minds in each electoral process. The data on electoral volatility can give a first guidance to assess the potential impact of campaign funding on election outcomes.³⁰ Where volatility is high regulators should care more about the imbalance of campaign donations.

30 Pedersen (1979) has developed an index to measure electoral volatility which has been adopted by political scientists to measure partisan (de-)alignment of voters. It is based on comparing vote shares of parties between two elections (the sum of differences divided by two) and estimates the percentage of voters switching parties between two elections.

Figure 6. Electoral volatility in OECD countries



Source: Jones (2012)

88. The third question concerns the extent to which private donations play a significant role in political funding and whether specific segments or single donors hold a large share in the overall amount of funding. In Brazil corporate funding responds for 75% of overall campaign costs, and the group of 20 largest donors accounts for more than 30% of all donations from all 20,000 corporate donors, which represents both a considerable share and high concentration. In Germany, in contrast corporate donations constitute only 7% of the annual income of all parties. Again, these are two contexts to discuss the role of large donors in political funding.

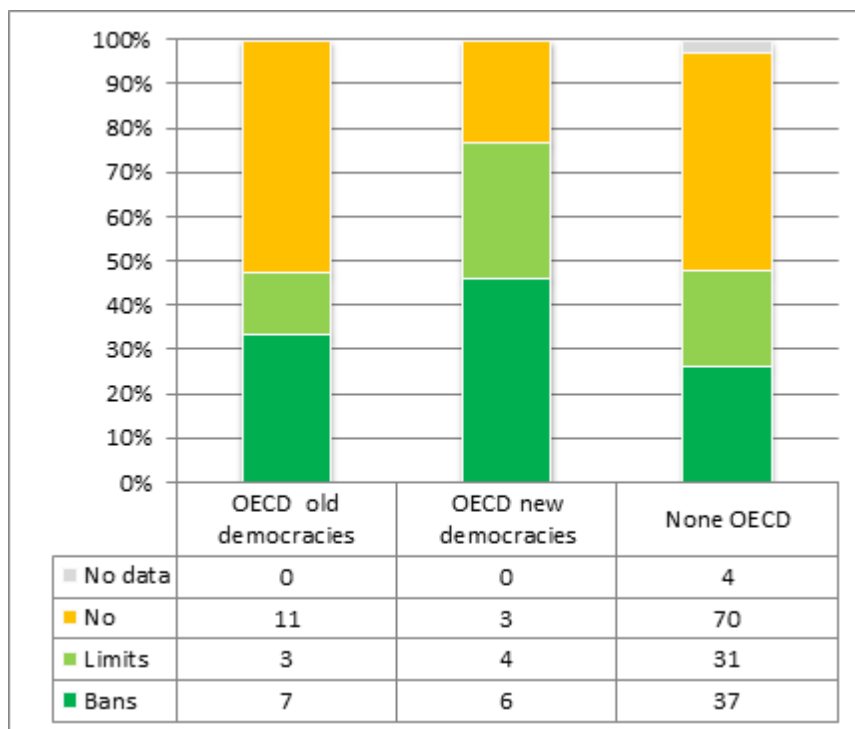
Banning sources, limiting amounts and attenuating the weight of private donations

89. Regulations on large donations in OECD countries range from nonexistent to banning donations from the private sector. Between these extremes are models of fencing off specific segments of the private sector or attenuating the weight of private donations through contribution limits

90. Limiting the total amount of donations from a private source is based on the idea of setting a *limit for unequal influence* of single donors on political competition. Half of OECD countries have adopted donation limits (Figure 7). However, the rules on contribution limits vary considerably. Countries have

established limits for donations that apply to all donors, allowing donors to make contributions only up to the amount allowed. Depending on the total amount established for donations this allows still for differences in actual patterns of contribution. For example in the US only a few citizens can afford the contribution limit of USD 123.000 per election cycle.

Figure 7. Bans and limits on corporate contributions

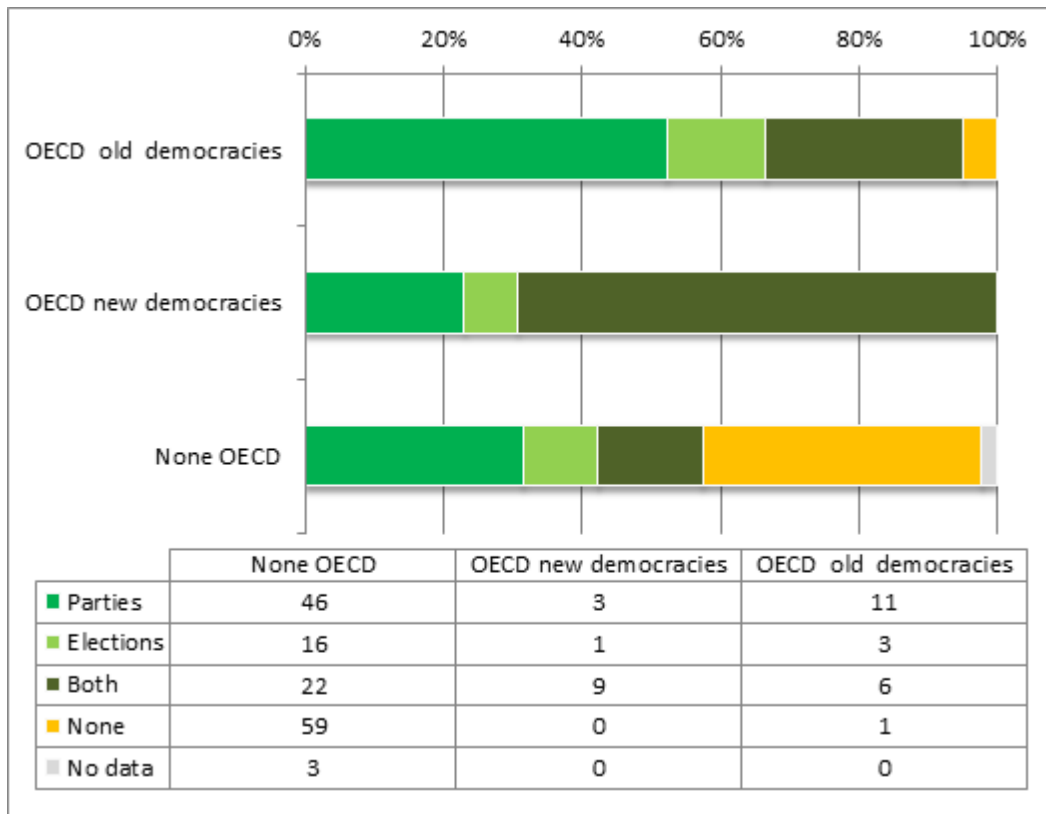


91. In addition, not all contribution limits shape actual contributions towards more equality. A few countries have linked contribution limits to the income of the donor. In Brazil companies can contribute up to 2% of their turnover, while for private citizens the contribution limit is 10% of income. In this case the design of contribution limits makes donors unequal under the law. A citizen with higher income can contribute more than others who earn less.

92. Limits for donations may apply to the total involvement of donors in political funding, but also to donations to specific parties or candidates. Again, these limitations are defined in absolute amounts in the US, but in relative terms in Argentina, where parties may not receive more than 10% of their income from one source. One-to-one donation limits tend to *attenuate the influence* of one donor on one party.

93. Another strategy to attenuate the role of private funding and therefore reduce the influence from large donations is supplying *public funding* as additional resource. Early reformers were more optimistic about the possibility of public funding as an opportunity for political parties to abandon large private donors. Experts have concluded that the introduction of state subsidies has led only to an expansion of funding (Wewer 1990). Only a few countries have combined public funding with drastic limitations of private funding. In Germany, one of the showcases of public subsidies of political parties, the lawmakers were concerned with excessive public funding rather than with continuing influence of private funding. They set a limit both on the absolute amount of money to be spent on all parties and an additional requirement for each individual party to raise at least 50% of resources from sources other than public subsidies. With the introduction of public funding, scholars and practitioners became concerned about the impact of public funding on political competition. We will come back to this topic.

Figure 8. Public funding for parties and candidates



Shaming and blaming of large donations

94. Transparency of political donations has led to a third form of soft regulation: disclosing the names of large donors and of the recipients of funding. In countries where reporting requirements allow for individual donors to be identified, activists and the media have exposed large donations to public criticism. Such exposure can both constrain donors and candidates. Possible reactions vary from abstaining from large donations to lack of reporting.

95. The soft power of transparency and activists, which is difficult to measure, depends to a large extent on the political culture. In most countries large private donations and outracing candidates in fundraising is viewed as undue influence on political competition. A full campaign war chest can backfire against candidates. In addition, companies engaging in political spending can face boycotts, because citizens expect companies to be socially responsible which includes political neutrality. There is more anecdotic evidence than systematic research on the effectiveness and impact of such exposure.

96. On the question of the campaign war chest, the difference between the US and Brazilian political cultures is telling. While candidates in the US use their success in fundraising during the election campaign as a token for the support of their campaign in the public, in Brazil candidates do not talk about this in public. In Brazil's 2002 presidential campaign one of the candidates used his small budget to prove his independence from powerful interests and his commitment to the interest of ordinary people³¹.

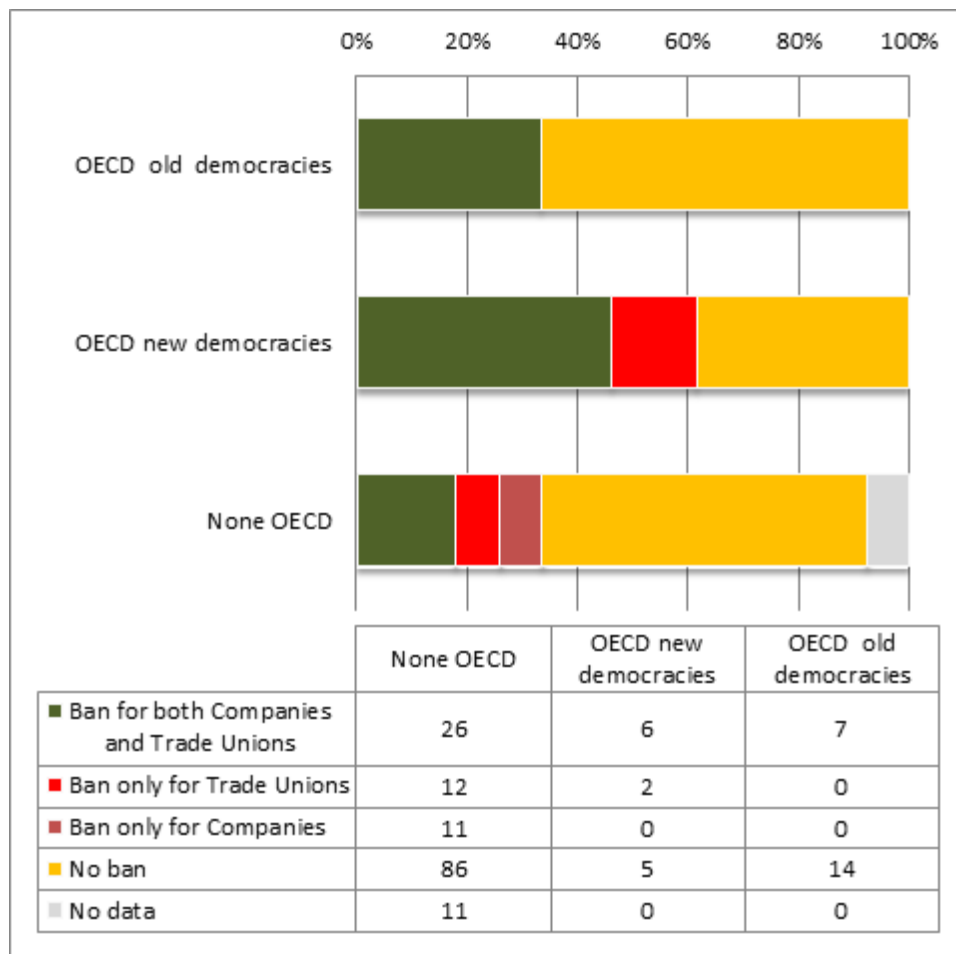
31 Diário do Grande ABC: Garotinho diz que candidatura modesta conquistou o Brasil, September 24, 2002 <http://www.dgabc.com.br/Noticia/103061/garotinho-diz-que-candidatura-modesta-conquistou-o-brasil>

A different path: balance of power

97. A third strategy to contain the influence of large donors builds on maintaining a balance of power. From a pluralist perspective, collective action is at the core of political financing. Current regulation still carries the marks of the past, when organized interests were banned from political competition. In OECD countries trade unions are excluded from political funding in 15 countries. In 2 countries trade unions are banned from funding while companies are allowed to make unlimited donations (Figure 9).

98. Given the dearth of funding and the difficulty to justify public resources, an alternative approach could be reevaluating the strategy of fencing out organized interest, like trade unions, business organizations or public interest groups from financing parties and elections. Instead of limiting the influence of specific economic segments or groups on campaign financing, allowing trade unions and employers organizations to engage in campaign funding could limit the role of individual donors and supply more resources for political competition. Such an approach requires assessing the question of balance of power among groups, to maintain a competitive environment. Organized interest groups are vital in modern democracies and put pressure on politicians through lobbying, networks or by influencing public opinion. Excluding trade unions or business organizations from political funding while millionaires or companies are allowed to make donations does not seem to conform to modern democracies.

Figure 9. Balance of Power: Trade Unions and Corporations

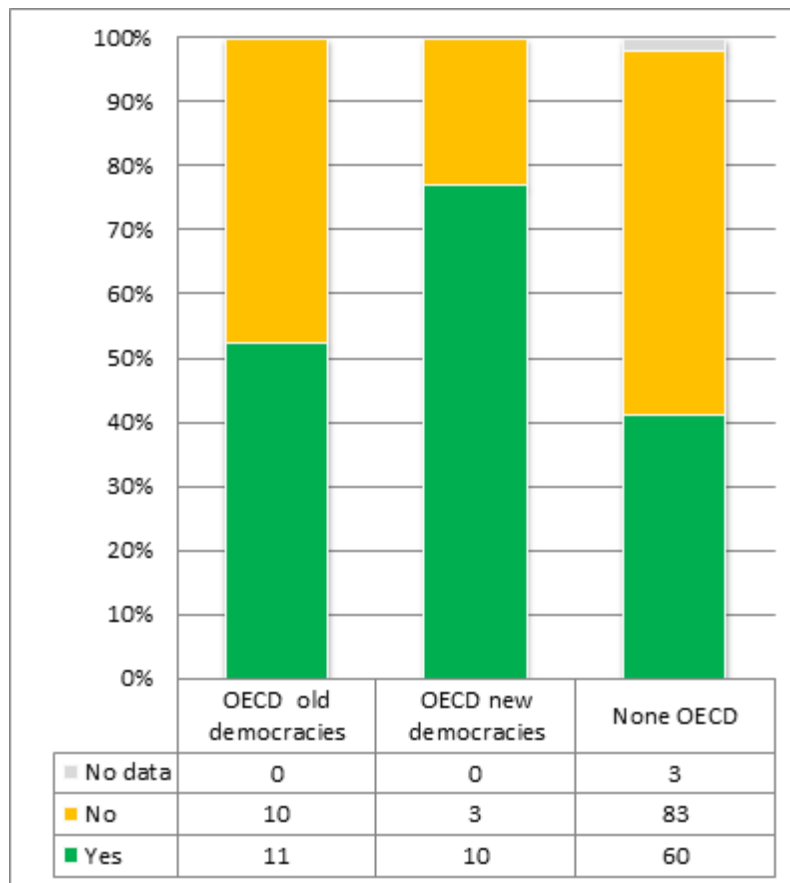


3.1.3 Shaping political competition between parties

Spending limits

99. *Spending limits* set a maximum amount of money a candidate or party can spend. Spending limits do not show concern with individual sources of donation, but with the overall capacity of opposing candidates or parties to invest resources to inform and win voters. Like contribution limits, spending limits do not set equal conditions for all candidates, since the fundraising is still a responsibility of the candidate. However, spending limits set equal conditions for the leading candidates in campaigns. Spending limits have also been advocated because verification of overall spending of a few candidates is supposed to be easier than inspecting millions of individual donations. Two thirds of the OECD countries have introduced campaign spending limits for parties or candidates (Figure 10).

Figure 10. Spending limits



100. Spending limits split the reformers into two camps. For advocates of spending limits, financial resources reflect external influence on electoral competition. Election campaigns where a candidate or a political party outspends its opponents multiple times represent an unfair contest. This would apply to presidential races in the US where the amount of money raised and spent by candidates varies widely.

101. For opponents of spending limits, different amounts of fundraising represent different capacities of candidates to raise funds. Fundraising, like other activities during election campaigns, is an integral part of political competition. Obama outspending McCain more than twice in the 2008 election did not make the race unfair, but reflected his ability to rally support for his re-election.

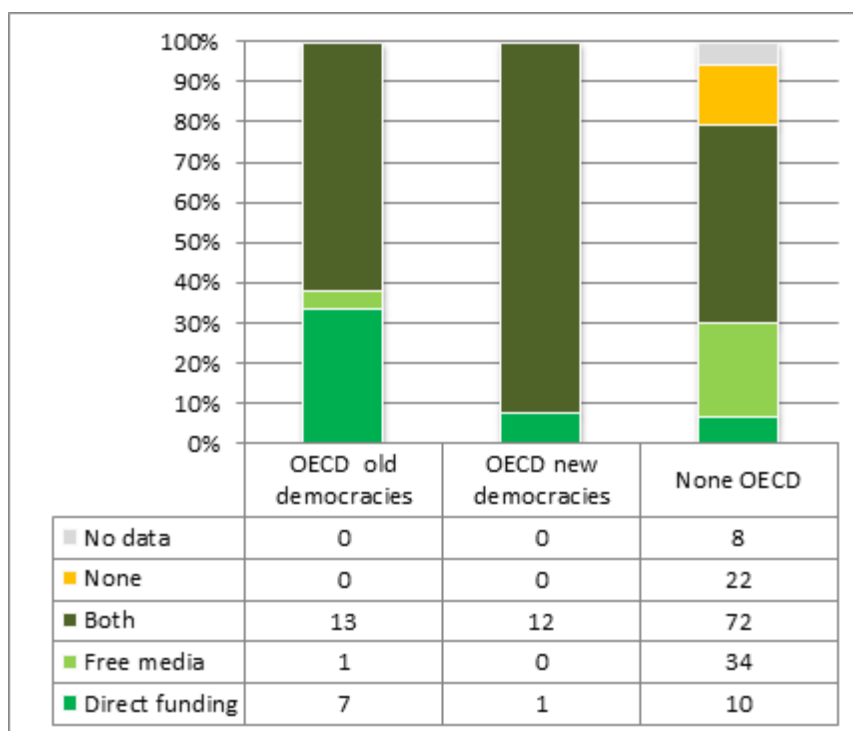
102. From a normative perspective spending limits place a limit on free speech, since limiting the amount of money to be spent on political communication limits political expression. This argument has had a profound influence on the dynamics of campaign finance reform in the US. The Supreme Court has repeatedly overturned laws and regulations that have set limits to political spending in election campaigns, based on the constitutional right to free speech. This perspective has had limited impact outside the US.

103. The second criticism of spending limits comes from political science. Research on the impact of campaign finance has proven that resources are more important for challengers than for incumbents. Spending limits would then establish equality only formally, while de facto causing a disadvantage for challengers who need more funds to unseat an incumbent candidate. One might also extend this argument to the relation between government and opposition. Where government has access to administrative resources, opposition parties need more money to compensate for their disadvantage. Spending limits would favor the government.

The role of public funding and free airtime, for both political parties and elections

104. Public subsidies for political competition cover annual expenses of political parties, or the cost of election campaigns. Besides financial support, access to free airtime is the second important form of public support to parties and elections. Figure 11 shows the distribution of direct and indirect public funding in 32 OECD countries. While all countries provide some kind of public subsidies, not all old democracies grant free airtime to parties. Most new democracies have embraced both free airtime and direct public funding.

Figure 11. Public funding and free airtime



105. The weight of public subsidies in the total budget of parties and campaigns varies widely within the group of countries adopting public funding. Whereas in some countries public funding responds for the bulk of resources available, in other cases the share of subsidies is rather symbolic. Similarly in some countries free airtime comprises just a few minutes while in Brazil access to free airtime is generous, with

an hour of daily advertising on all channels. Brazil, Chile, Mexico and Argentina are countries banning private advertising, thus making free airtime the exclusive way to broadcast.

106. Where access to public resources is granted the key question is who receives how much based on what criteria. The challenge of designing public funding is different from regulating private funding. Regulation focuses on amending undesirable finance flows while leaving the bulk of finance flows untouched. Public financing requires a concept for distribution from the first Euro spent on political financing. Much more than fixing a defective market, public financing corresponds to designing a concept of distribution of funds which is based on an idea of fair competition.

107. Three concepts have influenced the ways in which countries distribute public resources: equal shares of resources for all parties, allocation of funds based on past success and performance based allocation.

108. During election *equal access* to public funding means all candidates have access to the same amount of public funding or airtime. State funding based on equal shares of resources will create incentives for new competitors to run for election. When all parties receive equal shares of resources, and no other thresholds to participate in elections exist, we would expect a proliferation of political parties to run for office.

109. Distribution of resources based on *past record* is based on different criteria to measure past success. In many countries adopting this system, the share of votes or the share of seats in past elections are criteria for the allocation of public funding or airtime during elections. We can expect that this distribution helps parties reproducing past results. If resources matter for electoral success, and if public funding covers a significant share of overall expenses, proportional distribution of funding should allow parties to replicate past successes.

110. A third model of campaign funding is *performance based*. After elections, political parties will have some of their expenses reimbursed, depending on the number of votes or seats received. The performance of parties depends on the capacity to generate funding in advance, either from loans or from savings. This system sets strong incentives for competitors to take risks. Depending on the success at the polls, parties will be able to balance the budget, or to walk away with campaign debts.

111. In practice, countries have adopted a mixture of different systems of allocation of public funding. The way public subsidies are distributed among political parties or candidates in the long in the long run ends up shaping the party system. Depending on whether the criteria of equality, past success or current performance prevails, the system of public funding sets incentives to either consolidate existing parties or to encourage new parties to run for election.

112. In this context, *thresholds* for accessing public subsidies play an important role. These entry barriers reveal the trend towards a cartelization of party systems. Typical forms of thresholds are limiting public subsidies to parties beyond a benchmark of electoral performance. Other forms of thresholds are limiting public subsidies to parties represented in parliament. Where the electoral system includes a threshold for electing representatives, this does extend the entry barrier to public funding, too.

113. In a nutshell, to the extent that public subsidies are a relevant source of funding and provided resources have an impact on vote shares, public funding should be carefully designed due to its impact on electoral competition and on the party system.

114. The debate on state funding might have overestimated the weight of public funding in political competition. One reason is that the discussion focusing on campaign funding only has not taken into account the tradition of research on political party systems which has analyzed the historic and institutional

foundations of contemporary party systems. Decades of academic research have shown the influence of economic and social cleavages on party systems (Lipset and Rokkan 1967). The role of electoral systems in shaping the competition between parties has been analyzed by Duverger (1951) and later scholars (Nohlen 1984). Evidence that resource allocation has reshaped the party system is still scarce.

115. There are exceptions, though. One successful case is Mexico, where the former ruling party PRI and opposition parties in 1996 agreed on electoral reforms that would strengthen political competition by allocating equal shares of public resources to different parties contending elections (Peschard 2006). This created a competitive environment during the transition years and initiated a peaceful transition to open elections in a multiparty democracy. However, this required a strong political commitment of political leaders to use the distribution of money to reshape the balance of power between parties.

3.2 Strengthening democracy within party organizations

116. In addition to shaping political competition between parties the allocation of public subsidies to different branches of party has a deep impact on the relation between these organizations. Public funding may go to parliamentary groups or party headquarters, strengthening either the party in office or party organizations. Where funding goes to offices of MPs rather than to parliamentary groups, individual representatives gain more independence, undermining party loyalty. Earmarking public funding for training and recruitment can force parties to foster long- term tasks. Linking public funding to compliance with bookkeeping and reporting requirements will foster transparency within parties.

117. In the context of regulatory measures from the state to interfere and shape democratic organizations, public subsidies complement other measures to promote changes.

Economic incentives for small donations

118. Party membership in most European countries has been declining in the last decades and political analysts have shown pessimism towards the idea of reversing this trend (Mair, Biezen). However, the predisposition of citizens to make contributions in defense of political issues has increased rather than declined.³² New forms of political engagement include boycotting products and companies, supporting investments in business following social responsibility. The culture of political engagement through donations is strongest in the US, where collective action supporting women candidates (Emily's List) or fundraising during the election of Barack Obama (Yes, We Can in 2008).

119. Where collective action does not rise spontaneously, regulatory policies can help parties increase their fundraising from members or activists. There are several models how public subsidies can spur private donations, which can be grouped in three categories. The first includes tax benefits to lower the threshold for donations to political parties. While charitable donations in many countries are tax deductible, political organizations do not enjoy the same benefits in many countries. Lowering the threshold for donations does create an incentive to make contributions. In addition tax benefits for donations create a stimulus against unreported funding.

120. The second category includes refunding taxpayers for small donations. This system uses taxpayers to allocate public subsidies to parties. Unlike direct transfers of state subsidies to parties it requires these to convince citizens to making donations. This system is in place in Canada. This avoids the risk Katz and Mair pointed out when stating parties living from public funding become unresponsive to citizens. A more radical model of allocating public resources through citizens has been proposed by

32 World Values Survey <http://www.worldvaluessurvey.org/>

Ackerman and Ayres(2002).³³ In this model every citizen receives a virtual voucher which carries a small amount (20-50 Euros) of subsidies he can transfer to one or several candidates or parties. Again, parties need convince voters to transfer funds. In countries where low income or a lack of tradition of pro bono engagement makes private donations less probable, the voucher system is a feasible alternative for engaging citizens.

121. A third category of incentives focuses on political parties to seek small donations. The system of *matching funds* in practice in Germany and US primaries does set strong incentives for parties to solicit small donations. For every private donation the state adds the same amount, up to a certain threshold (i.e. 500 Euros for the party). This increases the total amount of funding for parties without releasing them from active engagement in convincing donors. In addition the party is better at finding 100 donors contributing 500 Euros than a single donor contributing 50.000 Euros. In the first case each donation is matched with another 500 Euros from the state, rendering a total of 100.000 Euros to the party, while in the second case the state adds only 500 Euros, which renders 50.500 Euros to the party. Other incentives based on membership numbers can equally foster the involvement of citizens in political parties.

Technical and legal environment for grassroots donations

122. Besides setting economic incentives for activists to engage in political donations and parties to seek donors other measures can help parties lower the threshold for donations. The nonprofit sector and charitable organizations have developed innovative strategies to approach donors. Contributions can be made through cell phones, the internet or by using credit cards. From a cost-benefit analysis setting up such costly platforms and using new technologies for donation does often not pay for established parties, let alone for new parties.

123. Public support can help parties set up such platforms and create the legal environment to register such donations. To a large part such a culture of political donations depends on historic patterns. However, setting economic incentives and creating the legal and technical environment makes the task easier for both activists and parties and opens an opportunity to venture into this new territory even in societies not known for their culture of engaging in politics with the checkbook.

3.3 Fighting undue influence

3.3.1 Responding to campaign donors or to the voters: a matter of trust

124. One of the key concerns of reformists is the connection between political financing and behavior of elected officeholders. Can campaign money buy political favors? Interest groups do influence politics through lobbying, personal networks connecting the private sector, parties and the government, or corruption. Political financing is one additional channel.

125. Elected officeholders can respond to demands from campaign donors on two levels. Due to the discretionary power of policymaking, there is much leeway for heads of government or lawmakers to make decisions taking into account what is best in the interest of the public or specific interest groups. When governments regulate policy fields like subsidies for milk prices, they have to take into account the impact on consumers, of farmers, and of taxpayers' money benefitting two specific groups. Receiving donations from the agricultural lobby could influence the decision of the government. Consumer associations might also begin making donations or lobbying or by starting a campaign in the constituency, turning voters against lawmakers. Taxpayers may have started a campaign to reduce government spending, due to public

33 Ackerman has proposed a system that does prevent citizens from having access to or trading resources. Funds not transferred expire.

debt, looking for support from parties supporting austerity for ideological reasons. The policy making process is a complex outcome of pressures from different sides and through several channels. Identifying a causal link between a donation and a policy outcome is difficult.³⁴

126. Motivations of policymakers are not open to observation. It is up to citizens, public interest groups and the media to either trust elected officeholders have made political decisions in the best interest of the public or acted under influence of campaign donations. Strong indicators of a causal connection between campaign funding and policy outcomes are donations and decisions happening within a short time frame, the amount of the donation corresponding to the importance of the decision, or evidence of collusion. While these conditions are rarely met, the appearance of a corrupt link does suffice for citizens to lose trust in politicians.

127. Fighting the influence of campaign donations or the perception of such influence on policy making includes banning or limiting campaign donations from the private sector, public scrutiny based on disclosure of campaign donations and a pluralist environment of multiple interests holding balance. All three strategies aim at containing the damaging influence of powerful donors.

128. General *bans or caps* on corporate donations to parties or elections have been discussed earlier, since these measures also lend themselves to prevent the impact of private donors on election outcomes. However, in the case of precautionary measures against buying political influence, from the donor perspective closing the door to campaign funding is not the same as fencing off organized interest from influencing policy making. Where a ban shuts the door of corporate companies may resort to other channels of influence, possibly less transparent like personal networks and closer to decision makers like lobbying if not corruption.

129. Another counterbalancing power of political influence is *public scrutiny* of political donations by media and watchdogs. This requires transparency on political contributions. Where the leeway for important decisions is broad, like in the case of government decisions on regulatory policies, fencing off influence by means of new prohibitions does not fit the challenge. Fostering public oversight by investigative journalists and watchdogs exposing the connection between donations and political decisions is an alternative to bans and limitations. It can deter politicians from similar arrangements.

130. A third strategy is establishing a *balance of power* between different interest groups engaging in fundraising. Some countries allow donations from individual companies and citizens, but not from organized interest groups. In a pluralist concept collective action to influence politics have higher value than individual donors. Allowing organized interests like trade unions and business associations to participate in campaign funding can level the playing field. These organizations are already shaping policy through lobbying and sharing interests with political parties. Opening campaign funding to organized interests rather than individual donations builds on the idea of a balanced environment of funding.

3.3.2 *Corrupting influence of campaign donations: breaching the law*

131. Another category of influencing policy outcomes is when political financing renders illegal advantage for companies doing business with the state. Campaign donors can get access to overpriced public contracts; receive favorable conditions in public loans or receive other forms of illegal benefits from public administration. In these cases the favoring of companies includes breaking the rules of public administration (laws on procurement, rules on loan) from public banks and political influence from elected officeholders on public administration.

34 The example of milk subsidies builds on a study by Welch 1982.

132. Fighting the link between political financing and corruption in this narrow sense does require an approach that goes beyond reforming political finance laws. It is necessary to reform public administration in those areas where companies can expect compensation for political donations and public administration needs to be insulated from political influence. Neither lawmakers nor heads of government should be able to force public servants to tinker with tax administration, concessions, subventions, export incentives or public procurement. Where this supply side of corrupt kickbacks keeps open to favorable treatment, new regulations on political financing will transfer influence simply to other channels like lobbying, corruption or unreported donations.

3.4 Closing the gap between law and practice and reestablishing trust

133. For a long time parties and candidates had to keep books and inform the authorities, but it was often politicians who were in charge or oversight. In most countries this basic requirement did not receive much attention until the last decades of the 20th century. Political scandals on the dubious role of political donations stirred the interest of the public to understand the role of political financing.

134. Most of recent campaign finance reforms have a strong emphasis on transparency requirements. Without regular reporting on political financing, overseeing compliance of any regulations of campaign and party finance is crippled. Many new democracies have set up independent agencies for overseeing political financing. In addition public interest groups have taken on an important role in pushing for reforms and putting pressure on oversight institutions to enforce regulations. Closing the gap between law and practice has become a concern for many reform efforts.

3.4.1 *Passing reforms: Conflict of interest and political finance reform*

135. When it comes to reforming political finance regulation lawmakers enter an area of conflict of interest. New regulations or subsidies passed by legislatures will vitally influence interests of parties and lawmakers. Some changes will limit the actions of specific parties as when new bans exclude corporate donations (causing damage to conservative parties). Reporting requirements will create more work for all parties. Media companies would not agree to unlimited free political ads. State funding benefits political parties and candidates collectively, but may hurt the short-term interests of taxpayers.

136. A second important fact concerns the constant need to revisit campaign finance regulations. As explained earlier, political finance regulations can have unintended consequences. In addition activists and practitioners insist on reforms, and policymakers are reluctant to give in to such demands.

137. Many organizations have pointed out the conflict of interest when elected politicians vote on their own short term interests. For this reason countries have developed different models to enlarge the public debate on political finance reform, including members beyond the group of lawmakers. In Germany and Panama commissions of experts have been convened repeatedly to revise campaign finance regulations and devise reforms. Having in mind the constant demand to revise and adapt campaign finance laws in a rapidly changing environment, and given the fact that lawmakers are locked into a position of self interested decision making, the follow-up and preparatory work of a group of experts assessing questions of campaign finance and party finance is a useful model to overcome conflicts of interest.

3.4.2 *Implementing laws: Effective state oversight*

138. In most representative democracies a public institution is responsible for receiving reports on political financing. There are only a few countries where the responsibility for public oversight remains undefined. Concerning the *independence* of state agencies there is a wide gap between systems remaining close to peer review and oversight by the judiciary. A number of countries have set up special agencies receiving reports with various degrees of independence.

139. State oversight bodies have different degrees of *power to investigate* and *apply sanctions* against transgressions. Sanctions range from financial, to criminal and political. Parties may lose public subsidies and have to pay fines when breaching the laws. However more severe sanctions include criminal charges, loss of political office, forfeiting the right to run for elections or even suspension of activities of a political party. The lack of enforcement of these sanctions makes campaign finance regulation a façade.

140. On the other extreme, severe political sanctions can threaten the right to political organization and undermine open political competition. Where independence of oversight is compromised and sanctions are severe, implementation of the law can cripple political competition. During Georgia's parliamentary elections in 2012 the government passed new rules on campaign financing and set up a rigid scheme of enforcement against the main challenger. This was an example where oversight and enforcement were instruments for the government to cripple opposition parties.

141. In addition to independence and powers, oversight bodies need *resources and skills*. Oversight bodies are often run by public servants with a background in law; economists, auditors and statisticians are rare. Modern auditing of campaign finance reports requires confronting databases on campaign donations with records from the public budget, contracting or public work and services, loans from public banks, licenses and permits. While public interest groups have started exploring this field, oversight bodies are underequipped for this task. As a result, even where oversight is independent, where the rules are clear and sanctions are in place, the quality of oversight is poor.

3.4.3 Public scrutiny: civil society oversight

142. Public interest organizations have stirred public debate on political finance reform. Another line of activities is exposing law enforcement agencies, parties and donors for not abiding by current legislation. A third layer of activities concerns activities gathering and conveying information on political financing to the public.

143. In many countries civil society activists keep campaign finance regulation on the *public agenda*. They press political decision makers to support reforms. A network of national and international organizations has evolved which includes policy experts, social activists, party politicians and members of oversight institutions debating political financing. As stated before, there are agreements on transparency requirements and the need for effective oversight.

144. While public pressure has forced lawmakers to set up comprehensive regulations on campaign finance, implementation is often poor. Civil society activists have criticized state agencies for not enforcing current regulations. Another approach has been engaging political parties, activists and donors in voluntary agreements on disclosing campaign finance data.

145. A third layer of activities of civil society activists has been garnering, analyzing and interpreting information on political financing. Where information is poor or access to financial reports is difficult, activists have gathered reports, often resorting to laws on access of information, and made them available to the public. Where datasets are available, think tanks have set up websites to make data accessible to the public.

146. Civil society activists believe that citizens should have access to all relevant information before Election Day in order to cast informed votes. Since accessing campaign finance information is time consuming and difficult, activists have made an effort to break down information to the public during election campaigns. Naturally, the demand for timely and detailed information arises from these projects.

147. Availability of information often leads to new initiatives. This is why activists would often venture into thematically similar areas, where new information is disclosed. Data on the political record of

candidates, including campaign finance data, voting record, management of office funds, asset declarations, criminal records are put together to give voters a chance to make an informed decision.

3.4.4 *Building trust through transparency*

148. Transparency has been mentioned in most recommendations of universal standards. Transparency is the presence of comprehensive and detailed information. (Pfeiffer/Speck 2008).

149. Comprehensiveness of information touches on the question whether all finance flows in political competition are to be reported. Transparency should extend to party and campaign finance, with the latter including candidates and third parties involved in campaign funding. Depending on the definition of political financing, which we discussed at the beginning, additional aspects of political financing can be included in reporting requirements. In Germany party foundations and subsidies to parliamentary groups are often counted as political financing. In the US reporting requirements extend to issue advertising during elections which is not linked to candidates or parties but does influence the political debate during elections.

150. Individual records of financial transactions might or might not be available. Specifically, individual donors should be identified so that their record of doing business with the state can be tracked. Information should also include their income and expenses.

151. In addition, data should be timely, reliable, accessible and intelligible (Pfeiffer and Speck 2008). *Timely* information is key where civil society organizations get involved as watchdogs over political financing. Information available only months or years after the election of the end of the fiscal year makes the information less relevant for public discussion. Long delays in reporting also make the falsification of information possible. Information might not be *reliable* when data are first disclosed, but over the time public scrutiny of information and enforcement by state agencies make data more reliable. Reports are often not *accessible*, either because there is no legal ground for disclosure, or because access to reports is difficult and time consuming for most people. Even when data is disclosed the information does might not be in a readable format. A hard copy of a financial report in PDF-format is different from a database with all financial records available for download. Data are not information. For disclosure of information to make sense and inform the citizen, they need be organized in an *intelligible*, user friendly way. Public oversight institutions, even when disclosing complete datasets, have not always been successful with providing meaningful information to the citizen.³⁵ Media and watchdogs have played an important role in translating campaign finance data for public use.

152. Transparency International has assessed transparency in political financing in Europe, Latin America, Africa and Asia (Crisis-Project.)³⁶ As a conclusion, despite the standard of transparency in most countries that were studied, there is a great variety in public access to political finance information.

153. Some countries still have no requirements for parties or candidates to report their income and expenses. That group, however, is shrinking. Among OECD countries with GRECO reports, there are no reporting requirements in just one country (Switzerland). In some countries, information on the allocation of public subsidies must be disclosed. This information is usually provided by the treasury or the oversight institution. In some countries parties and candidates render accounts on public resources.

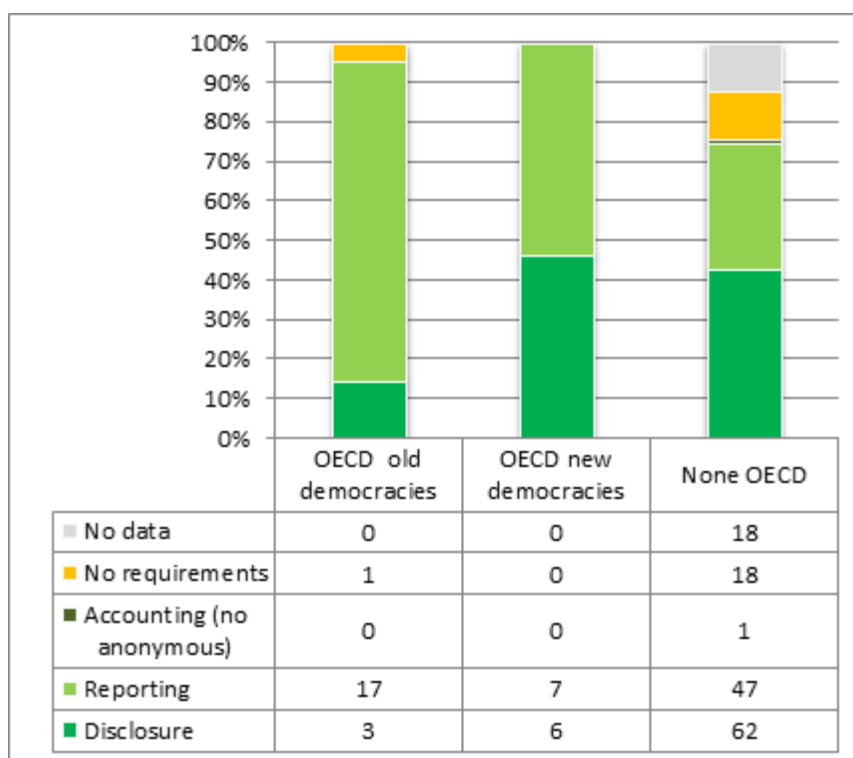
35 The FEC website in the US and the TSE website in Brazil are examples of disclosure of campaign finance data lacking a user friendly interface for citizen and the media.

36 Crisis project

154. In a second group of countries parties and candidates must keep books, but there is no regular reporting of such information to a public oversight institution. This situation is quite close to the previous one. No OECD country fits into this category.

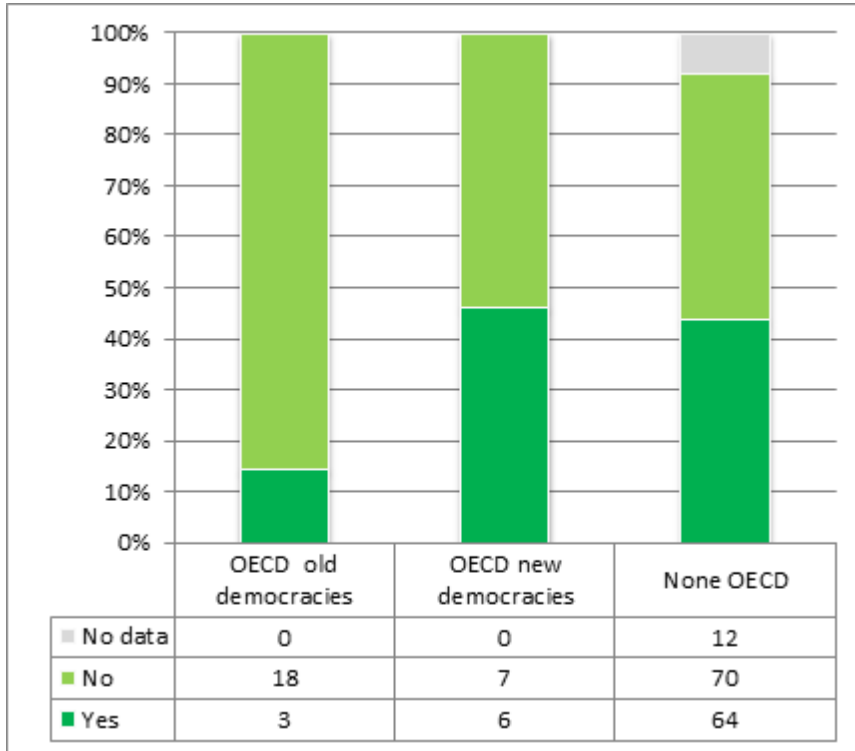
155. A third group of countries requires parties to report on total income and expenses. They deliver balance sheets, broken down into categories like income from corporate donors, and from membership fees. This summarized information allows for assessments of the amounts of money from private donors and how much a party relies on grassroots or state support. Half of the OECD countries fit into this category.

Figure 12. Accounting, reporting and disclosure requirements



156. We can find another step forward towards transparency where parties and candidates are required to detail the sources of funding. Identifying individual donors can reveal a complete picture of information on donors. In the early phase the disclosure of information may be limited to state oversight institutions. The use of information is limited due to violating criteria of accessibility and intelligibility. Interestingly old democracies among the cluster of OECD countries newer democracies perform better on this item than established democracies.

Figure 13. Donor identification



157. A few countries both demand reports to be delivered electronically, and open their electronic datasets to the public. With this available information, civil society organizations can focus on scrutinizing political financing. The donation made by the Quandt family to the Christian Democratic Union and the German chancellor’s veto of a universal standard of emissions for cars is an example of the difficulty of establishing a causal connection between donation and political favor, and of the damage that such a real or perceived connection causes to political officeholders. While Ms. Merkel may justify her decision on grounds of protecting the interests of vital segment of the German economy, public criticism for such a blatant connection between donation and the decision damages the image of the chancellor and her party as "bought" or "in the pocket" of wealthy donors. While state oversight is necessary in identifying transgressions of the law, questions of political responsibility do not fall under the jurisdiction of compliance reviews. It is up to public interest groups, investigative journalists and scholars to connect campaign donations and political decisions. The extent to which elected officeholders and political parties remain answerable primarily to their electorate or to campaign donors demands a vigilant civil society and public debate.

4. SUMMARY

158. Money shapes the process of political competition and influences policy making. In each of these contexts money is a double edged sword. In the realm of political participation money connects and biases; in political competition money enables and crowds out; in policy making it influences and corrupts.

159. Assessments of the role of money in politics have gathered useful information on where we stand and which paths of regulation lawmakers have explored so far to limit the corruption of money without abdicating its enabling role.

160. Building on these achievements we have proposed a new round of debate and knowledge with attention to the ambivalent role of money in politics, viewing political financing in a broader context and linking specific problems to specific solutions.

161. We have emphasized that funding political causes, campaigns and parties is a legitimate channel of political participation. Political finance regulation should as much enable and enhance political donations as bans should limit excessive influence from single donors. We have recapitulated regulations already in place and suggested ways to set incentives for small donations to parties.

162. From the viewpoint of competition between parties the main challenge is that resources may not imbalance political competition. The threats come from governments abusing administrative resources and powerful private donors swaying political competition. Public sector reforms and campaign finance can limit these threats. Public financing, where adopted, should remunerate political parties as public utilities. In many cases public financing reflects and perpetuates the distribution of power between political parties.

163. When the design of public funding aims at either promoting more balanced competition or limiting the number of political parties, a comprehensive approach to reform should include broader institutional incentives such as registry of political parties, the electoral system, qualification thresholds for political representation, or the status of parties in parliament. Resource allocation alone might not be a sufficient incentive to tip the balance.

164. Fighting undue influence and corruption from political financing requires a clear understanding of the difference between unlawful influence on public administration and behavior and breach of trust of voters. The former requires clear regulation of those sectors of administration that usually lend themselves to compensate campaign donors. The potential entry point in the public sector can vary along a number of channels of influence. While banning all campaign donations is an option, a comprehensive approach will take into account private agents who can resort to lobbying, personal networks or corruption.

165. Whether elected officeholders betray their voters, giving priority to interest groups or single campaign donors, remains a question to be answered in the public sphere and to be voted on at the polls. Transparency requirements enable the media, public interest groups and parties to engage in this debate. It is a common misunderstanding that civil society is a branch of public oversight, compensating for the lack of political will and technical capacity of these institutions. Comprehensive, detailed and timely information is not just a demand from campaign finance experts, but a necessary condition for moving the debate on campaign finance from the nebulous area of suspicion and accusation which undermines trust, to the space of public discussion on different motivations for political decisions.

Table 3. Linking problems to solutions: overview

	Deficit/Goal	Tools
Competition	Abuse of administrative resources	<ul style="list-style-type: none"> * Bans on funding by public entities *Term limits for elected officeholders *Regulating use of state media *Rules on government advertising *Civil service reforms
	Large private donations influencing elections	<ul style="list-style-type: none"> *Bans and limitations on private funding *Public subsidies replacing private donations *Shaming and blaming of large donations *Balance of power including organized interest groups
	Shaping party system and promoting fair competition	<ul style="list-style-type: none"> *Spending limits *Distribution criteria: equal - past performance - market
	Cartelization by public funding	<ul style="list-style-type: none"> *Avoiding thresholds *State funding through market mechanisms
Participation	Party organizations lack grassroots funding	<ul style="list-style-type: none"> *Tax deduction of donations *Tax rebate for donations *Matching funds *Citizen vouchers *Technical support *Legal framework
	Strengthening party organizations	<ul style="list-style-type: none"> *Subsidies to specific branches of parties *Transparency requirement *Incentives for fundraising
Influence	Regaining trust	<ul style="list-style-type: none"> *Bans and limitations to private donations *Designing public subsidies depending on market (avoiding cartelization) *Public scrutiny on private donations *Balance of power (organized interest groups)
	Corruption through political donations	<ul style="list-style-type: none"> *Public sector reforms *Limiting political influence on civil service *Limiting political appointments *Reforming vulnerable sectors (procurement, revenue, public loans)
Oversight	State oversight	<ul style="list-style-type: none"> *Strengthen independence

		<ul style="list-style-type: none"> *Power to investigate and apply sanctions *Sufficient resources *Promote auditing skills
	Civil society	<ul style="list-style-type: none"> *Keeping political finance reform on agenda *Pressure state oversight and political parties for compliance with laws *Informing voters on campaign finance flows
	Reporting and disclosure	<ul style="list-style-type: none"> *Designing rules for comprehensive and detailed reporting *Pressing for timely, accessible and intelligible disclosure *Standard of electronic datasets

Table 4. Text of International Conventions and Agreements on Political Financing

OAS <i>Inter-American Convention Against Corruption (1996)</i>	No direct reference to political financing.
OECD <i>Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997) Recommendations (2009)</i>	<p>No direct reference to political financing. Reference to preventive measures against bribery of elected officials.</p> <p>Companies should consider, inter alia, the following good practices for ensuring effective internal controls, ethics, and compliance programmes or measures for the purpose of preventing and detecting foreign bribery: ...</p> <p>5. ethics and compliance programmes or measures designed to prevent and detect foreign bribery, applicable to all directors, officers, and employees, and applicable to all entities over which a company has effective control, including subsidiaries, on, inter alia, the following areas:</p> <ul style="list-style-type: none"> i) gifts; ii) hospitality, entertainment and expenses; iii) customer travel; iv) political contributions; v) charitable donations and sponsorships; vi) facilitation payments; and vii) solicitation and extortion;
Council of Europe	No direct reference to political financing. Reference to preventive

<p><i>European Criminal Convention Against Corruption (1999)</i></p>	<p>measures against bribery of elected officials.</p>
<p>United Nations <i>Convention Against Corruption (2003)</i> Article 7 (Public Sector), item 3.</p>	<p>Each State Party shall also consider taking appropriate legislative and administrative measures, consistent with the objectives of this Convention and in accordance with the fundamental principles of its domestic law, to enhance transparency in the funding of candidatures for elected public office and, where applicable, the funding of political parties.</p>
<p>African Union <i>Convention Preventing and Combating Corruption (2003)</i> Article 10 Funding of Political Parties</p>	<p>Each State Party shall adopt legislative and other measures to:</p> <p>(a) Proscribe the use of funds acquired through illegal and corrupt practices to finance political parties; and</p> <p>(b) Incorporate the principle of transparency into funding of political parties.</p>
<p>WEF/TI <i>Partnering Against Corruption Initiative</i> 4.2 Political Contributions</p>	<p>4.2.1 The Enterprise, its employees and intermediaries should not make direct or indirect political contributions to political parties, party officials candidates or organizations or individuals engaged in politics as a subterfuge for bribery.</p> <p>4.2.2 All political contributions should be transparent and made only in accordance with applicable law.</p>
<p>OECD <i>Guidelines for Multinational Enterprises</i></p>	<p>Enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage. Nor should enterprises be solicited or expected to render a bribe or other undue advantage. In particular, enterprises should: ...</p> <p>6. Not make illegal contributions to candidates for public office or to political parties or to other political organizations. Contributions should fully comply with public disclosure requirements and should be reported to senior management.</p>

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