

# POLITICAL PARTIES AND DEMOCRACY IN THEORETICAL AND PRACTICAL PERSPECTIVES

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POLITICAL FINANCE POLICY, PARTIES,  
AND DEMOCRATIC DEVELOPMENT

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NATIONAL DEMOCRATIC INSTITUTE FOR INTERNATIONAL AFFAIRS

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This publication was made possible through the support provided by the Office of Democracy and Governance, Bureau for Democracy, Conflict and Humanitarian Assistance, U.S. Agency for International Development, under the terms of Award No. DGC-A-00-01-00004-00. The opinions expressed herein are those of the author and do not necessarily reflect the views of the U.S. Agency for International Development or the National Democratic Institute for International Affairs (NDI).



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## POLITICAL PARTIES AND DEMOCRACY IN THEORETICAL AND PRACTICAL PERSPECTIVES

### *Adopting Party Law*

Dr. Kenneth Janda, Northwestern University

### *Political Finance Policy, Parties, and Democratic Development*

Dr. Michael Johnston, Colgate University

### *Developments in Party Communications*

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NDI would like to thank those who kindly served as informal advisors to the *Political Parties and Democracy in Theoretical and Practical Perspectives* series: Dr. Russell Dalton, Director of the Center for the Study of Democracy at the University of California, Irvine; Dr. David Farrell, Jean Monnet Chair in European Politics at the University of Manchester; Dr. Michael Gallagher, Associate Professor of Political Science at Trinity College, Dublin; Dr. Kay Lawson, Professor Emerita at San Francisco State University; and Dr. Paul Webb, Professor of Politics at the University of Sussex, Brighton.

Additional contributions to the series were made by Scott Bates, Center for National Policy; John Bruton, Fine Gael, Ireland; Dr. Dieter Dettke, Friedrich Ebert Foundation; Matyas Eörsi MP, Alliance of Free Democrats (SZDSZ), Hungary; Thomas Melia, Freedom House; Annemie Neyts MEP, Flemish Liberal Party (VLD), Belgium; Dr. Norbert Wagner, Konrad Adenauer Foundation; and Tony Worthington, Labour Party, United Kingdom.

For more information on NDI's political party programs or to obtain electronic copies of the *Political Parties and Democracy in Theoretical and Practical Perspectives* series, please visit <http://www.ndi.org/globalp/polparties/polparties.asp>.

# PREFACE

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A democracy needs strong and sustainable political parties with the capacity to represent citizens and provide policy choices that demonstrate their ability to govern for the public good. With an increasing disconnect between citizens and their elected leaders, a decline in political activism, and a growing sophistication of anti-democratic forces, democratic political parties are continually challenged.

For more than 20 years, the National Democratic Institute (NDI) has worked with political parties around the world to create more open political environments in which citizens can actively participate in the democratic process. As a political party institute, NDI approaches its work from a practical viewpoint, offering assistance to promote parties' long-term organizational development, enhance their competitiveness in local and national elections, and help them participate constructively in government. This support takes many forms, from interactive training and guided practice to consultations and tailored resources that help parties become more open and representative organizations.

In 2004, NDI began producing a series of research papers that examine four topics central to the role and function of political parties. Two of the papers, "Adopting Party Law" and "Political Finance Policy, Parties, and Democratic Development," discuss regulatory mechanisms that directly impact parties, while the other two, "Implementing Intra-Party Democracy" and "Developments in Party Communications," relate to parties' internal governance and organization. Together, these papers aim to provide comparative information on elements of party politics and to shed light on different methods and their associated causes and effects. They also examine some of the implications of a political party's action or strategy in each area.

These papers do not offer theories on party organization or instant solutions for addressing the issues explored. Rather, they consider obstacles to, and possible approaches for, creating more effective and inclusive political parties. They

flag potential pitfalls and bumps along the way, and illustrate the practical considerations of which parties may need to be aware. The papers also encourage greater exploration of the many excellent resources, articles, and books cited by the authors.

It is hoped that the *Political Parties and Democracy in Theoretical and Practical Perspectives* series will help readers gain a better understanding of each topic and, in particular, the complexities of the issues addressed. This paper, "Political Finance Policy, Parties, and Democratic Development," offers an analysis of political finance policy, with a primary focus on societies where democracy is either relatively new or emerging from crisis.

The series is an experiment in blending theoretical knowledge, empirical research, and practical experience. NDI invited four eminent scholars to write the papers and engaged a range of people—including party leaders, democracy practitioners, NDI staff members, and other noted academics—in every stage of the process, from developing the initial terms of reference to reviewing outlines and drafts. NDI is indebted to a large number of people who helped bring this series to fruition, particularly the authors who took part in a cumbersome, collaborative process and graciously accepted feedback and guidance, and the project's consultant, Dr. Denise Baer. Special appreciation is due to NDI Senior Program Officer Victoria Canavor, who managed the project from its inception.

NDI gratefully acknowledges the support of the U.S. Agency for International Development (USAID), which provided funding for this project.

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Michael Johnston is the Charles A. Dana Professor of Political Science and division director for social sciences at Colgate University. He served as founding co-editor of the journal *Corruption and Reform* from 1985 through 1996, and with the late Arnold J. Heidenheimer, co-edited *Political Corruption: Concepts and Contexts* (2002). His forthcoming books include *Syndromes of Corruption: Wealth, Power, and Democracy* (2005) and an edited anthology on civil society and reform. Dr. Johnston has served as a consultant to international organizations and development agencies, including the World Bank, the Asia Foundation, the New York State Commission on Governmental Integrity, the U.S. Agency for International Development, and the United Nations. He holds a Ph.D. from Yale University.

# POLITICAL FINANCE POLICY, PARTIES, AND DEMOCRATIC DEVELOPMENT

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Strong political parties are essential to open, competitive democratic politics, particularly in emerging democracies. Parties need funding in order to survive, compete, and perform their democratic functions, both during and between election campaigns. Yet political money and those who donate it are widely seen as problematic—at times, even, as threats to democracy. There is no consensus on how parties should be funded, or on the regulation of contributions, expenditures, and public disclosure. Indeed, the legal and constitutional status of parties is often poorly defined,<sup>1</sup> and their political roles are frequently misunderstood.

This paper offers an analysis of political finance policy as it affects parties and democratic development, with a primary focus on societies where democracy is either relatively new or re-emerging from crisis. Parties in these societies typically confront pervasive scarcity, and they lack the tolerant attitudes, social capital, and supportive institutions that help sustain democratic politics elsewhere. Rules affecting the ways money is contributed, raised, spent, and disclosed—or, for that matter, a *laissez faire* policy or ineffective legislation in any of those areas—will have powerful implications for the quality and sustainability of democratic processes.

Most such policies, however, aim less at providing essential resources for competitive parties than at controlling corruption. They often reflect a reform ideology that is reflexively anti-political—a “civic vision” of politics as the pursuit of the public interest and of government as existing to provide technically sound administration. But both the civic vision and the goal of controlling corruption are essentially public goods: If they are attained for anyone they are attained for all. They are thus subject to classic free-rider problems: Most people, seeing little personal interest at stake in politics of that sort, will leave the heavy lifting to others.<sup>2</sup> The civic/anti-corruption approach to political finance is thus unlikely to sustain broad-based, active,

competitive political participation; indeed, in important respects it inhibits a pursuit of self-interest that is essential in an active democracy. Parties, in many instances, come to be seen as something akin to public utilities rather than as ways in which people and groups seek to influence politics and government<sup>3</sup>—a view that drains the vitality out of democratic politics. Those whose interests are strong enough to overcome these barriers, and who do get involved, will ordinarily have little personal stake in the civic/reform vision. Thus it is not surprising that in many democratizing systems, political finance systems have been rewritten, or implemented, by governing parties in such a way as to solidify their own advantages,<sup>4</sup> while in others they are violated with impunity by all contenders.<sup>5</sup>

## PUTTING POLITICS FIRST

The main thesis of this paper is that political finance policies best serve democratic development not by making corruption control the primary goal, but rather by sustaining and enhancing open political contention and strong, responsible parties. Providing essential funding—both during and between campaigns—and engaging the self-interest of citizens and groups in financing politics, and in political processes generally, are vital aspects of democracy building.

The party suggests that fundamental policy tradeoffs exist between corruption control and funding open, competitive party politics. The former emphasizes regulatory policies—generally speaking, transparency requirements and restrictions on participation and the flow of funds—over distributive initiatives that aim to encourage both. Further, in most countries corruption control focuses on contributors, recipients, and election campaigns rather than the long-term political vitality of parties or civil society and essential

## CORRUPTION

The abuse of public roles and resources for private benefit, although in many societies terms like “public,” “private,” and “abuse” are matters of considerable political dispute. Much corruption in established democracies involves efforts by business or wealthy individuals to buy or rent influence in government. But in much of the rest of the world, the problem is also, or primarily, that powerful state and political figures plunder the economy. Both contention over key aspects of the definition, and the impunity with which officials enrich themselves in many countries, underline the importance of free and open political contention—in the first instance, to draw key boundaries and distinctions, and in the latter, to check abuses of political power and create alternatives to corrupt governments.

linkages between them. Particularly in the new and emerging democracies that concern us here, corruption control is unlikely to strengthen parties or deepen democratic politics (and may thus ironically deprive anti-corruption policies of crucial support in the process). Political finance policies that best aid democratic development are primarily distributive, bringing vital resources to parties and civil society. In the end, while corruption control seems to emphasize restraints and de-emphasize parties, a country seeking to use political finance tools to enhance democratic politics should consider whom it wishes to empower, and what sorts of activities it intends to support, rather than emphasizing restrictions and limits.

Parties, looked at that way, are not potential corruption problems, but rather essential agents of the kind of competition, organization, mobilization, and accountability that enliven democracy and ingrain it into a nation’s daily life. Beyond ensuring that entry into politics is relatively open, the goal is not to create some sort of “level playing field” for the whole system (whatever that much-overworked term might mean in practice); it is rather to empower individuals, groups, and parties as effective political participants, both encouraging and enabling them to act in ways that make politics work for them. In the long run, as competitive politics puts decisive choices into citizens’ hands, it can also become a significant check against corruption in its own right.

In offering this argument, I seek to build upon and link together a variety of ideas and research initiatives that have already done much to illuminate these issues. The case for transparency in political finance has been made with force and sophistication in, for example, the USAID *Money in Politics Handbook*.<sup>6</sup> A similar case has been made by

International IDEA, which has cataloged and analyzed regulatory initiatives, found in near-bewildering numbers and combinations in countries around the world.<sup>7</sup> This paper does not seek to supersede these arguments; it argues rather for adding more distributive policies to the mix, and it develops suggestions about how to strike a working balance among all of these initiatives—by making active political contention and strong party politics our standard of progress and ultimate goal.

That said, a note of realism is in order. Political finance policies create important incentives and constraints, but it would be a mistake to hope that we could engineer or fine-tune a viable democracy simply by using the sorts of tools described in this paper. Incentives may be too weak, too strong, or contradictory; they may not be accurately recognized or understood by policy architects or political participants (who will never be quite as rational as our theories would assume them to be); and even if they do encourage desired results, the process will take time. Further, we do not design our policies on a blank slate: Most societies will have political finance systems in place already, and all will have powerful, even entrenched groups and leaders for whom the status quo works quite well. In political finance, just as in any other policy domain, the law of unintended consequences applies, sometimes to great effect. So despite the bold democratic purpose of political finance policy, caution is indispensable—particularly in democratizing societies where uncertainties are great, information can be scarce, experience with democratic processes (and stresses) may be scant, and opportunities for reform can be short-lived. Distributing resources may be a fine idea, but are there appropriate recipients? And if so, are they easily identified? Transparency can be a force for open, accountable politics,

but it can also expose citizens, contributors, and political activists to reprisals, and drive new groups or weaker parties out of the political arena. Governments should always regulate with care, not only because we may end up inhibiting the changes we wish to see, but also because virtually every regulation works to someone other than the general public's advantage.

It is worth noting that the risk of corruption and political finance abuses must be taken seriously, too, particularly where institutions are weak. Beyond a certain point, money enables some voices to overwhelm others. Parties with insufficient resources cannot build popular participation. Parties with excessive resources may drive out competitors while becoming isolated from their own social bases. Parties funded from too few sources will fail to represent broad segments of the public. Governing parties can tap into “administrative resources”—state powers and funds not available to the opposition—which are very useful in rewarding friends and punishing enemies.<sup>8</sup> Party leaders, particularly in strongly disciplined parliamentary systems, can establish personal monopolies over funding, enriching themselves, stifling intra-party debate, and putting extortionate pressures upon contributors in the process; entrenched incumbents in other kinds of systems can practice similar tactics. In established democracies, influence markets emerge in which parties and politicians function as middlemen between private interests and decision makers—for a price.<sup>9</sup> Preventing or revealing abuses are important, but in the long run, vigorous and open competition among a small number of strong, socially rooted political parties is one of the best ways to control corruption and deepen democracy.

## PARTIES, CONTENTION, AND DEMOCRACY

Democracy is a bundle of dynamic self-government processes, both social and official in nature. They are visible not just as *participation* in public life (for example, advocacy, voting, assembly, contributing time and money to groups) but also in the form of state, political, and social *institutions* (constitutions and the bodies they establish, credible rights, a free press, electoral and judicial processes, shared values, and social organizations) that both sustain participation and restrain its excesses. Links and balance between participation

and institutions are essential: Participation without institutions is chaotic, ineffective, and likely to serve the few at the expense of the many. Institutions without participation are an empty exercise at best—and more often, at worst, tools of control from above.

People are most likely to participate politically in vigorous, sustained ways when they have a stake in the outcomes. Paradoxically, while democracy is a public good, self-interest is critical to its vitality. Open, competitive, and fair participation within a framework of legitimate, credible institutions enables citizens and groups to defend their interests, to act on issues they care about, and to hold officials accountable for their decisions. Institutions enlivened by contention among socially rooted interests can moderate conflict, aggregate demands into public policy backed by a working consensus, and earn legitimacy.

Political parties are among the most crucial institutions in these processes. Parties embody both participation and institutions, and they are essential to negotiating a balance between them. In their many forms, they do not just contest elections, but also mobilize and organize the social forces that energize democracy, on a continuing basis. Even the most determined democrats require a lasting organizational base, a pool of resources, and legal standing in the political process. Parties connect leaders to followers and simplify political choices, framing them in terms of citizens' own interests. In many societies, parties provide a range of non-political benefits as well, including social activities, recognition and status for people and groups (consider the old ethnic “balanced ticket”), and a sense of security, connectedness, and efficacy.

Parties also perform critical moderating and commitment functions identified long ago by E.E. Schattschneider but frequently overlooked today.<sup>10</sup> Simply put, where parties are strong, interest groups need them more than they need interest groups. Party leaders can, and usually must, be brokers, working out compromises and seeing that these are honored. Strong parties emphasize points of commonality and discourage excess—not in the name of civic virtue, but in the name of winning elections. Parties by themselves do not preclude people seeking power through arms, bribery, the power of a charismatic leader, or the strength of the mob, and parties themselves are open to a range of abuses. But

without them, citizens and societies have few genuinely democratic alternatives.

### *Resources and Tradeoffs*

Clearly, strong parties require money. Further, raising and spending political money—far from skunking up the civic garden party—can enhance the vitality of democratic processes. Even if we do not accept the current contention that money literally *is* speech—an odd sort of political transubstantiation—contributing money is an important form of political participation that effectively signals the intensity of one’s views. Appealing to citizens and civil society for funds is a party-building activity and a way to strengthen leader-follower connections. Less well recognized is the role of such fundraising in building party accountability—in the ways money is used, in the political and policy strategies parties pursue, and with respect to internal party democracy.

Stated thus, political finance policy seems simple. But in practice it poses some of the most complex policy choices facing democracies, both emerging and established. Political finance policies come in pieces, with a variety of components addressing goals that are not always mutually compatible or clearly thought out. Restrictions on contributions and spending, public subsidies, matching funds or tax incentives to make contributions, and compliance and oversight procedures may all be extensive or minimal. Funds may be channeled to or through parties, individual candidate committees, or a range of independent bodies. Individual citizens, voluntary organizations, committees representing various kinds of interests, and businesses themselves may be allowed or encouraged to contribute and spend funds, or they may be selectively barred. A major issue is whether to allow contributions from foreign individuals and groups. Qualification thresholds for subsidies may be high or low, broadly or narrowly based. Data on contributions and expenditures may be made available widely and quickly or not at all.

Enforcement is a continuing dilemma. Many countries have well-drafted laws on the books that are widely ignored. Further, political finance policies are, for want of a better way to put it, *political*: They are never neutral, but rather create significant political advantages and disadvantages that

affect outcomes in a range of ways. Finally, democracies themselves vary considerably and are always works in progress. Policy that “works” in one society might be harmful in another, and both will be obliged to rethink their approaches with change over time. Underlying all such issues is the law of unintended consequences: Given the stakes of electoral politics and the fertile imaginations of interested participants, the implications of various combinations of policies in any one particular setting may be difficult to foresee. There is therefore no single best political finance system.

**Table 1**, on the opposite page, lists some of the most important tradeoffs at stake. Some are strategic in nature, representing choices between the kinds of politics and societies that people seek to build; others are more tactical, referring to the means by which people pursue those ends. Not all of the tradeoffs are absolute, putting various ends or means on opposite ends of some political teeter-totter. Societies might well pursue both internal and public accountability, for example, but they must remember that some policies aiding one goal may come at the expense of the other. Other tradeoffs have a time dimension: A society might initially emphasize the provision of public funds but aim, over time, at shifting the burdens of political finance to parties and their own bases of contributors. Still other tradeoffs, such as the relative balance between parties and individual candidates, or between national and local politics, will be shaped by the nature of constitutions, regimes, and electoral systems. Such a list does not simplify political finance policy making; the purpose is rather to emphasize key choices—choices that should not be made by default or without careful thought. At the same time, there is a kind of consistency among many of the tradeoffs. To the left in Table 1 lie many of the strategies and tactics that are part of the political contention approach outlined in this paper, while many aspects of the anti-corruption approach appear on the right. That distinction is the basic theme of this paper.

### **PARTIES, POLITICAL CONTENTION, AND SUSTAINABLE DEMOCRACY**

As suggested above, there are major alternatives to the civic/reform vision—alternatives that emphasize the value of free, open *political contention* as both a means and an

TABLE 1: MAJOR TRADEOFFS IN POLITICAL FINANCE POLICY

	Political Contention Approach	Anti-Corruption Approach
<i>Strategic (ends)</i>	Providing resources for political contention	Controlling corruption
	Parties as vehicles, agents for political contention	Parties as civic entities or “public utilities”
	Distributive policies (directly or indirectly providing resources)	Regulatory policies (setting limits on flows of funds; transparency and accountability)
	Civil society as active, self-interested political protagonists	Civil society as a check on political, financial excesses
<i>Tactical (means)</i>	Encouraging flow of private funds	Checking influence of private contributors
	Providing public funds	Developing parties with strong independent financial bases
	Internal party accountability, governance	Public accountability, transparency
	“Blind trusts” keeping contributions unverifiable, protecting citizens from reprisals	Transparency to encourage accountability, check excesses and shady deals
	Encouraging new parties and independent candidates	Creating a consistent and comprehensible range of choices for citizens
	Emphasis on parties	Emphasis on individual candidates
	Emphasis on national issues, candidates, coalitions	Emphasis on local issues, candidates, interests

important end of democratic development. The term “contention,” rather than “competition” is used deliberately here, to refer not just to multiple parties and a choice on election day; it is used also to refer to vigorous, sustained, self-interested contestation among real, socially rooted groups and interests—contention that takes place between elections as well as during campaigns. Such contention requires, and rewards, *competition, organization, mobilization, and accountability*—all understood not as civic virtues but rather as ways in which people put the political process to effective use through parties. As such, these four processes are hallmarks of strong, active parties, contributions that parties can make to public life, and defining characteristics of strong, sustainable democracies. But they are not end states or indicators that democratization has been “completed”; they require resources, participation, and occasional renewal, and can deteriorate markedly even in established democratic systems. They can be significantly enhanced, or weakened, by our political finance policy choices.

Because they are so important on so many levels, I will frequently refer to these four processes as “goals.” But it should not be assumed that they can be put into place easily or permanently with specific policy tools. In practice, they are interlinked with many other aspects of social and democratic development.

*Competition.* Parties, and the party systems they collectively embody, should offer realistic chances at influence to a diverse array of interests and candidates. Ideally, that means an opportunity to win elections, but sometimes losing contenders can shift the terms of debate, too. Competition requires that the rights to vote and run for office be protected for all, and that electoral procedures be honest and open to public scrutiny. The ability to contribute funds likewise enhances competition, both directly, by providing key resources, and indirectly, by giving parties incentives to build their connections with popular constituencies. Competition works best when it is orderly—two or three alternatives are preferable to 40—and decisive, with clear mandates and

winners. Real opportunities to compete for power, as well as for votes and contributions on a broad social scale, create incentives for parties to contend on issues, and in ways that reflect popular values. They also are good reasons for losers to accept the results of one election while preparing aggressively to win the next.

*Organization.* Sound parties give effective voice to popular discontents and aspirations, providing a continuing structure for mass politics. They organize legislatures and their staffs, executives (at times including civil servants, though therein lie risks), and affiliates such as foundations, think tanks, charities, social clubs, labor and trade organizations, and mass media. Loyalty and, at the elite level, discipline are maintained through diverse appeals ranging from policy commitments, popular leaders, and social activities to political patronage and the dislike of competitors. Strong parties also build a base of volunteers motivated by the party's long-term goals. Poorly organized parties may resort to whipping up ethnic, class, and ideological discontents; worse yet—because they cannot motivate voluntary efforts through credible political promises—they become dependent upon paid political workers, worsening their resource problems and leaving their structures and agendas hostage to the short-term interests of political mercenaries.<sup>11</sup>

*Mobilization* is in effect organization in action, and takes place not only during election campaigns but between them as well. Making sure that citizens are eligible to vote, and that they do in fact vote, is the most obvious aspect of mobilization; but recruiting party officials, financial backers, policy specialists, candidates, and activists at all levels is a continuing challenge. Political finance arrangements will have major implications for how effectively parties can mobilize votes, money, leadership, and public opinion, and will affect who does, and does not, find it possible to run for office.

*Accountability.* In practice “accountability” can have several meanings. Parties, both in government and opposition, can hold top officials accountable to party members, key interests, financial backers, and citizens. At the same time, party leaders should be able to answer to members, contributors, and citizens as to how they have used contributed funds, how they set and pursue political strategy and policy priorities, and how they manage the party's internal business and debates.

Accountability, in its various meanings, is not just a civic value, but is also a way of keeping parties alive, open, and adaptive. Dissenting views and open debate keep a party open to new ideas and reveal the shortcomings of old ones. Intra-party democracy and transparency helps maintain a broad base in civil society, though it is also important for parties to lead as well as to follow popular values and sentiments. Commitments to contributors must be genuine too, as unpopular as that idea may seem, since few will donate to parties or candidates who just take the money and run. However, those links cannot become either a shopping list for contributors or a basis for extortion by entrenched officials.<sup>12</sup>

### *Tools and Targets*

For those framing political finance systems, these four goals are not just good things that parties can do but also a way to shape policy choices. An assessment of the status quo should begin with frank judgments as to how well existing parties perform these four political functions. Those functions performed least effectively should be primary concerns.

## POLICY TOOLS: PUTTING IDEAS TO WORK

Any conceivable mix of policies will ultimately have implications for all four goals or problem areas,<sup>13</sup> but we can still identify some specific connections. One way to begin classifying political finance policies is to think in terms of *tools* and *targets* (or *agents*). The former refers to the resources and constraints that a political finance policy creates, and can usefully be divided into *regulatory* and *distributive* tools.<sup>14</sup> The latter are the various political actors, some individual and some organized, who are affected by policy tools (or who become the agents of a political finance system through their actions).

There is no standard list of tools and targets/agents, and the following discussion is by necessity a simplification of complex policy choices. But **Table 2**, on the opposite page, identifies the most important links between a range of *regulatory* (disclosure, contribution limits and prohibitions, *laissez faire* approaches, and “blind trusts”), and *distributive tools* (tax incentives, subsidies and partial public funding, full

TABLE 2: MAJOR LINKS BETWEEN POLICY CHOICES AND GOALS/PROBLEM AREAS

Tools	Competition	Organization	Mobilization	Accountability
<i>Regulatory</i>				
<i>Disclosure</i>	-		-	+
<i>Limits/Prohibitions</i>	+/-	-	-	
<i>Laissez Faire</i>	-	+/-	+/-	-
<i>“Blind Trusts”</i>	+			+/-
<i>Distributive</i>				
<i>Tax Incentives</i>	+	+/-	+	
<i>Subsidies/Partial Public Funding</i>	+	+/-	+	+/-
<i>Full Public Funding</i>	+/-	+/-	-	-
<i>Free Media</i>	+		+	
<p><u>Likely effects</u>            + = positive            - = negative            +/- = mixed</p>				

public funding, and free media), along the vertical side, and our four goals or problem areas across the top. It offers some very general ideas about the likely positive, negative, and mixed effects of policies, illustrating the complexities inherent in choosing among and combining various pieces of political finance policy. In no way is it a list of “remedies”: In many cases the likely effects are mixed, and in all cells results will depend on the details of policy, the state of the parties themselves, and the overall conditions of democratic politics. An empty cell in the table does not necessarily suggest that there will be *no* effects on the goals or problems, but rather just that the connections are weaker or less direct. *Targets* and *agents* will be discussed below in terms of likely implications of the regulatory and distributive strategies for parties, individual candidates, contributors, and civil society groups.

### *Regulatory Policy Tools*

*Disclosure.* Many countries require that contributions, receipts, or expenditures be made public by various means.<sup>15</sup>

Disclosure may be limited or delayed—mandating, for example, reports to an official agency, which may or may not publish the data, apart from certain categories of contributions and spending; or only requiring disclosure by official campaign committees rather than by third parties—or extensive and rapid, such as quick and full disclosure over the Internet. Transparency requirements may extend beyond parties, candidates, and contributors to include other actors in the political process—notably, sitting officials in elected and appointed positions, but also bidders for public contracts, nominees for judicial and top bureaucratic positions, and so forth. Choices as to the extent and detail of disclosures required, and access to and dissemination of data, will be important where distinctions are made between the activities of parties and candidates, on the one hand, and independent groups on the other. Often they will be linked to the tax status of organizations as well.

Disclosure enjoys widespread acceptance as an anti-corruption measure (“sunlight is the best disinfectant”) and also makes it easier in important respects to assess the

## TRANSPARENCY AND DISCLOSURE—UNITED STATES

Political finance policy in the United States relies extensively on transparency and disclosure. The only funding provided at the federal level is for presidential campaigns, but all candidates for federal office, and nearly all contributors, must report their financial activities to the Federal Election Commission, which then makes data easily available to the public. In principle, transparency enables the press and competing candidates to police contribution and expenditure practices, and voters to punish miscreants at the polls. As a practical matter, however, the resulting flood of data becomes difficult to manage; all but the most flagrant abuses are likely to draw public attention only well after an election, if at all. Disclosure may also discourage contributions to challengers by donors reluctant to antagonize entrenched incumbents; further, in a setting in which citizens feel less secure, transparency could discourage them from becoming involved in the political finance process.

openness and competitive balance of a system. But from the standpoint of democratic politics, disclosure requirements have their tradeoffs and drawbacks. They require public resources, a free press, bureaucratic capacity, and a sound system of courts and prosecutors, to be effective and credible. Ironically, the broader and more detailed the disclosure policy, the less useful the data may be. To be effective as a check on abuses, the information must be analyzed and interpreted for the public by the press, competing parties, or civil society groups, and a flood of data will make that process slow and expensive. At the elite level, a range of informal favors for contributors and an active trade in access lies beyond the reach of any conceivable, much less desirable, system of disclosure.<sup>16</sup>

Disclosure policies put in sharp relief the tradeoffs between controlling corruption and funding vigorous party politics. Implications for our four party functions are mixed at best: Particularly where a democratizing system is dominated by a powerful leader or governing party, publicity may discourage contributions to new parties and opposition candidates and dissuade vendors from dealing with the opposition. Those in power, by contrast, may eagerly disclose their large stockpiles of money (or portions thereof) to convince potential challengers that they should stay home—and possible contributors that they had best get onto the train before it leaves the station. Accountability is likely aided, on balance, by disclosure, particularly to the extent that civil society groups and the press can put data to use. But the notion that citizens will fold finance data into their own voting and contribution decisions assumes a level of trust and sophistication that may not hold true in practice.

Disclosure also imposes significant administrative burdens on parties, candidates, contributors, and others who may spend money independently; if requirements are too complex or intrusive, technical issues of compliance, rather than questions of good politics or bad ethics, are likely to supplant policy and leadership abilities as main issues in a campaign. Even under efficient disclosure regimes, compliance will take time and resources away from mobilization, while the resulting flow of information on funding may well alienate citizens from politics rather than encourage them to respond to party appeals.

*Legal limits and prohibitions.* Ceilings may be imposed on contributions, fundraising, “bundling” (see definition on the next page), spending, or media use. Ceilings may apply to aggregate amounts, or differentially to specific categories of funds, donors, uses, and phases of a campaign. Prohibitions from contributing might apply to business, trade unions, government contractors, and foreign individuals and organizations; other prohibitions might regulate relations between parties and candidates, on the one hand, and independent groups, on the other. The range of possibilities is nearly unlimited, and not surprisingly, consequences can range from useful (preventing one or two large contributors from dominating the process) to downright harmful (technicalities preventing contributions to opposition parties or donation limits set so low that parties and candidates must break the law in order to amass minimal funding). Just as clearly, prohibitions and ceilings may be shot through with loopholes or crafted by those already in power; the ease with which governing parties in many postcommunist states put “administrative resources” to use illustrates that sort of risk.<sup>17</sup>

Here again we see the tradeoff between corruption control—generally well-served by limits and prohibitions—and supporting vigorous party politics, where limits are likely to restrict resources and prohibitions may arbitrarily limit freedom of participation. Here, too, the anti-political aspects of the civic/reform vision may come into play: Too often it is assumed that political money is inherently dirty money, and that checking the influence of wealth interests requires driving money out of politics. Limits on extremely large contributions and high levels of spending can protect competition, but lower and more comprehensive limits are almost certain to impair political competition and the ability of parties to organize and mobilize mass constituencies, while leaving untouched the many non-electoral paths by which wealth influences policy.

### “BUNDLING”

Bundling is a process whereby an individual or group arranges for others to contribute to a party or candidate, thereby taking credit for funding that far exceeds what the bundler could have contributed independently.

A particularly important issue in democratizing countries is the treatment of international contributions: Are they to be tolerated or encouraged, and if so, who should be allowed to contribute? A flood of money from business interests—or foreign governments—hostile to national interests and democratic development can do much harm to a fledgling democracy. On the other hand, domestic sources of funding may be woefully inadequate for political as well as economic reasons. Political contributions from parties’ international affiliates or democracy-building nongovernmental organizations (NGOs) may be treated differently from those offered by international corporations. Complicated issues can arise, however, with respect to the true sources of transnational funding; businesses and phony reform groups might well become conduits for governments seeking to advance their geopolitical or domestic interests. Careful consideration is required to define what is and is not a domestically owned firm, for example.

*Laissez faire.* *Laissez faire* strategies may seem like an odd

item on any “regulatory” list, but the choice not to regulate (or the choice not to decide) is still a policy decision. On the *laissez faire* strategy, as the name suggests, anyone may contribute, bundle, raise, and spend money as he or she wishes. “Modified *laissez faire*” might offer unrestricted opportunities only to selected actors—for example, to small individual contributors but not to larger ones; to parties but not to candidates or those making independent expenditures; or (unlikely since incumbents write the law) to challengers during a startup phase but not to those already in office. *Laissez faire* would have obvious attractions to large donors and run clear risks of corruption, particularly if disclosure requirements are weak or nonexistent. On the other hand, freedom of speech issues would not arise; legal and bureaucratic entanglements and compliance burdens could be minimized; and it is even possible that certain sorts of challengers—those with extensive personal wealth or affluent backers—would find it easier to launch competitive campaigns. That of course is faint praise at best: *Laissez faire* would likely make politics even more of a rich-man’s game than it is at present; most challengers would be uncompetitive or, worse, tempted to operate outside the democratic consensus.

Accountability more or less vanishes under such a system, at least in the sense of there being strong links between leaders, on the one hand, and citizens and party backers, on the other. Accountability between contributors and top political figures might be all too strong, although much would depend upon whether *laissez faire* led to candidates’ receiving funds from a few dominant contributors or to a free-for-all in which sources of money proliferated. In the former instance we might worry about bribery, while in the latter case political leaders might have the upper hand, with extortion the result. Either way, *laissez faire* strategies are not at all promising in terms of corruption control—save in the definitional sense that where there are no rules, no rules will be broken—and while they might seem superficially attractive with respect to energizing party politics, there, too, the benefits seem scant. Competition would not be enhanced in most cases. We might imagine an initial explosion in the number of candidates and parties, similar to that seen during the political decompression that followed the fall of communist regimes, but few would enjoy broad support or be bona fide contenders to govern. Eventually a single party,

## “BLIND TRUSTS”

Contributions are made to accounts at a central regulatory agency which redistributes them to campaigns in block grants. Contributors' names are not disclosed, and grants are made on a gradual basis so that the timing of individual contributions cannot be inferred from the release of funds. Contributors have a grace period during which they may withdraw contributions already made. Under this plan the identity of contributors is unverifiable, reducing leverage for illicit influence. “Blind trusts” of this sort should not be confused with schemes by the same name, in which officials' financial assets are independently administered by third parties so as to avoid conflicts of interest.

or at most a small number of factions among the wealthy and well-organized segments of society, would likely emerge as dominant.

Where two or three strong, socially rooted parties do emerge out of a *laissez faire* regime—that might say more about fundamental ethnic, religious, or regional fissures in society than about the growth of fluid democratic competition. Parties' effective organization and mobilization capacities would be enhanced in a very few cases and demolished in most others, in the short run, but if a single dominant party emerges in the long run, both sorts of capacity will likely serve undemocratic ends.

Legitimate *laissez faire* is unlikely as a policy approach, although unregulated giving and spending, coupled with Internet disclosure, did receive some backing in the U.S. House of Representatives in the late 1990s. (Inexplicably, it was touted as a pro-challenger policy). Moreover, it represents a kind of logical conclusion to the argument that “money is speech” and therefore should be wholly unregulated. As a practical matter, however, the risks of this approach are worth keeping clearly in mind when designing any system, for policies that are not credible, or an anti-political vision that sets money limits too low, may well produce laws that end up being flouted with impunity—in effect, a de facto variety of *laissez faire*. It is far better to assess funding needs of political parties in a realistic light, lest a policy formally aimed at one extreme—suppressing the role of money in politics—ends up producing the opposite result.

“*Blind trusts.*” Blind trusts offer an alternative to transparency-based systems<sup>18</sup> based on the somewhat counterintuitive idea of making the identity of contributors unverifiable. Private contributions are made, not directly to party or candidate committees, but to accounts managed

by a central authority which then disburses funds to intended recipients in the form of block grants. The names of contributors, while retained by the official body for any future legal proceedings, are kept confidential, and the distributions are made on a “smoothed” schedule that does not correspond to the timing of individual contributions. Contributors would have a grace period during which they could withdraw contributions already made—a safeguard against using official power to extort funds.

Blind trusts are most frequently proposed as an anti-corruption tool that would reduce the leverage of contributors seeking influence and of officials practicing extortion. But they may aid the emergence of competitive party politics as well. In emerging and post-conflict democracies, blind trusts would protect citizen contributors from reprisals by officials, employers, or private factions. Further, in any competitive democracy, the risks (real or perceived) of contributing to challengers and opposition parties would be reduced. They might have particular advantages in societies where democracy is new, social trust is low, and citizens still see political activity as risky—possible reasons why blind trusts have been given a limited trial in Korea,<sup>19</sup> and why they were the preferred option of a blue-ribbon commission reviewing political finance options in Chile.

The key is that the identities of contributors are not so much secret—nothing would prevent a person from claiming to have made a contribution—as they are *unverifiable*. Those claiming to have contributed, officials following up to see whether targets of extortion had paid up, or anyone seeking to punish someone for contributing would find it difficult or impossible to know if a contribution had been made. (Even someone who produces a cancelled check might have taken

the contribution back during the grace period.) A blind trust system might even benefit from a bit of dishonesty: If large numbers of favor-seekers took advantage of the system to claim donations they had not actually made, those who had contributed would have even less leverage.

Critics argue that preventing contributors from taking credit for their donations would lead to a significant decline in the flow of private funds, thus bringing public subsidies in via the back door; advocates respond that money given out of quid pro quo motivations *should* be driven out of the system. Blind trusts would thus have mixed effects upon accountability: Any obligations that candidates and parties might have had to contributors would be weakened, but the ability to use money to express one's political views intensely would likewise be curtailed; advocates of the scheme, on the other hand, suggest that the accountability of leaders to broader constituencies would be restored and enhanced. The system would require a considerable degree of institutional capacity and integrity, for leaking contribution data would defeat the entire scheme. Indeed, a trial-run blind trust system instituted by Britain's Labour Party for the 1997 election came unstuck a year later when, after the government agreed to continue to allow tobacco advertising at sporting events, information about contributions from tobacco interests was leaked to the press.

All regulatory strategies emphasize sticks over carrots. They can be designed and applied in considerable detail, but actual compliance may be another issue. All require considerable institutional capacity in bureaucracy, law enforcement, and court systems; over the long term, if one part of a regulatory regime breaks down, all parts may lose credibility. Some highly visible enforcement focusing on prominent figures may be required before legal limits become credible, but it is democratically disastrous if that should take the form of government crackdowns on the opposition. Most democratic systems will likely emphasize self-disclosure (backed up, of course, by potential penalties) as a way to enforce limits, but for that approach to work, the penalties must be credible, and a minimum of political and social trust has to be in place—conditions that may not be met in re-democratizing societies. Further, most regulatory tools are aimed more at corruption control than at underwriting the

vitality of party politics. Too often, minor violations or technical questions of compliance—far more useful as clubs to swing in the heat of a campaign than are complex policy questions—drive larger issues of good politics out of the political arena. Loopholes and unintended consequences will be continuing concerns: Individuals who have hit their contribution limits may route funds through relatives and friends, businesses may give in-kind support that is difficult to track, and disclosure may starve oppositions of funding or even become a tool of extortion. That is part of a more general problem with regulatory approaches from the standpoint of democracy building: They focus much more on keeping certain kinds of people, money, and activities *out* of the political process than on bringing vitality in. Some rules of the game are needed, but limits and disclosure may drive money, social energy, and meaningful choices out of the system—an issue we will revisit in our concluding discussion.

### *Distributive Policy Tools*

Distributive policies—broadly, those aimed at providing resources to various participants—have clear anti-corruption uses, but are more closely related than regulatory policies to the goal of sustaining open, competitive party politics. Distributive tools can be devised and targeted in innovative ways, creating incentives to greater activity at many stages of the process, both during and between campaigns. But they can also be *too* generous, weakening incentives to build a broad popular base of support. Worse, they can be based on a misunderstanding of parties' roles in a democracy or even used to disguise the appropriation of public resources by those already in power. Finally, distributive approaches have undeniably significant price tags attached, though those need to be viewed in comparison with the much larger cost of other government functions—and with the overall long-term value of vibrant democracy.

*Tax treatment.* If a society has a credible system of taxation—a big “if” in many emerging or reviving democracies—that system can be used to encourage spending and contributions of various sizes, origins, and destinations, as well as to discourage others. A poorly conceived tax treatment of contributions, on the other hand, could become

a way to launder or conceal illicit or anti-democratic uses of money or—by creating incentives to redirect funds from parties to other sorts of recipients—could be a party-weakening policy. Administration, under most tax regimes, is relatively simple and inexpensive, but most tax incentives would be meaningful only to those affluent enough to be paying taxes in the first place.

The simplest approach is to make party or candidate contributions tax-exempt, wholly or in part. But (setting aside practical political considerations for the moment) it is not difficult to imagine more tightly targeted schemes favoring contributions to voter registration groups or to analogous arms of parties, more generous tax exemptions for the small contributions (or the first quarter or third of larger ones), negative-tax payments to contributors who fall below a certain income threshold, or tax incentives for television and other media outlets that provide free or discounted advertising to candidates and parties.

Tax incentives have a number of possible benefits, as suggested in Table 1 on page 7. Carefully crafted, they can enhance competition and parties' capacities for mobilization. The implications for the organizational strength of parties are mixed: Too generous a policy may weaken incentives to organize in various functional areas, but other ideas (consider, for example, the admittedly fanciful idea of tax deduction "bounties" for getting one's neighbors to register to vote) might encourage parties to organize so as to make sure that their backers take advantage of the benefit, particularly in strategically important constituencies.

*Subsidies or partial public funding.* Carrots are as much a part of political finance as are sticks, although excessive

reliance on public funding can weaken party organizations even as it helps them survive as organizational entities. Public funds can come in the form of outright grants to parties, party-related organizations (as in Germany's party foundations), or individual candidates, or they can be linked to raising various kinds of private contributions. To the extent that subsidies are large enough to enable organizations to function, but not so freely available as to encourage dependency, they can help candidates and parties to broaden their social base and shore up their organizations and mobilization capacities. Subsidies might also reward democracy-building activities, particularly between elections, that encourage contention among rooted social interests. These might include voter registration, grassroots organization building, research capacity, civic education, some kinds of media use, the formation of youth groups or organizational divisions for women and ethnic groups, and so forth. Subsidies could—in theory at least—be sloped or skewed in such a way as to help challengers, new parties, independent civil society groups, and fledgling campaigns. They could be capped for very affluent campaigns or—again, in theory—even be redirected to the opponents of free-spending or wealthy parties and candidates.

Subsidies and matching funds are among the most versatile tools in the political finance repertoire.<sup>20</sup> Money tends to be accepted gladly, which means that policies can be targeted to widely varying recipients, purposes, and functions. Alone among the options discussed so far, subsidies potentially aid all four democratic functions, although as noted there are risks in the area of organization also. Subsidies can enhance electoral competition, aid in the

### TAX CREDITS FOR CONTRIBUTIONS—CANADA

The Income Tax Act in Canada allows citizens tax credits—that is, direct reductions in tax owed, rather than a deduction from overall taxable income—for a portion of their political contributions up to a limit of \$650 (CAD). Eligible contributions include those to registered national parties, their provincial divisions, registered political associations, or individual candidates. Extensive documentation of contributions is required for both contributors and recipients; the process is overseen by the Canada Revenue Agency, with eligible recipients being certified under the Canada Elections Act. The system provides somewhat larger tax credits to smaller contributions. Unlike the U.S. system but similar to many in Europe, business corporations may contribute in their own names and are thus eligible for tax credits as well. The Canadian system creates effective incentives to contribute with relatively little administrative overhead and enjoys broad-based public credibility. However, it requires a level of state administrative capacity that might be beyond that of many re-emerging democracies.

## PUBLIC SUBSIDIES—GERMANY

The *Grundgesetz* (Basic Law) of Germany lays down a principle of equal rights to political participation and charges political parties with an active role in forming the national political will. To that end, the Federal Republic provides generous funding to parties. While Germany's well-funded parties derive revenue from several sources, including dues and contributions, federal subsidies based on the number of votes a party received in recent elections provide between a quarter and a third of the major parties' national revenues. Similar subventions are available at the *Land* (state) levels as well. Full public accounting must be made of how the funds are used. Party foundations (*stiftungen*), formally independent of the parties but closely allied in their activities, derive as much as 90 percent of their revenues from federal funding, and conduct extensive public education and related activities. The system of subsidies is one of several policies—including, *inter alia*, minimum-percentage requirements for federal parties to claim legislative seats—intended to avoid the Weimar Republic scenario of unstable parties with shallow roots in society, the lack of a vital center, and the disproportionate influence for fringe parties. It has the effect of entrenching the country's major parties at the center of German politics. Generous subsidies have worked well in Germany on the whole, but they require a level of affluence that many aspiring democracies might not attain for some time.

mobilization of voters, and—when used to leverage commitments to obey other laws and transparency requirements—provide strong incentives for accountability, particularly when they are withheld from those who do not comply. Overly generous subsidies, however, or those not linked to compliance with other rules, may unintentionally undermine some aspects of accountability; and for better or worse, accountability to donors is weakened as well in proportion to the share of overall revenues coming from public sources and the ease with which such support is obtained.

But the very flexibility offered by subsidy schemes raises complex questions: Who should qualify for what sorts of subsidies, on what criteria, with what sorts of goals and uses in mind? Should subsidies be a way to jumpstart parties and candidacies or a sustaining force for all phases of electoral politics? Very likely, subsidy schemes should continue between elections. But in those phases, how can they best be linked to party- and democracy-building activities rather than just provide cash flow? Can they be allocated in such a way as to increase competition without antagonizing current officeholders? And as a very practical matter, who should pay? Voluntary tax check-offs are unlikely to be more than barely adequate to fund subsidy programs, particularly to the extent that intra-election payments are a goal. Where levels of affluence and trust are low, public funds of any sort may be controversial on both economic and partisan grounds. One could imagine targeted taxes: *Kirchensteuer*

(church taxes) have long been a part of German policy. Perhaps *Politiksteuer* which, like the religious variety, allow those who object a simple opt-out procedure, could fill some of the gap—though party and parliamentary leaders in many democracies might shy away from enacting a tax earmarked for their own activities. Special taxes on advertising could recycle a portion of political funding back into the process, perhaps even with some competition-enhancing redistribution effects, but the more tightly targeted the tax, the more intense opposition will be. Both check-off revenues and appropriations from general funds have the defect of directing taxpayers' money to candidates whom they otherwise would not have supported.

*Full public funding.* If some public funding is good, would total public funding be even better? The answer is far from simple. The idea of driving private money, and the excessive influence that is commonly assumed to follow from it, out of the political process is a tempting one in anti-corruption terms—although a moment's thought suggests that affluent, well-organized interests would be no less powerful overall under a publicly funded electoral regime than under any other. If we are more worried about the power of entrenched incumbents between elections, full public funding would do little to check abuses.

Whatever the merits of full public funding for attacking corruption—and they remain conjectural—its drawbacks for building sustainable democratic politics are clear. A country establishing, or reestablishing, a competitive party

system might be tempted to resort to full public funding (or something close to it) in order to provide the material resources for political life and encourage competition. Indeed, such has been the case in many postcommunist regimes of Central and Eastern Europe.<sup>21</sup> But that would do little to enhance the strength of party organization (though we can easily imagine it increasing the size and emoluments of professional staffs). Worse, full public funding would weaken incentives to mobilize citizens—let alone to build broad and deep social foundations—at any phase other than during the run-up to elections.

Accountability, too, would be weakened under full public funding (save in the narrow sense of requiring accounting of how money was spent). Contributing funds as a way of intensely expressing viewpoints would be replaced by grants that have little to do with voter preferences—or worse, by grants based on electoral strength, possibly producing a small number of wealthy, dominant parties more likely to collude in order to protect their bases than to take the risks of innovation and cultivating new constituencies. In that event, any competition-enhancing benefits of full public funding will have been temporary. Subsequent attempts to end public funding would no doubt encounter stiff resistance from many political figures—and as with subsidies, the question remains how funds will be raised, a question made more pressing by the larger amounts required.

A variant on full public funding is the “Clean Money” plan now in place in the United States, in Arizona and Maine, in some California municipal election systems, and under consideration in Oregon and elsewhere.<sup>22</sup> Candidates may raise and spend private contributions if they choose, subject to disclosure requirements and contribution limits, but they can also opt for full public funding once they have raised a qualifying amount in small contributions. Advocated as a cost-controlling and public trust-building strategy, “Clean Politics” has met with general success thus far, and has proven particularly effective at enabling women to become more competitive candidates.

Full public funding, like some of the more lavish partial funding schemes we might imagine, may reflect a basic misunderstanding of the democratic role of parties. Many emerging democracies have embarked on vigorous public funding policies, partly to provide resources that their parties

lack, to even out inequalities in politics and policy, and to check the corruption.<sup>23</sup> But by emphasizing an egalitarian, system maintenance view of parties, their value as vehicles of self-interested contention—and thus, their contributions to basic democratic development—are ignored. In effect, parties come to be treated as public utilities. That is, a party comes to be seen as

... an agency performing a service in which the public has a special interest sufficient to justify governmental regulatory control, along with the extension of legal privileges, but not governmental ownership or management of all the agency's activities.<sup>24</sup>

Clearly, strong parties benefit the political system and, by extension, the public at large. But generally, they do that as a by-product of their more immediate, and self-interested, political activities. Treating parties as public utilities or as civic service organizations not only drains the politics out of politics; it gives the state (and potentially, unscrupulous officials) considerable power over governing parties and (more ominously) oppositions. Worse yet, as Ingrid van Biezen notes, the results can closely resemble “cartel party” systems, in which parties underwrite their own survival by colluding at the polls and colonizing segments of the state.<sup>25</sup> Ironically, the public utility approach may even encourage more corruption if party leaders tap into public resources,<sup>26</sup> as has been the case in many of the postcommunist societies of Central and Eastern Europe,<sup>27</sup> or if voting one party out only means voting one of its colluding partners in. With competition weak, with little or no dependence on mass membership and private donations for financial support, and with few compelling connections between the party and the interests of donors and supporting constituencies, there would be few political reasons not to engage in such abuses.

*Free media.* Providing free television time and other media resources to parties and some candidates, often in conjunction with bans on party and private media spending, is a well-established policy in many democracies—and indeed can continue during the time between elections as well as during campaigns. Here again, there is a tradeoff, in this case a favorable one: As an anti-corruption policy, free media initiatives are vastly overrated, but as a way to open up political debate to more parties and viewpoints, they have

definite advantages. Further, those concerned about the quality of political competition and debate can link free media to codes of political conduct. Candidates receiving television time, for example, can be required to appear in their own advertisements and to refrain from personal attacks. One such example was the “Minnesota Compact,” an agreement linking free access to a debate-focused media campaign with a series of good politics rules.<sup>28</sup>

This approach also raises a range of questions, beginning with those concerning free speech issues and the legal status of any restrictions on buying and using mass media time and space. Thresholds for qualification are important: Set too low, they will create a cacophony of messages that no one will heed, while set too high they will freeze out new candidates, parties, and points of view while encouraging the sort of dominant party collusion suggested above. Free media schemes likely work best when targeted at parties, rather than at individual candidates, but in some countries campaigns are organized by the latter for legal and political reasons. In emerging and reviving democracies, there are credibility issues too: Citizens may not take media messages

at face value—indeed, they may have learned the hard way not to do so.<sup>29</sup> Free media may also not be free in financial terms: Unless requirements are written into broadcast licenses, and then enforced, broadcasters may expect the public treasury to pick up the (possibly quite inflated) tab. Under most such schemes, parties must pay the production costs for whatever messages they choose to present. A final risk is that candidates or parties closely identified with particular business interests may turn their political broadcasts into thinly veiled commercial advertising, or vice versa.

Still, free media schemes have significant potential to increase or protect inter-party competition (and may, depending upon qualification procedures, aid intra-party democracy and accountability by giving critical voices a public forum), as well as to mobilize citizen participation. They are a form of subsidy, to be sure; and attempts to link free media to good politics codes of conduct can, if carried too far, impose the public utility vision of parties via the back door. Coupled with judicious distributive policies of other sorts, however, and with realistic expectations about prospective benefits to society, free media schemes are worth investigating in new

### “FREE MEDIA”

In this paper, “free media” refers to the opportunity for parties or individual candidates to present broadcasts or publish printed messages at little or no cost (and as such is distinct from other uses of the term—for example, to refer to news coverage rather than paid advertising). Messages may be restricted to campaign periods or may continue between elections; all costs may be covered, or support may be limited to free broadcast time and print media space, with parties and candidates responsible for producing their own messages. Costs may be underwritten by public funds, or by requiring or encouraging donations of time and space by media organizations. Free media policies can be complex: Thresholds for qualifying for free media may be set high or low, for example, and access to media must reflect realities such as the role of parties versus individual candidates in organizing campaigns, electoral systems (single- versus multiple-member constituencies), and so forth.

### UNITED KINGDOM

In the United Kingdom, political parties are given free television and radio time for “party political broadcasts” (PPBs), although they bear the costs of producing their own programs. PPBs appear frequently during the country’s short election campaigns, with parties qualifying for as many as five timeslots on each major network, depending on the number of candidates they field for the House of Commons, but the messages also continue on a less frequent basis between elections. In return for free PPBs, parties are barred from purchasing any broadcast time on their own, although they can and do make extensive use of paid print media. The policy is a lineal descendent of strict campaign cost controls first instituted in the late nineteenth century—controls which (in conjunction with the institution of the secret ballot) not only did much to end the “old corruption” of vote buying in parliamentary constituencies, but also helped extend the national competitive presence of the major parties. The U.K.’s free media policy is well suited to a parliamentary system in which elections are contested by strong national parties; it would be relatively difficult to adapt to societies where individual candidates take the initiative in campaigning and fundraising.

or resurgent democracies—and may even be one of the least expensive distributional tools available.

## TARGETS AND AGENTS: BRINGING POLITICS TO LIFE

Political finance policy tools have a range of targets or agents whose actions are integral to implementation, whether through compliance with regulatory policy or responses to distributive incentives. The choice of targets for political finance policy is in part a function of other choices among policy tools, but it also reflects an overall view as to what problems and opportunities exist in a given system. The choice of targets is also a choice as to how broad-based or proactive a political finance regime should be. Among the key targets or agents are:

*Political parties* themselves, both as national entities and, depending upon political structures, in lower-level jurisdictions. Party officials and leadership are included here—a group that in parliamentary systems may overlap with the national executive (an issue discussed below). A variety of affiliated organizations might be involved as well, depending upon a country’s political traditions. Examples include Germany’s party foundations; certain labor unions, charities, and think tanks or policy centers; newspapers and other media; and women’s and youth groups, social clubs and other organizations of key constituencies. Precisely how independent such affiliated groups really are, and whether they are becoming conduits for fundraising and expenditures closely resembling the old soft money, will be major questions.

*Individual candidates* and their personal businesses and assets may also be the targets of rules, litigation, and legislation, as may their campaign organizations and related organizations, such as personal charities or political action groups. Indeed, in cases such as “leadership PACs” in the United States, they are among the *consequences* of rules, or of the ways leaders take advantage of rules. In other cases, they become parties or mass movements: Silvio Berlusconi’s *Forza Italia* movement burst onto the Italian political scene as a cross between a personal organization, a mass political formation, and a business empire. Particularly where party systems are in states of flux, it is not hard to imagine a range of organizations that might not officially be political parties

but still, from a financial and campaign standpoint, might act a great deal like them.

*Contributors*, both individual and organized, domestic and international, will be obvious targets in any system allowing the private donations of funds. Some rules will apply to how, and how much, they contribute to campaigns. Small individual contributions are a common measure of support useful for determining which candidates or parties will receive what kinds of treatment, and such contributions can be matched, completely or in part, with public funds in order to enhance the significance of grassroots support. Large individual contributors—“fat cats”—have traditionally been a corruption concern. From the standpoint of competitive politics, however, a reassessment of the role of large individual donors might be in order. We might, for example, allow a small number of large private donations to help launch campaigns and at the same time be concerned about the ability of super-rich contributors and their personal organizations to supplant political parties, particularly in times of crisis (see the *Forza Italia* example above). In-kind backers have been a policy concern for some time now, but we can easily imagine new issues arising with regard to their activities. Should a television news network with an overtly partisan orientation be seen as providing in-kind aid to its favored parties or candidates? If so, what sorts of policy responses—such as counting such “contributions” against party or candidate limits, or reassessing the tax and regulatory status of such networks—might be called for?

*Civil society groups*. Some but not all civil society groups engaged in overtly political activities, fundraising, and spending, may also be subjected to contribution and spending limits, disclosure requirements, and the like. But they might also receive subsidies or bounties for registering voters, for example, or be rewarded for raising small contributions from individuals. Among the most controversial are groups that take advantage of legal status accorded to charitable organizations but function as virtual subsidiaries of campaign organizations or parties themselves.

### *Toward a Strategic View*

It is easy to think of other possible targets and agents: The news media, various sectors of business, the

TABLE 3: LIKELY IMPLICATIONS OF REGULATORY AND DISTRIBUTIVE INITIATIVE FOR TARGETS/AGENTS

Targets/Agents	Competition	Organization	Mobilization	Accountability
<i>Parties</i>	R- D+	R- D+	R- D+	R+ D-
<i>Individual Candidates</i>	R- D+/-	R- D-	R- D-	R- D-
<i>Contributors</i>		R- D-	R- D-	R+ D-
<i>Civil Society Groups</i>	R- D+		R- D+	R- D+
R = regulatory    + = positive D = distributive    - = negative results in terms of a goal or function				

intelligentsia, and (particularly in emerging democracies) international aid and advisory groups will all play a role in the success or failure of any political finance policy. Further, predicting or assessing the implications of various measures even for our four major categories of actors is complicated business: Contexts differ, the targets and agents themselves will vary in important ways from one society to the next, and each area of policy discussed in this paper is open to a wide range of variations.

Still, one can make a general assessment of effects, at least at the level of choosing broad directions for strategy. Table 3, above, suggests likely effects of regulatory (“R”) and distributive (“D”) tools for each of the four target groups above—not primarily with respect to costs or benefits to those groups, but rather with respect to the four goals or functions discussed above: competition, organization, mobilization, and accountability.

*Parties* seem more likely to be strengthened by the resources that distributive policies provide than by the restrictions created by regulatory tools (chiefly, in most countries, disclosure and limits/prohibitions). The exception to that generalization is with respect to accountability, where judicious applications of disclosure and transparency requirements—assuming the choice has not been made to institute blind trusts—can have positive payoffs, and where an overly lavish or poorly designed distributive process could substitute public resources for links to constituencies and backers. Much the same is true of parties’ potential partners in *civil society*: While regulatory and distributive policies as applied to civil society groups would not have extensive implications for parties’ organizational structures, the

distribution of resources—ideally, in ways that reward active engagement with parties and electoral processes—could well enhance civil society’s ability to help parties compete, mobilize citizens, *and* hold parties accountable. Regulations on civil society groups, by contrast, seem unlikely to help parties’ ability to function, and also bear substantial anti-democratic risks with respect to the vitality and independence of civil society itself. This is not to argue for complete *laissez faire* with respect to civil society: One would not want a handful of civil society groups to dominate that arena or become the primary sources of political money; one would rather want to see broad-based and diverse organizations and participation. Still, the latter outcome is more likely to the extent that citizens and groups are free, indeed encouraged, to organize and advocate for their interests as vigorously and continuously as possible.

For individual candidates and contributors, the picture is different: Distributing funds and other resources to individual candidates will have some potential benefits with respect to enhancing competition, but even there, the ability of *parties* to compete may well be undermined. Beyond that limited benefit, policies focusing primarily on individual candidates, rather than on parties, do very little to enhance parties’ role in democratic life, whether the emphasis is on regulatory or distributive tools. Even in the area of accountability, such gains come at the expense of parties as forces for overall political accountability. In societies where the focus is primarily on individual candidates (the United States is one), there is a risk of turning party labels into brand names available to candidates who meet legal requirements rather than endorsements conferred by the parties

themselves—endorsements that would signal a degree of compliance with the party's positions.

Policy tools affecting *contributors* may or may not even out the competitive results among parties, but such tools are not likely, in any plausible variation, to affect parties' abilities to make the political process more competitive overall. For organization and mobilization, however, the implications of both major kinds of policy are likely negative, as such approaches would do little to encourage or reward parties' efforts to build up their own institutional capacities. Accountability may be aided somewhat by regulatory tools affecting contributors, to the extent that parties would know where their support came from and yet would not be beholden to just a handful of big contributors (again, assuming blind trusts were not put into place). Distributive initiatives, however, particularly to the extent that they substitute public for private money, would do little to strengthen parties' accountability functions.

To the extent that these admittedly very general claims hold true, a pattern emerges which may be a useful guide, and which at the very least brings us back to the tradeoffs between corruption control and funding open, competitive party politics. That is, corruption control initiatives seem likely to emphasize regulation over distribution and (in most countries) to focus on contributors and individual campaigns rather than on parties and civil society. (There are, of course, exceptions to that statement, as in Germany with its extensive distributional policies and emphasis upon equal rights of participation.) Those approaches do little overall to strengthen parties or to deepen democratic politics.<sup>30</sup> That they may coexist well with established democracy is both true and, for many emerging democratic systems, largely beside the point. Policies that seem most effectively to aid democratic politics, and parties' ability to abet its development, seem in turn to be primarily distributive and to focus on building the strength of parties and civil society.

A general lesson that emerges, then, is that while corruption control seems to emphasize restraints and to deemphasize parties, a country seeking to use political finance tools to enhance a re-emerging democratic system should look more at those whom it wishes to empower and support than at those whom it intends to restrict; and it should put full emphasis on parties and their civil society counterparts

as agents of competition, organization, mobilization, and accountability. Over time, the competitive politics that is more likely to emerge, and the choices and mechanisms of accountability that such politics puts into citizens' hands, will not only enhance the vitality and sustainability of democratic life; it may also be the best long-term check against corruption as well.

### *Related Issues*

A variety of other factors will also affect the success or failure of political finance policy. In many cases, a full analysis of such connections would justify a book-length discussion, but a rudimentary list would include:

*Constitutional types.* Whether a country has a parliamentary or a presidential/separation-of-powers system will be of immense importance. Parties are likely to be stronger, or to have the potential to be stronger, in a parliamentary system, which offers real opportunities to enhance organization and mobilization. But such strong parties, and the overlapping executive/legislative/party roles of their leaders, pose particular challenges with respect to accountability. This is true both with respect to corruption control (backbenchers may have little influence of their own to put out for rent, but unscrupulous party leaders could run a "one-stop shopping" operation for favored contributors—and would also be in a strong position to practice extortion) and democratization, where accountability to citizens, interest groups, and other parts of the governmental apparatus may be difficult to maintain. Parliamentary parties are also more likely to play a dominant role in fundraising and spending decisions, and to serve as conduits for funds to individual constituency campaigns; that, too, aids organization building but may come at the expense of the vitality of civil society.

Parties in presidential systems, by contrast, will likely be more decentralized, with party leaders often taking a back seat to top elected officials, particularly when a given party is in power. They will often be in need of organizational strengthening, and will need to develop their mobilization capacities as well, but individual officials and candidates may resist initiatives in those directions. Accountability will be a problem of a different sort: At times, the question will be

whether anyone is in charge, and there may be considerable doubt with respect to the question of *to whom* the party and its leadership should be accountable. Finally, it seems likely that presidential systems, with their less-unified parties and a greater emphasis on individual campaigns, will also be more expensive propositions from the standpoint of distributive policy. Most of the foregoing claims also apply to *federal* systems, where in fact there may be many political finance policies in force at any given time, and in which competition and mobilization take place across a number of partially separate political arenas.

*Legal issues*, including the status of speech and expression, political parties, and the press, are of clear importance as well. Everything argued in this paper so far is predicated on the assumption that re-emerging democracies will be committed to rights of expression, a free press, and civil liberties. Even though such freedoms will often be partial and problematic in practice, unless there is significant support for upholding them, democratization, party politics, open contention and competition, and corruption control will be extremely difficult to sustain. The legal status of parties is an important issue as well. It is not in a society's interest for parties to become "public utilities," as noted above, but it is equally against a society's interest for parties to become marginalized. Any comprehensive political finance system will have to define what constitutes a party, when various regulatory and distributive policies will apply to it, what its minimal requirements for governance and accountability are, what its tax status (and those of its various affiliates) will be, and so forth. Particularly in new or re-emerging democracies, dozens or hundreds of entities will come out claiming to be political parties. While the major shakeouts will be political in nature, as they should be, those seeking to establish and sustain political parties must be given a clear idea of the legalities, protections, and responsibilities that come with their projects.

*Electoral systems* vary widely, and their intersections with political finance could indeed fill many books. Proportional representation (PR) systems come in many varieties; single-member district systems will also vary in terms of thresholds needed to attain ballot status, single- versus multiple-round election formats, and the like. Generalizations in this area are difficult but, at a minimum, architects of political finance

policy must think through the system of incentives and constraints created by various electoral systems. A PR system with more than one round of elections and a low threshold requirement for parliamentary representation will encourage the growth of more, and more tightly focused, political parties, but it will also encourage loose alliances among parties that can turn into collusion at elite levels. Distributive policies assuming central control of finance within parties may, in that setting, become a public subsidy program for individual politicians seeking to build personal followings, and may thus undermine accountability and competition. A party list system that encourages candidates from a single party to run against each other, as was the case in Japan for many years,<sup>31</sup> can make competition an intra-party affair and drive the financial needs of individual candidates upward. Moreover, it will do little for accountability in its best sense.

#### "FIRST-PAST-THE-POST"

First-past-the-post elections are held in single-member constituencies, in one round, and do not require a majority to win the seat. The candidate with the largest number of votes, even if well short of a majority, is the winner.

A Westminster-style, first-past-the-post system, by contrast, accompanied by appropriate ceilings on expenditures (and, conceivably, targeted subsidies for parties), may be cheaper to fund, quite effective at mobilization, and may allow the party's internal distribution of funds (whatever their source) to become a way to enforce organization. The possible combinations of electoral system and political finance tools are nearly infinite in number; the key, however, is to carefully assess the goals of such policy, the existing incentive and control systems created or encouraged by the electoral system, and the extent to which those influences can be made congruent with one another.

*A country's corruption situation*, and the scope and sources of both support for and opposition to reform measures, will also spill over into political finance policy making. While corruption control is very much a secondary theme in this analysis, we can easily imagine situations in which corruption is so extensive that well-crafted political

finance policies would be stymied by interests with a stake in the status quo—or in which new policy of any sort has no popular credibility. Political finance policy makers should assess the strength and vitality of *political* checks on corruption as a part of their policy design. In a way, that is no more than to say that they should consider carefully the state of competition, organization, mobilization, and accountability, both for their own sake and as indicators of the system's capacity to check corruption through the electoral process and continuing oversight functions.

*Administrative capacity.* Another part of the corruption situation with more direct relevance to political finance will be the society's level of administrative capacity, both as regards political finance policy (can it operate a credible central authority to implement legislation?) and more generally (what sorts of administrative shortcomings facilitate corruption, and thus create the sort of elite stake in the status quo mentioned above?). The level and types of resources, both human and financial, available for enforcement activities will also be a major variable. To the extent that political finance policy follows the general directions outlined here—relying more on empowering than on restricting participants in the political process, and more on distributive than on regulatory tools—administrative problems will be both eased and intensified: eased, to some extent, by less reliance upon prohibitions and penalties, but intensified with respect to the financial resources required.

*Level of trust.* A final background issue is the level of trust that people have in one another and in government, politicians, parties, and those who enforce the laws. Other than a *laissez faire* strategy, all the options discussed here will work best when levels of trust are high; and conversely, the credible implementation of any package of initiatives will, over time, help build trust. With that lesson in mind, it seems clear that architects of political finance policy should be careful as to the promises they make in the course of advocating changes; further, they may wish to phase in various pieces of the overall policy gradually, taking care to get each one working effectively before moving on to the next. That, again, is an argument for an emphasis on distributive tools, and in particular those that bring new resources to parties and civil society groups. Standards for qualifying for resources, and formulae by which they are

apportioned, must be clear, readily understandable, widely publicized, and applied in an even-handed fashion. Satisfying the public's sense of justice and fair play, or avoiding the intensification of old or current social divisions through political finance policy, will be essential. The authority administering the policy, whether it is regulatory, distributive, or both, should not only be independent of existing parties and elites; it should be *seen* to be so. If a national "champion" of democratization not already in or seeking office should appear on the political scene, that person would likely be an effective leader, if only in a symbolic role.

As all of the foregoing makes clear, context matters. This is all the more true in post-conflict or re-emerging democracies, which are of primary concern in this paper. How do overall systemic situations affect political finance policy? That is the focus of this paper's final substantive section.

## MENUS FOR POLICY CHOICE: MATCHING TOOLS TO SITUATIONS

Most policy models in the field of political finance are based on the experiences of established democracies. Not only do those societies have the luxury of using political finance policy to protect functioning democratic processes from abuse, instead of using them to help make democracy sustainable; most also have sound frameworks of social, legal, and political institutions, established (and usually competitive) parties, a free press, and broadly supportive social values. Their experiences are one reason why we tend to think of political finance systems in "anti-corruption" rather than "democracy-building" terms—even though many established democracies might also benefit from livelier political competition—as well as in terms of regulatory rather than distributive tools.

But where democratic parties are weak, threatened, or emerging from periods of conflict and repression, anti-corruption agendas may well be premature—or even undermine the agenda of shoring up democratic politics itself. Moreover, those societies often lack the institutions, parties, and supportive social structures found elsewhere. In their places we may instead find intimidated citizens and divided civil societies, low levels of social and political trust, and powerful anti-democratic forces. Events have a way of

forcing or closing off choices in such situations, with the result that carefully sequenced transitions will rarely occur. Economic problems ranging from the serious to the near-catastrophic will be backdrops to policy making of all sorts.

### *Enabling Participation, Building Parties*

It is tempting to judge the success of political finance policies in terms of the competitive balance of the overall political system—that is, using the “level playing field” metaphor noted at the outset. But that approach both overstates the power and precision with which we can use our policy tools to shape systemic politics and sets up illusory criteria for success. What, in any given context, does a “level playing field” look like? If two or more parties alternate frequently in power, there may still be important segments of society that are excluded, and indeed the parties themselves may engage in behind-the-scenes (or for that matter, overt) collusion. Is a competitive society one in which the strength of parties is roughly balanced, or one in which their strength reflects social divisions and conflicts? Parties themselves may be little more than personal followings; the electorate may be intimidated (wholly or in part) by rough political tactics; or partisans may see elections simply as a way of deciding who can plunder the public or private sector; and so forth. The overall competitive balance of a society’s electoral results may tell us much less than we imagine. The goal, instead, should be changing opportunities and behavior at the individual level and within political parties—enabling both citizens and parties to put democratic opportunities to use, encouraging vigorous participation and contention while strengthening parties.

That, of course, can mean different things in different situations. **Table 4**, on the following page, is the first in a series of three exploring the policy options—in this case, for societies in which political parties have been threatened or suppressed.

Here, the very existence and survival of parties is at issue. It may be that repressive authorities are hostile to all parties, or that a single party enjoys official status or even a monopoly on resources and opportunities. Competition and accountability are very much secondary issues in such situations; the basic organization of the parties themselves,

and their connections to citizens via mobilization activities, require funds and protection. If the regime remains hostile to parties, or to those other than its own, it may be that little can be done: Channeling aid and advice to would-be opposition leaders may only induce a sense of insecurity among regime leaders, and thus single out those we would wish to help for even further repression. But where the regime is more receptive, for whatever reason, there are options.

Our targets and agents in this case are bona fide parties and party leaders—usually in opposition unless the regime is committed to having its own parties engage in real competition—party-related organizations, politically active groups in civil society, and individual contributors. The tools emphasize the distribution of funds, free media, and tax incentives, linked wherever possible to actual party-organizing and mobilization activities. Thus, a party, affiliate group or civil society organization could be rewarded for registering voters or conducting civic education. Many citizens and civil society groups will be skeptical about political participation in this setting, so whatever can be done to increase positive incentives while reducing risks will be beneficial. Thus, prominent parts of the policy mix will include the option of contributing to blind trusts, carefully targeted tax incentives, and—for the possibly large numbers whose economic situations make tax incentives less attractive or applicable—matching grants for small contributions. Disclosure systems should exclude contributions below some moderately low floor, again to minimize perceived risks associated with participation. A related idea would be to delay public disclosure of small or moderately sized individual contributions until some cooling-off period has elapsed. Contributions should be limited in size, but at fairly generous levels, and indeed we might permit or encourage a small number of large startup contributions early in an election cycle. The goals would be to get party building underway, to enhance electoral competition, and to signal to other donors that a party or campaign deserves their support.

This paper has been critical of disclosure procedures, but they may have a certain value in this situation as an aspect of policy that promotes equalization, credibility, and the rule of law. Allowing for the sorts of exception to disclosure suggested above, showing that money is flowing into the political process, and demonstrating that those taking

TABLE 4: WHERE POLITICAL PARTIES HAVE BEEN THREATENED OR SUPPRESSED

Parties	Functional Challenges	Targets/Agents	Tools	Issues and Precautions
Threatened  Suppressed  (All parties may face official or mass threats, or a single “official party” may dominate with others subject to repression)	Organization	Parties (in one-party or “official party” cases, <i>oppositions</i> are prime agents)	Subsidies, free media; link to mobilization and organization building; matching grants for small contributions; disclosure as a leveler between official and other parties	Matching individual contributions a useful idea; parties must be ensured a favorable legal status
	Mobilization		Party-related organizations	Favored tax treatment with disclosure of receipts and spending
		Civil society groups	Blind trusts for contributions, at least as an option; contribution limits, set at moderate levels; subsidies linked to mobilization (for example, voter registration)	Must show broad support; civil liberties must be made secure; disclosure must not create insecurity
		Individual contributors	Blind trusts, at least as an option; tax incentives; matching grants for small contributions; a small number of large “startup” contributions allowed	Credible protections a must; disclosure must not create insecurity

prominent roles either as contributors or recipients have to play under equitable, credible rules, may have valuable demonstration effects. Disclosure in turn points to a general problem in the sort of setting we are discussing—that is, the need to build bureaucratic and administrative capacity, and the longer-term challenge of developing social and political trust. A related institutional issue is the need to guarantee civil liberties and to protect citizens and civil society groups from the fear of reprisals, should they choose to participate. On the latter score, parties can play an active role, organizing civil society activities of many sorts, particularly for younger people. Even activities that are primarily social in nature can, over time, build acceptance for parties and aid in the development of trust.

Another difficult situation is outlined in Table 5, on the opposite page, which describes parties that are not repressed but are weak and mutually suspicious. Here, too, some “parties” might be extensions of the regime, while others are more the personal vehicles of leading politicians (in government or opposition) than they are socially rooted vehicles for citizen participation.

Organization and mobilization remain primary challenges here, but accountability is crucial, too, in order to separate

broad-based, bona fide parties from other sorts of formations (for example, personal followings, cultural or national redemption movements, or the political extensions of business organizations) and to encourage the growth of the former. To some extent, that sort of determination can be made as resources are targeted to political parties. Further, genuine mass-based parties can and should be used as organizational conduits for any subsidies that might be available to leaders’ and candidates’ organizations, as well as to affiliated groups; and in all cases, such funding should be linked to organization-building activities (again, voter registration, civic education) and party electoral success. This gives such groups a stake in building successful, mass-based parties. It is tempting to extend this logic to civil society groups, too, but over the long run one would hope to see those groups become autonomous partners in party politics, rather than see civil society reorganized by parties themselves in response to economic incentives. Disclosure plays less of a role in this setting than in the previous one, and as a more targeted accountability measure (where do parties get their money? what do they spend it on?), though if well administered and credible it might help reduce mutual suspicions among parties, their leaderships, and their

TABLE 5: WHERE POLITICAL PARTIES ARE FREE BUT WEAK

Parties	Functional Challenges	Targets/Agents	Tools	Issues and Precautions
Organizationally weak Resource-poor Mutually suspicious Some parties are “phony oppositions” or state-sponsored “coalition partners”	Organization	Parties with real constituencies; party affiliate organizations; all must qualify showing a mass base	Subsidies: linked to organization building, mobilization; disclosure of receipts and expenditures; free media	Partial public funding preferable to full; public funds through parties only
	Mobilization			
	Accountability			
		Candidates’ or leaders’ personal organizations	Contribution, spending limits (high for electoral activities, low otherwise); disclose receipts and expenditures to and through parties; <i>may</i> qualify for subsidies through parties	Monitor for fraud, money laundering; tie funds to organization building and mobilization; link any pass-through funds to party success
		Civil society groups	Blind trusts as an option, and limits (set moderate to high) for contributions by these groups; matching grants for small donations	Credible rights, protections a must; safeguards for members against pressure to contribute
		Individual contributors	Blind trusts and limits (set fairly high) for contributions; matching grants for small donations; allow a small number of large “startup” contributions	Credible protections, citizen access to disclosure data very important

followers. Blind trusts might still be made available to citizens and civil society contributors as an option, though they are less critical here than in a post-repression situation. They need not undercut accountability to any marked degree: (a) if the disclosure of expenditures still enables us to determine which parties are engaged in actual organization building and mobilization; and (b) to the extent that subsidies (preferably partial public funding) are linked to these sorts of activities and include matching grants for small individual donations.

Here also, practical problems abound. Leaders and candidates with significant personal followings will not welcome the use of parties as organizing and accountability tools; where parties are very weak, they may become annexes to leaders’ organizations unless qualifying requirements are set and enforced, emphasizing and then rewarding the development of a bona fide mass base. Both parties and leadership organizations may become money laundering

operations unless we monitor them closely and make disclosure data on their activities widely and easily available. Safeguards may be needed at the level of civil society as well to emphasize and preserve the voluntary nature of fundraising. Contribution limits should be generous in order to encourage significant participation, but making the matching grant process for small individual contributions a generous one (though not so lavish as to encourage fraud) is important, too. The state’s administrative capacity may be a weak point in some instances, but as this situation lacks the recent history of repression outlined above, civil society groups—both those with good government agendas and those keeping an eye on “the other guys” for reasons of political interest—may help take up the slack when it comes to monitoring the political finance system.

Finally, we might imagine a situation like in Table 6, on the following page, in which it is not so much individual parties as the whole system that needs to be shored up. There

TABLE 6: WHERE THE POLITICAL PARTY SYSTEM IS WEAK

Parties	Functional Challenges	Targets/Agents	Tools	Issues and Precautions
Parties fragmented or too numerous  Shallow social roots Dominated by top personalities  Engaged in collusion or pseudo-competition	Organization	Parties	Subsidies linked to building mass base; disclosure of receipts and spending; blind trusts as option for contributors; free media; contribution limits set high	Creative uses of matching funds possible; reward coalition building; require majorities to win seats, with run-off rounds
	Competition			
	Accountability	Party-related organizations	Disclosure, low limits on contributions; disclosure of spending; end favored tax treatment; low ceiling on subsidies	Channel activity through parties
		Candidates' or leaders' personal organizations	Disclosure, low limits on contributions; disclosure of spending; end favored tax treatment; link subsidies to party success and route through party organizations	Channel activity through parties
		Civil society groups	Favored tax treatment; disclosure of receipts, spending; contribution limits (set high); free media	Avoid tax evasions; distinguish between civil society and business groups; limit in-kind support
		Individual contributors	Matching grants, tax incentives, contribution limits (set high)	Offer a blind trust option for <i>party</i> contributions

might be too many parties, or the fragmentation of large, catch-all parties may leave significant portions of the population without a political voice. Here again, prominent politicians' personal followings may wield too much influence or block the emergence of more inclusive parties. Where that is the case, we are also more likely to encounter collusive pseudo-competition among leaders who operate in elite rings or cartels between elections.<sup>32</sup> Mobilization may be less at issue in this regard than is the fostering of a more coherent set of choices, and here the goal of vigorous, open, decisive *competition* is of particular significance.

Here, the goal is to help parties become the main pathways to electoral success—the role, outlined by Schattschneider as best for enabling them to enhance mass participation and democratic accountability while checking the clout of divisive and extremist groups.<sup>33</sup> In Table 6, parties

are, again, made the conduits for subsidies; those subsidies are linked to the building of a mass base; and blind trusts remain available as an option for those who wish to contribute to *parties* and to do so with some sense of security. While parties and civil society groups alike continue to benefit from subsidies in this scenario, and while the latter benefit from favored tax treatment and incentives to encourage contributions, disincentives are now created to act through personal or party-related organizations. Favored tax treatment ends for those groups. (Depending on what they are, these groups might be treated differently: Party youth groups and foundations might continue to enjoy charitable status but not tax incentives for contributing to such groups, and a party-owned newspaper or broadcast outlet would be taxed like any other business.) Similarly, both party-related organizations and candidates' or leaders'

personal organizations would be subject to strict contribution limits, paired with incentives to work through parties: The former could be subjected to increasingly demanding disclosure requirements and limits on receipts and expenditures, and might be subjected to less favorable tax treatment, all in the name of preserving parties' comparative advantages as vehicles for political contention (and thus encouraging more competition overall). Such disincentives must not, of course, be allowed to become repressive, but with careful thought about all aspects of funding they can be made effective.

Civil society groups and individual contributors may still wish to have a blind trust option; there is a potential tradeoff there, however, with the goal of making parties more attractive political vehicles for groups and individuals seeking particular kinds of policies. Finally, to the extent that disclosure and limits make personal and party-related organizations less attractive in terms of financial support, in-kind giving may become more attractive. (Imagine a firm that is barred from contributing directly, or has hit its money limits, and thus resorts to lending out the efforts of high-priced lawyers, media consultants, and the like, while continuing to keep them on the payroll.) As a democracy consolidates, it will likely have to enhance its capacity to administer whatever set of political finance policies it chooses, since the growing incentives to seek influence through electoral politics will likely encourage a range of fundraising and spending techniques that are difficult to anticipate. One important type of in-kind support can be made part of the system: Free media as a competition-enhancing device could be made available to parties and civil society groups on terms that encourage cooperation and coalition building.

Electoral systems have not received much discussion here, in part because the topic itself is so vast. But in this scenario, where the survival of parties and the freedom to participate are not necessarily at issue, yet the party system is not producing decisive results, electoral laws become particularly important and potentially effective. Such laws should encourage parties to coalesce in multiple-party groupings, perhaps by requiring majorities with run-off rounds to win seats or, in PR systems, by imposing higher threshold requirements for winning any seats at all. Party list systems

that foster competition within rather than among parties should be avoided. In that connection, emphasizing the parties rather than individual candidate organizations as funding vehicles will be crucial, too.

Thought should be given also to how parties choose their leaders and what their governance powers ought to be. While those issues are the topic of another paper in this series, it is worth noting here that, in this last scenario, it would be optimal to see party leaders emerge through the party organization with widespread backing from voters, members, and party contributors, rather than to see them set up personal parties or conduct hostile takeovers of existing ones. Much the same is true of candidates and nominees, for where a party nomination is crucial to being a competitive candidate, and where that endorsement involves demonstrating significant support and commitment to party principles, there, too, we are less likely to see personal followings undercut party politics. At the same time, however, parties must be open to dissenting viewpoints, and contests within parties must be open and honestly conducted.

## CONCLUSIONS AND A NOTE OF CAUTION

There is an inevitable tendency, in analyzing the effects of any policy tools in a domain as complex as democracy building, to promise too much and to overestimate the precision with which we can produce desired outcomes. That is all the more true for the approach proposed in this paper, which places a strong reliance on political contention and all the uncertainties that it can entail. While political finance policies create important incentives, and can also regulate political activities in useful ways, they will be but one set of influences at work within any system. History matters: It differs from one society to the next and it will not go away. Likewise, the identities, roots, and political habits of elites and civil society groups matter. Electoral law, a large and complex domain in its own right, has barely been mentioned here. And the fact that we really do not know, with precision, what causes democracy or how to build it in troubled societies should help keep the whole discussion within a fittingly modest and realistic perspective. Dankwart Rustow's well-known argument about political contention offers major

insights, but it also suggests that sustainable democracy is built over many generations, and as a by-product of many processes, rather than as the result of a focused short- or middle-term reform effort.<sup>34</sup> To reiterate a cautionary note on the “public utility” view of parties, trying to move toward “civic” outcomes by too direct a route may produce politics that is not competitive, accountable, nor civil.

It is also possible to carry any of the recommendations here to excess. Limits on contribution and spending may threaten civil liberties; so, too, may disclosure policies. Subsidies can be an undesirable substitute for organized grassroots and party participation; if too lavish, or not precisely targeted, subsidies may create incentives to very undesirable activities and outcomes. It is equally misguided to regard a system that works well at any given point as a “solution” to “the political finance problem”; societies change, and the ingenuity with which political and economic interests will seek to circumvent or undermine that system is more or less unlimited. A particular problem is the risk of doing the wrong thing for the right reasons. Restricting the clout of large private donors, for example, may cut the flow of donations to the point where parties and campaigns are starved for money, harming both competition and mobilization; disclosure may hurt challengers; subsidies without meaningful qualification thresholds will be wasteful and will fragment rather than consolidate democratic politics. A system aimed at encouraging small donations may spread scarce public funds too thinly; a system of full and rapid disclosure might chill off participation in divided societies marked by significant distrust, or persuade challengers that incumbents are so far ahead in the money race there is no point in running against them—and so on. In contemporary established democracies, building a durable system of competitive elections took many generations, and there is little reason to think that new democracies can accomplish those tasks overnight.

This paper has not remotely exhausted the full range of possible situations for which political finance policy making will be required, nor could this paper assess all the variables that will be in play in any one situation. The paper’s goal, instead, is to illustrate the kinds of flexibility and opportunities that are available, as well as some of the risks and requirements involved, when we think of political

finance policy as a democracy-building tool rather than primarily as a check on corruption. Even on the basis of this overview, it seems likely that the links between available policy tools and the development of healthy, competitive democracy are much more direct, and the incentives at work more positive and clear-cut, than is the case where it comes to reductions in corruption. While the latter is of obvious importance, a continuing theme in this paper has been that healthy, accountable, competitive parties, and the kinds of political choices they can offer, will themselves become an anti-corruption safeguard over the longer term.

Ultimately, the emergence of sound party politics cannot be programmed or mandated, but supportive incentives can be set up and unnecessary roadblocks can be removed. In the process, we must harness self-interest rather than seek to suppress it—which is not just a key idea for democracy generally, but perhaps one point on which the democracy-building and corruption control approaches differ most clearly. Close attention must be paid, also, to the conceptions of justice, fairness, national and group identity, leadership, good politics, and indeed democracy itself that are widely held (and at times in contention) within the societies one seeks to advise. Such influences cannot simply be rewired, but policies can and should be designed to fit with their more democratic elements. Then, perhaps one of the most important—if also one of the toughest—moves is to step back and allow citizens to build parties and political processes that they can use to advance the sorts of interests and values that they themselves believe to be of paramount importance.<sup>35</sup>

# ENDNOTES

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14. A distinction employed usefully by Austin and Tjernstrom, but see also Theodore J. Lowi, "American Business, Public Policy, Case-Studies, and Political Theory," *World Politics* 16 (July 1964): 677–715.
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17. Janis Ikstens, Daniel Smilov, and Marcin Walecki, *Campaign Finance in Central and Eastern Europe*.
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30. The difficulties with regulatory strategies are discussed in detail in National Democratic Institute for International Affairs and Council of Asian Liberals and Democrats, *Final Report: Political Party Strategies to Combat Corruption Workshop* (Washington, D.C.: National Democratic Institute for International Affairs, 2002).
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33. E.E. Schattschneider, *The Semisovereign People*.
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