

Political finance and State funding systems: An overview

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1. Introduction: Why political finance matters¹

"The relation between money and politics has come to be one of the great problems of democratic government." Thus James Kerr Pollock opened his pioneering study of political finance² practices in Britain, Germany and France, published in 1932. His dictum, as well as his call for public opinion to realise "that healthy political life is not possible as long as the use of money is unrestrained," ring truer today than in Pollock's time.³ Successive waves of democratisation, an increased complexity in electoral processes, and the growing awareness of the risks posed by corruption to the viability of democratic institutions have moved the funding of political activity to the centre of public debates all over the world. The issue has become both global and pressing.

While in the course of the past decade there has been a profusion of regulatory efforts all over the world⁴, the anxieties that surround money's role in politics are old and entrenched. Pollock's words and the early passage of comprehensive pieces of regulation in the U.K (1883 Corrupt and Illegal Practices [Prevention] Act) and the U.S. (1907 Tillman Act), already betray the notion that as much as money is indispensable for political activity—and precisely *because* it is indispensable—it can endanger democracy in fundamental ways. Three are of particular consequence:

- The flow and distribution of political funds impinge directly on electoral equality, on the actual possibilities enjoyed by candidates and parties to put their message across to the voters. A lopsided distribution of electoral funds erodes—although not necessarily impedes—the uncertainty of electoral results, a fundamental prerequisite for their legitimacy.
- Money bestows on individuals and groups an unevenly distributed opportunity to directly participate in elections and/or exert political influence through their contributions to candidates and parties. This is of critical importance for democracy. When political power merely reflects economic power, the principle of "one man, one vote" loses its significance and democracy ceases to be, in Schattschneider's words, an "alternative power system, which can be used to counterbalance the economic power."⁵
- Fundraising processes offer obvious opportunities for the articulation of *quid pro quos* between private donors and policy makers, or, at a minimum, for the emergence of continuous conflicts of interest for the latter. At best, political fundraising processes can jeopardise the public interest; at worst, they destroy the integrity and autonomy of policy makers and privatise their decisions.

¹ A previous version of this paper was presented at the Political Integrity Conference organized by the Al Ahram Center for Political and Strategic Studies, in Cairo, Egypt, on January 12-13, 2008. The author wishes to express his gratitude to Dr. Amr Hashem Rabie, Dr. Marcin Walecki and Mr. Jeffrey Carlson for their very useful comments to that previous paper. The usual caveat applies.

² Throughout this paper, the term "political finance" will encompass all aspects related to the funding and spending of resources by political parties and candidates in the context of election campaigns as well as in non-electoral times. As such, it is a broader term than "campaign finance", often used in the literature to cover the whole subject, particularly in the U.S.

³ Pollock (1932), p.328.

⁴ In the course of the past decade or so, far-reaching political finance reforms have been enacted in the U.S., Canada, Colombia, Costa Rica, Guatemala, Mexico, Panama, France, Germany, Japan and the United Kingdom, to name but a few cases.

⁵ Schattschneider (1960), p.119.

Ultimately, the dangers derived from these three critical areas can easily threaten the *legitimacy* of democratic processes and practices, i.e. the citizens' perception that both democratic elections and democratic rule reflect with relative accuracy their interests and demands.

Despite its obvious importance for the quality of democracy, political finance has long remained a relatively under-studied and under-theorized aspect of politics. With few exceptions, political finance debates tend to be as heated as devoid of light. Indeed, in most democracies, the whole subject of political finance has been trapped in a rather unfortunate vicious circle. The chronic dearth of reliable information on the topic has resulted in its scientific relegation, which, in turn, renders very difficult the emergence of new data or the rigorous analysis of the available information. Hence, realistic solutions to political finance problems tend to remain elusive. The pervasive lack of transparency has entailed that political finance issues consistently break into public debate as a consequence of political or journalistic scandals, i.e. as pathologies of the democratic system and not as what they are – inherent elements of democratic competition. The end result has been the emergence of a profuse mythology that places political finance at the root of the explanation for every political phenomenon, often in a simplistic and twisted fashion. In many ways, both the public and political actors have forgotten Alexander Heard's admonition in one of political finance's seminal works, where he noted that the financial costs of nominating and electing public officials are as inevitable a cost for democratic politics as a certain level of demagoguery in public debate.⁶

Replacing such a mythology with tested empirical findings is obviously a complex and collective endeavour that is only gradually beginning to bear fruits. Rather than contributing to this valuable scientific quest, the aim of the following pages is decidedly more modest. This paper only seeks to offer a very general overview of the instruments available to those interested and willing to introduce a measure of order in the vexing relationship between money and democratic politics. It will give a sense of what the main regulatory options and their effects are, according to the best comparative experience available. In doing so, the paper will show the extreme heterogeneity of Political Finance Systems (PFS), their widely divergent effects, their complex links to each polity's institutional and cultural realities, and, ultimately, the lack of single, magic, one-size-fits-all solutions to political finance problems. Most of the paper will be devoted to the analysis of State subsidies for parties and candidates, by far the most widespread political finance regulation instrument amongst contemporary democracies, as well as one of the most laden with expectations and controversies. An attempt will be made to extract a few practical lessons as to the likely political effects of State funding and its limits as a lever to change political finance realities. In the document's final section, these lessons will be broadened to encompass a few reflections about the limits of political finance reform in general and the vital importance of embracing a realistic approach in the hard road towards cleaner and more equitable politics.

⁶ Heard (1960), p.8.

2. Instruments of political finance regulation⁷

The role of money in democratic political activity may be regulated through the use of a wide variety of legal instruments, whose presence and combination give shape to a political finance system (PFS). A PFS is the set of rules that deals with the indispensable flow of money into the political system and from it. It provides the framework within which parties and candidates can legally act to obtain money for their activities and spend it, and within which citizens and organisations—private and public—fund those activities. It also defines the legal instruments that oversee and enforce the operation of that framework.

The legal instruments to regulate political finance activities may be classified into four categories:

2.1 Regulations of funding sources of candidates and parties

This category includes those instruments that regulate the flow of economic resources towards political activities, both by controlling or banning the use of certain sources of funding ("negative" regulations) or by providing or stimulating the use of other sources ("positive" regulations);

Private political donations experience the most extensive controls. Most democracies restrict the use of at least some kinds of private donations, albeit with widely different levels of intensity. While some countries (e.g. Greece) merely impose a cap on contribution amounts, more often than not modern democracies ban the use of some sources altogether. Ceilings on individual contributions range from US\$350 per election in Israel to more than US\$250,000 per year in Japan. Bans most commonly affect foreign donations—forbidden in more than 20 countries—and specific kinds of business contributions, typically those from State-owned firms or firms which benefit from State contracts or licences.

Restrictions on private sources of funding are meant to thwart the purchase of political influence by large and/or controversial donors. As it is the case with other restrictive regulatory measures, contribution limits pose major implementation problems, demanding the presence of an extensive system of reporting and auditing of political money, a difficult requirement even for developed democracies.⁸ Moreover, contribution limits, particularly when they are extremely severe, may lead to perverse outcomes. Thus, draconian measures to ban private contributions altogether, such as those employed in France before 1988 and India during 1969-85, fostered singularly opaque fundraising practices.⁹ It is no surprise that many democracies, notably West European ones, have shied away from comprehensive contribution controls, opting to curb the financial influence of donors through other means, such as extensive public subsidy systems, short election campaigns and severe restrictions on electoral advertising.

⁷ This section as well as the next one draw heavily on Casas-Zamora (2005), Chapter 1. This source may be consulted for a much more detailed description of PFS and State funding systems in a sample of almost 50 democracies. While every effort has been made to check and update the information on political finance regulations mentioned in the text, inaccuracies may have occurred in some cases.

⁸ On the obstacles faced by the U.S. Federal Election Commission (FEC) to enforce the set of limits enacted by the 1974 Federal Election Commission Act, see Gross (1997); Federal Electoral Commission (1998), pp.31-34; Sorauf (1992), p.185.

⁹ Levush et al (1991), pp.90-92; Avril (1994), pp.85-89.

PFS not merely restrict the inflow of political money, but can also *actively* shape it. They may do so by providing parties and candidates with public money, goods or services. Indeed, the use of direct, indirect and specific public subsidies is the single most common feature of contemporary PFS. As will be analysed below, with very few exceptions, modern democracies display some kind of public support for political activities.

2.2 Regulations of political expenditure

Here are included the rules that establish general ceilings to the parties' or candidates' electoral expenses, as well as the limits or bans applied to the use of specific expenditure items, notably election advertising.¹⁰ It also includes the limits imposed on the duration of campaigns.

General spending ceilings are relatively rare amongst democracies. This is a reflection of their significant normative and practical drawbacks. The empirical record of general spending limits is mixed at best. Even their most successful examples, such as Britain and Canada, where caps have been rigorously enforced and generally praised, attest to the vexing practical questions implied by their implementation. In Britain, the relevance of constituency-based ceilings was gradually eroded by the secular growth of the parties' national expenditures, only recently harnessed by the legislation.¹¹ In Canada, meanwhile, the regulation of third-party expenditures –i.e. disbursements made by non-party groups aiming to affect electoral results—has proved intractable in spite of the visible role often played by such outlays.¹² In most other instances, inadequacies in the definition of electoral expenses, unrealistically low ceilings, poor enforcement mechanisms, and strong incentives towards electoral spending derived from other institutional features, have undermined decisively the efficacy of expenditure caps. Thus, while ceilings were for a long time too high to be useful in Spain, in other countries, such as Australia, Colombia, India, Israel, Japan, Russia, South Korea, the Ukraine and the U.S. (1925-1974), political actors have consistently ignored them.¹³

Trying to avert some of these consequences, other PFS focus their restrictions on singularly visible and expensive items, such as election advertising. Most West European democracies ban paid political advertising on television, while providing parties with advertising slots in State-owned broadcasters. Though generally regarded as an efficient way to cut down the costs of electoral activity and reduce the economic pressure on parties, the general applicability of the West European model is open to question. It requires the presence of powerful State-owned broadcasting systems –an oddity among non-West European democracies—and, probably, the existence of strongly party-based political systems that prevent the atomisation of advertising. More importantly, the effects of this model in protecting political equality are ambiguous. As with general spending ceilings, strict advertising limits may become an unfair protection of incumbent parties and a significant obstacle for political newcomers, particularly if incumbents continue to enjoy unlimited access to official information outlets.

¹⁰ Vote-buying ought to be considered a different kind of electoral expenditure all together. It is universally considered an illegal practice and a grave violation of electoral rules. It persists, however, in many parts of the developing world (Pinto-Duschinsky [2002], p. 72).

¹¹ A national spending ceiling operated for the first time in the 2001 General Election.

¹² Ewing (1992), pp.220-225; Stanbury (1993a), pp.97-99; Royal Commission on Electoral Reform and Party Funding (1991), pp. 327-328.

¹³ Pajares-Montolío (1998), pp.137-145; Levush et al. (1991), pp.89, 126, 155; Park (1994), pp.181-182; Cepeda-Ulloa (1997), pp.94-97; Walecki (2001), p.410.

2.3 Regulations of financial transparency

The third group of rules covers all the norms that compel parties, candidates and other political actors to report to the public authorities the source of their economic resources and/or the use given to those resources. It also includes the rules that define if such information is audited and publicly disclosed or not.

These rules exhibit considerable variation between countries. Generally speaking they involve financial reports from political parties rather than candidates, reports on routine as well as electoral activities, disclosure of both income and expenditure, and auditing of the information by a competent authority.

Transparency rules are meant to shed light on the sources of support of parties and candidates as well as on their compliance with political finance legislation. While unveiling such information may have an intrinsic value for democracy, transparency rules also have a decisive instrumental relevance for the success of particular political finance reforms, such as contribution and expenditure limits. In many ways, the efficacy of the latter is entirely dependent on the presence of a solid system of political finance disclosure.

While they remain the cornerstone of political finance regulation in many countries –most notably the U.S.—disclosure rules are not exempt from acute normative and practical dilemmas. On the one hand, they imply the public knowledge of critical information about the internal life of political organisations and a degree of State control over them. On the other hand, these norms reflect the notion that political parties are quasi-public entities rather than simple private associations and that the collective benefits of disclosing the sources of financial support of political actors outweigh the donors' right to privacy.¹⁴ Both notions have been consistently rejected in many democracies, even some strongly consolidated ones, such as Sweden and Switzerland. Privacy issues are of particular concern in democracies haunted by a recent authoritarian past, where fear of government harassment is still fresh in the minds of many political actors.¹⁵

2.4 Sanctions and penalties

This category includes all the sanctions enacted for the event of violation of the limits, bans or obligations derived from the three previous categories.

At the international level, fines are by far the most common type of sanction for the violation of political financing legislation, and they have been used in some cases — Mexico and Israel, in particular — with extraordinary severity.¹⁶ Such fines are often linked

¹⁴ The quasi-public nature of political parties has been discussed ever since their mention by Germany's Weimar Constitution in 1919. Many contemporary constitutions, certainly in Latin America, explicitly state the crucial role of parties in the democratic system. The notion that parties perform vital political functions and provide “public political goods” has been routinely used to justify a measure of oversight over their internal affairs, including the way in which their activities are funded. See García-Laguardia (1989).

¹⁵ The issue has been discussed, for instance, in Chile, Panama and much of Eastern Europe. See Valdés-Prieto et al. (2000), pp.420-437; *La Prensa Panamá*, 22/7/1995; *El Panamá América* 14/8/2001; Walecki (2001), pp.413-414.

¹⁶ In the wake of Mexico's 2000 election, the Revolutionary Institutional Party was fined US\$102 million by the electoral authority for having received electoral funds from a state-run company, which were not reported to authorities (Núñez [2003], p.11, to be published). In January 2000, the Israeli Labor Party was fined US\$3.5 million for using illegal donations. Fines of hundreds of thousands of dollars are common in Israel. Blechinger & Nassmacher (2001), p. 178; Hofnung (June 7, 2001).

to the provision of public subsidies, and in many countries they have become a fundamental tool for ensuring compliance with other party financing regulations. Thus different types of financial non-compliance by parties — late or incomplete financial reports, for example — are sanctioned by the retention of public subsidies in Austria, Germany, Spain and Portugal, amongst other countries.

The imposition of prison terms is the exception at the international level, and is generally limited to countries with a long history of party financing scandals. In Israel and Japan, for example, some politicians have been effectively sanctioned and imprisoned for violating campaign financing regulations.¹⁷

In the area of sanctions, as in other areas, international experience recommends a dose of caution. Excessively severe sanctions have been shown to have ambiguous and in some cases counterproductive effects. If serious penalties accompany even the slightest failure to comply with legislation, authorities may be reluctant to use them regularly. In countries such as Australia and Canada, where the law leaves no option to punish violations other than the criminal procedure, this road has been systematically avoided and replaced with an approach more geared towards remedying the effects of infringements rather than punishing them.¹⁸ By the same token, the application of devastating electoral sanctions — such as annulling the election of infringing politicians (e.g. in France and India) or immediately cancelling the registration of parties that violate political finance regulations (e.g. Senegal)—has been nearly always avoided in view of its potentially serious political consequences.¹⁹ The experience of Central American countries, where there are no records of any criminal or electoral penalty for matters related to party financing — despite notorious, public cases of non-compliance with legislation — only confirms this phenomenon.²⁰

The comparative experience suggests that the existence of a gradual regime of sanctions that is varied and credible adds substantial force to existing regulations.

2.5 On the heterogeneity of PFS

This cursory review of the basic instruments of political finance regulation hints at three crucial points. First, there are no obvious regulatory solutions to the challenges raised by the use of money in politics. The rhetorical excesses that populate discussions on political finance reform in most countries are simply misguided: political finance regulation implies hard practical and normative choices, whose success is by no means guaranteed. Second, no matter how prominent, State funding systems are, more often than not, merely one part of a complex regulatory ensemble. Extricating the effects of State funding rules from those of the latter as a whole is difficult in the best of cases. Third, the frameworks chosen by

¹⁷ Blechinger & Nassmacher (2001), Hofnung (June 7, 2001).

¹⁸ Amr & Lisowski (2001); Gray (June 6, 2001). It is also worth mentioning here the experience of the US, where required training of campaign officials is often used instead of fines for campaign finance violations. In the case of violations to the Federal Election Campaign Act, the Federal Election Commission has also introduced an alternative dispute resolution (ADR) process that, in its own words, “*is a series of constructive and efficient procedures for resolving disputes through the mutual consent of the parties involved. ADR encourages the parties to engage in negotiations that promptly lead to the resolution of their dispute.*” Amongst other things, this allows the parties and the authorities to avoid the high costs and stress that may accompany traditional enforcement. See Federal Election Commission (2002).

¹⁹ Koole (2001), p.89; Jain (June 6, 2001); Mbodj (June 8, 2001). Nonetheless, in France there have a few cases in which the credentials of elected officials have been cancelled due to violations of campaign finance laws (González Varas [1995], pp.171-172; Doublet [1997], pp.48-50).

²⁰ See Casas-Zamora (2003).

modern democracies to deal with political finance are extraordinarily diverse. For the time being, the complex question of why different political systems travel along different regulatory paths will be sidelined. It suffices to point out that those choices are as much determined by normative predisposition (e.g. extensive State funding has been generally preferred in Western Europe than in the U.S.), as by institutional incentives (e.g. broadcasting regulations are widespread in Western Europe but not elsewhere; permanent party subsidies are more common in parliamentary regimes), and conjunctural pressures (e.g. major corruption scandals tend to lead to the adoption of contribution limits). Whichever motives may underpin regulatory choices, the remarkable diversity of legal instruments and thus of PFS is the point to emphasise.

Such heterogeneity is mirrored, only enhanced, at the level of public funding arrangements. Indeed, in the next section we will see how any attempt to ascribe, *in general*, beneficial or harmful effects to the “institution” of State funding requires extreme care in view of the diversity of subsidy arrangements, their various underlying rationales and the influence of numerous institutional variables to which subsidies are inextricably linked.

3. State Funding Systems

3.1 Definition and claims

As noted above, State subsidies for parties and candidates are the most common form of intervention in political finance in the world. The term State funding comprises three basic categories of subvention:

- *Direct State Funding*, i.e. cash grants disbursed to parties and/or candidates according to a public procedure laid down in the law.
- *Indirect State Funding*, i.e. any law-enacted subvention delivered in kind to political actors—such as access to State-owned broadcasters, public buildings or publicly printed material—and, equally, the loss of State revenue derived from tax incentives for private political contributors, parties or candidates, or from the enjoyment of public service franchises by political actors.
- *Specific political subsidies*, for instance cash grants earmarked for party-related or party-controlled organisations, such as parliamentary caucuses, ancillary groups (women’s and youth, mainly), newspapers and research institutes.²¹

Most of the analysis that follows will focus on Direct State Funding (DSF) arrangements. Other forms of subvention—in particular *extra-legal subsidies*, such as the secret funnelling of State funds to some political actors, and the legitimate or illegitimate use of State goods,

²¹ The demarcation of different kinds of State funding is controversial, particularly in regard to the status of specific subsidies. While, in principle, these *specific grants* may be considered as no more than particular examples of direct subvention, it seems advisable to group them in a separate category. Specific grants are frequently outside the control of the parties’ central or local organs and, in fact, are frequently disbursed to entities with a separate legal existence from the party (e.g. a newspaper or a research foundation). Moreover, in the case of parliamentary subsidies the extent to which public funds help to sustain the activities of parties rather than the workings of Parliament is unclear.

services and powers by incumbents, admittedly very important in certain contexts—will remain on the margins of the present analysis.²²

Although this solution is not devoid of problems, it helps to center the discussion on those subventions that primarily, directly and unequivocally benefit candidates and parties. In most cases DSF comprises the vast majority of public resources allocated by law to sustain political activities.²³ Moreover, such an emphasis denotes a certain fidelity to debates on State funding and its effects. So far the thrust of the discussion and criticism of State funding has been focused on in-cash electoral and generic party subventions, reflecting an implicit consensus that their enactment is *different* from the implementation of specific party grants or indirect subsidies, and in many ways a more fundamental political change than the latter. This is, for instance, very clear in Britain, where debates on DSF continue to this day, despite the fact that various forms of indirect political subvention have been in operation for decades.

Indeed, the spread of DSF is, arguably, the most important trend in contemporary political finance and one whose consequences have come to dominate academic and political debates in the field, notably in Western Europe. Following its early introduction in Uruguay in 1928, and during the last four decades in particular, DSF has been adopted in nearly 50 countries. No other regulatory instrument—from restrictions to private political contributions to electoral spending ceilings and financial disclosure rules—is so widely diffused around the world. Moreover, no other instrument has been so laden with expectations and criticisms.

The adoption and consolidation of DSF as a political finance regulation device has been marked by acute controversies ranging from its fiscal cost for taxpayers to the legitimacy of exacting resources from the public in order to sustain political parties. More importantly for political science, disputes have also touched upon the *practical* consequences of DSF for democratic systems in three areas: (a) autonomy of political actors and prevention of corruption; (b) political equality and electoral competition; (c) organisation and institutionalisation of political parties.

The standard case in favour of DSF, often articulated by the same politicians that enact them, may be summarised as follows:

- a) *DSF strengthens the autonomy of politicians, prevents political finance-related corruption and enhances financial transparency:* By providing a source of income with no strings attached, subsidies protect parties and elected officials from economic dependence on large private donors, and reduce the likelihood of corrupt exchanges between contributors and politicians. By virtue of being public, DSF is an entirely transparent source of political money.

²² This point cannot be underemphasized. The use and abuse of State resources by incumbents is a widespread phenomenon in the developing world, albeit in different ways and degrees. In authoritarian and semi-authoritarian regimes, in particular, the unlimited access enjoyed by incumbents to State resources is often the defining trait of political finance and a critical obstacle for the existence of a reasonably equitable electoral arena. The cases of Egypt or Russia, amongst many, come to mind (See Rabie [2008]; Ammar [2008]; ‘Russian election lacked ‘freedom,’ monitor says’, *The Washington Post*, 4/3/2008). In all countries, there are obvious and considerable difficulties in researching this phenomenon. This does not make it any less real, of course.

²³ This is the case in the U.S., Israel and Latin America, with the exception of Chile and, possibly, Brazil, where the value of broadcasting allowances is considerable. The situation is less clear in Western Europe, due to the size of parliamentary subsidies in some countries.

- b) *DSF protects political equality of opportunity and electoral competition:* Subsidies prevent the political dominance of groups with vast economic resources to put their message across and mobilise voters. It allows parties and candidates to compete fairly in elections regardless of the socio-economic condition of their supporters, and thus reduces entry barriers to political competition.
- c) *DSF provides political actors with adequate resources for essential democratic activities, increasing the institutionalisation and stability of parties:* Traditional sources of funding are unable to sustain an adequate level of democratic activity. DSF helps political actors cover the cost of increasingly sophisticated campaigns and provides parties with steady income. It does so in an optimal way, minimising fundraising costs and dependence on large private contributors.

In recent years, these claims have come under attack. In most countries, critics have decried the cost of DSF for the public purse.²⁴ More importantly, perhaps, critics have charged subsidies with negative consequences that, in most cases, are the mirror image of the lofty claims put forwards by supporters of public subventions. The typical indictment of DSF includes one or more of the following arguments:

- a) *DSF does not replace private political donations and has a limited effectiveness against corruption:* Subsidies become an addition rather than a substitute of private contributions. If they replace anything it is "healthy" money from membership dues and small donations, rather than large private contributions, which require less effort and organisation to collect. The effectiveness of DSF against corruption is, at best, severely limited.
- b) *DSF stifles electoral competition and ossifies the party system:* Since incumbents enact DSF, subsidies create a bias in favour of the status quo. They raise entry barriers for newcomers and help to freeze the party system.
- c) *DSF provides parties with resources that jeopardise their social embeddedness, internal democracy and autonomy:* By reducing the financial relevance of members, DSF diminishes the parties' incentives to reach out for new recruits, leading to falling rates of party membership. Subsidies also alter the parties' internal distribution of power, curbing the power of the rank-and-file and enhancing that of party bureaucracy. Finally, DSF becomes addictive for parties, leading to their loss of autonomy vis-à-vis the State.

In reviewing a very similar list of arguments in favour and against the introduction of general State subventions for British parties, the Committee on Standards in Public Life concluded that "many of these arguments have merit and, taken together, they are finely balanced."²⁵ In fact, despite the intensity of the debate, its most remarkable trait has been its limited empirical content and, if anything, the suspect scientific merits of the arguments put forward by both sides. With very few exceptions, discussions on the effects of DSF have usually failed to account for the heterogeneity of subsidy rules and, more importantly,

²⁴ Regardless of their actual merits, systems of public funding for parties are remarkably unpopular with taxpayers all over the world, except perhaps, and somewhat surprisingly, in the U.S. A survey of the issue, with opinion poll data from several European countries, particularly Poland, can be found in Walecki (2005), pp. 253-259.

²⁵ Committee on Standards in Public Life (1998), p.92.

for the mediating impact that other institutional and political factors –from the configuration of the electoral and party systems to the presence of other political finance regulations—may have on subsidy arrangements. Any sweeping claim about the effects of DSF rests on shaky foundations. Let us, once again, have a look at the kind of heterogeneity that we are dealing with it comes to DSF systems.

3.2 What kind of State funding system?

Every system of direct political subvention must explicitly define four central issues:

- Which political actors will receive the subsidy?
- How often will the grants be paid?
- What eligibility and allocation rules will be followed? and,
- Who is to define the amount of the subvention and how?

3.2.1 Subsidy recipients

Political parties are the main recipients of DSF in the vast majority of countries. Only a few cases, such as Belgium, Taiwan and the U.S. have chosen *not* to subsidise the parties' central office. In the U.S., however, several states have enacted public funding for parties even if the federal government has not. Indeed, the U.S. is not alone in supporting sub-national party organs. Party branches at the state/regional level also receive public funding, in some cases extensively, in Australia, Canada, Denmark, Germany, Norway, Spain, Austria and Sweden. In the latter two, in particular, sub-national entities provide the lion's share of DSF.²⁶

Direct support of individual candidates, whether presidential or parliamentary, is less common. Presidential nominees may directly receive public funding only in rare cases such as Ecuador, France, Uruguay and the U.S. In the U.S., the scheme covers even candidates to the parties' presidential nomination, being the only case anywhere where intra-party campaigns are directly subsidised.

The latter point merits a brief comment. Paradoxically, the increasing use of the mechanism of open primary elections in many countries –notably in Latin America— has omitted one of the important characteristics of the North American experience that inspired it: the allocation of direct subsidies to presidential primary candidates in the U.S. since 1976, which has been a decisive factor in the electoral success of some little-known hopefuls.²⁷ This omission substantially weakens two of the basic effects sought by the subsidy systems: reduction of financial barriers to political participation and, above all, a decrease in the dependence of parties and candidates on private sources of electoral financing. As case studies from countries such as Costa Rica and Uruguay have shown, whatever the effectiveness of the DSF in attaining these objectives, when internal contests are excluded, the effects of the public subvention only reach a small group of competitors selected through internal elections in which private capital, often the candidate's own money, is a decisive factor.²⁸

²⁶ Müller (1994), pp.54-55; Nassmacher (2001), p.103; Klee (1993), pp.183-189; Gidlund & Koole (2001), p.123.

²⁷ Corrado (1993), pp.37-59; Alexander (1989), p.106; Sorauf (1992), p.159.

²⁸ See Casas-Zamora (2005), Chapters 3-4.

3.2.2 Interval and timing of disbursements

Direct subsidies can be *permanent* and/or *electoral*. Both categories differ in the frequency of the subvention, their recipients and the object of the funding. Thus, in contrast with electoral subsidies, permanent subventions are normally annual, payable only to political parties and directed towards a wide array of activities beyond campaigning, noticeably the building up and day-to-day running of party organisations. While some systems have enacted only one type of subvention, others combine both permanent and electoral subsidies.

The distribution of these three options exhibits an interesting pattern. While virtually all West European democracies provide parties with permanent funding, in Latin and North America electoral financing is the more widespread of the two. Such clustering reflects a different understanding of the nature and functions of parties. In the U.S., for example, subsidy rules reflect the notion that parties primarily exist to wage electoral battles and are, in any case, less important than individual candidates.²⁹ The strong electoral orientation of party organizations is also a pervasive phenomenon in Latin America, even amongst the most institutionalized party systems. West European systems, on the other hand, assume a more comprehensive idea of the role of parties, as permanent organizations upon which responsible government rests and which ought to be subsidized accordingly. These different perceptions are not alien to the overlapping institutional divide between presidential regimes in North and Latin America and parliamentary regimes in Western Europe.³⁰

The moment of the disbursement of electoral grants is also consequential. In some countries (e.g. Australia, Costa Rica) the State subvention operates as a post-electoral reimbursement of expenditures, while other systems (e.g. Dominican Republic, U.S.) have enacted rules that guarantee entitled parties or candidates full access to the subsidy before the election. In a few countries (e.g. Spain, Uruguay) both options are mixed, combining in different measures a post-election reimbursement with a pre-electoral advance. The availability of subsidies before the election or, alternatively, their configuration as a post-electoral reimbursement can greatly influence the financial barriers experienced by newcomers as well as the dependence of political actors on private income sources.

Although the system of cash advances has been criticized because it often discriminates against emerging political options (since advances tend to be distributed according to the parties' or candidates' previous electoral results), it provides the recipient parties or candidates with vital resources during the decisive months of the campaign, thus reducing to some extent their dependency on private financial operators. A comparison of the political financing systems of Uruguay and Costa Rica illustrates this point well. While in Uruguay — where half of the subsidy is distributed in advance and in cash — the participation of financial operators in campaigns is minimal, in Costa Rica lenders have traditionally played a significant role in party financing, from which they have derived huge profits and, often, political benefits.³¹

²⁹ Katz & Kolodny (1994).

³⁰ This is, of course, a rough generalisation. Canada, a parliamentary regime that disburses purely electoral subsidies, is an exception.

³¹ Casas-Zamora (2005), Chapters 3-4.

3.2.3 Eligibility and allocation rules

Virtually all countries with DSF have enacted a threshold of eligibility for the subsidy. This barrier is intended to discourage the proliferation of candidates and parties, particularly of the frivolous or rent-seeking kind. The eligibility barrier is frequently defined by the achievement of parliamentary representation in the previous election (e.g. Bolivia, Finland), but it may also consist of an absolute number of votes (e.g. Denmark, Portugal), a given percentage of the vote (e.g. Germany, Nicaragua) or a combination of representation and votes (e.g. Costa Rica, Sweden). Other countries have implemented multiple thresholds for different subsidies (e.g. Austria, Colombia). The complete absence of threshold is less common and normally restricted to specific kinds of public funding (e.g. El Salvador, Uruguay).

Once the threshold has been applied, the subsidies are allocated amongst eligible recipients. Most countries allocate the bulk of DSF proportionally, according to the share of vote or representation obtained by each eligible recipient in the previous election (e.g. Belgium, Greece [per share of votes]; Finland, Sweden [per share of parliamentary seats]). The use of vote or seat-based allocation rules is not, however, universal or unqualified. Out of normative choice or political expediency reformers frequently enact rules that qualify proportional election-based distributions and make the subsidy system move towards absolute equality for all recipients. This is done normally by disbursing part of the subsidy in equal grants for all recipients (e.g. Israel, Mexico).

Other systems display even more radical departures of the vote- or seat-based allocation procedure. The Canadian and French systems isolate the allocation of electoral subsidies from electoral results, by establishing a flat rate of reimbursement for parliamentary candidates (subsidy equals 50% of the spending limit in Canada and France), presidential candidates (in France they only receive from the State one third of the spending ceiling), and parties (in Canada they receive from the State 22.5% of their national spending limit).

Yet a few other cases have replaced the principle of proportional distribution of direct subsidies in very interesting ways. Such is the experience with the matching grant schemes implemented in Germany and the U.S., which allocate a significant share of public funds according to the parties' (in Germany) or presidential candidate's (in the U.S.) ability to attract small private contributions. Thus, in Germany, each party may get a public subsidy of 38% of the amount that it raises in dues and individual donations of less than €3.300. Likewise, U.S. presidential candidates may opt in primary elections for "matching funds" for the first US\$250 of each contribution raised.

3.2.4 Amount definition procedures

In every country that has enacted DSF, the definition of the subsidy's initial amount rests in the hands of legislators. The initial legislation may follow, however, one of several paths, including one that gives politicians a blank authorisation to define the subsidy's amount on an ad-hoc basis through the budget or a special law (e.g. Austria, Uruguay). This *unconstrained* system leaves the subsidy open to manipulation and rapid increase.

Constrained amount definition procedures lay down clear rules for the calculation of DSF. Most countries have indeed preferred to formalize the rules for calculating subsidies to

protect them from short-term political manipulation and prevent runaway increases.³² In some countries the electoral law may define in detail the amount of subsidy to be paid for each seat or vote (e.g. Honduras, Italy). Alternatively, legislators may choose to fix the total sum of the subvention or the spending limits that will, in turn, define the amount of public funds available (e.g. electoral subsidies in Canada, France). In other countries, such as Israel and Mexico, the subsidy amount is entirely defined by a non-political organ, so as to isolate the subvention from political tampering. In Israel's case this reform (of 1994) follows a long history of legislated increases of the public subvention in order to shore up party finances.³³

The U.S. system of political subvention deserves a further reflection. As opposed to all the previous examples, DSF in the U.S. is not based on a forced exaction on taxpayers. Instead, taxpayers voluntarily direct US\$3 of their annual liability to the Presidential Election Campaign Fund. This means that, in principle, State funding grows insofar as taxpayers are willing to contribute to the scheme.³⁴

If the methods to define the amounts of public funding are ostensibly heterogeneous, even more so are the sums devoted to DSF, as shown in Table 1. This is a significant point, for it is quite clear that whatever effects may be sought by the enactment of DSF, they require that subsidy amounts are indeed relevant to the costs of political activity in the country. In other words, if direct subsidies –or State funds, in general—are to have any visible political effect they must attain a certain “critical mass.” In the absence of the latter (see, for instance, the case of Guatemala 1999-2003 in Table 1), DSF simply becomes an innocuous political finance instrument.

³² This is the case, for example, in Australia, Belgium, Colombia, Denmark, Italy, Japan, Paraguay, Portugal, South Korea, Sweden, Taiwan, Germany and, with slight variations, Canada and the U.S.

³³ Hofnung (1996), p.138; Mendilow (1992), p.109; Blechinger & Nassmacher (2001), pp.168, 177-178.

³⁴ Participation in the check-off scheme decreased from a high of 28% of taxpayers in 1980 to below 18% in 1992 (Federal Election Commission [1993], p.2).

Table 1. DSF per year and registered voter in 25 democracies (1990s approx.)

<i>Country</i>	<i>US\$</i>	<i>Period (1)</i>
<i>Austria</i>	16.5	1995-1998
<i>France</i>	14.9	1995-1996
<i>Sweden</i>	12.1	1999
<i>Israel</i>	11.2	1996-1998
<i>Mexico</i>	3.3	1997-1999
<i>Dominican Rep.</i>	3.2	2000
<i>Japan</i>	2.8	1995-1999
<i>Germany</i>	2.0	1995-1998
<i>Australia</i>	1.9	1996-1998
<i>Panama</i>	1.8	1999-2004
<i>Uruguay</i>	1.7	1999-2004
<i>Costa Rica</i>	1.6	2002-2006
<i>Spain</i>	1.6	1998-2000
<i>Italy</i>	1.4	1999-2001
<i>Nicaragua</i>	1.2	2001-2006
<i>Portugal</i>	1.0	1995-1996
<i>Bolivia</i>	0.6	1997-2002
<i>El Salvador</i>	0.5	1999-2004
<i>Netherlands</i>	0.4	1999
<i>Honduras</i>	0.2	2001-2005
<i>United States</i>	0.2	1992-1996
<i>Canada</i>	0.2	1993-1997
<i>Denmark</i>	0.2	1988-1990
<i>Ecuador</i>	0.2	1995-1997
<i>Guatemala</i>	0.02	1999-2003

Notes: (1) Includes an election year for all countries except Sweden and The Netherlands. In these cases, however, the parties receive no additional subsidy in election years.

Sources: Casas-Zamora (2003) and (2005).

3.2.5 A word on indirect subsidies and specific grants

DSF systems are usually complemented by various forms of indirect subsidies and specific grants, normally more limited. Besides the nearly universal practice of lending institutional support for the members of Parliament, which can only partially be considered support for political parties as such, three quite common forms of indirect subsidy merit attention: franking privileges and exemptions for the free use of public services, tax exemptions for political donations, and free advertising in state-run media. Franking privileges –typically for postage— are widely used at the international level, for example, in Austria, Colombia, Finland, France, Italy, Japan, Luxemburg, Mexico, Spain, Switzerland, the U.K. and the U.S. In several countries, notably Canada, France, Germany, The Netherlands and Taiwan, but also in developing countries such as Guatemala, Nicaragua and Panama, tax exemptions have been put in place to encourage political donations and their transparency. While in some countries these tax exemptions do not depend on the amount of the contribution, the tax benefits conferred in Canada and Germany, for example, are specifically aimed at stimulating small donations. Finally, the granting of free advertising time on State-run channels is a widespread practice in Western Europe and, increasingly,

beyond. In Latin America, it is found in Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.

In so far as they include in-kind benefits, the value of indirect subsidies is notoriously difficult to establish in many countries. It should be noted, however, that in the Latin American context, at least, the usefulness of indirect subsidies to political actors tends to be rather limited. The effects of tax exemptions for donations are limited by the notoriously low effectiveness of the region's tax collection systems. Moreover, in many countries such exemptions are insufficient to counteract the desire of many business donors to remain anonymous, often for legitimate reasons, such as avoiding possible political reprisals. Finally, the granting of free advertising space in State-run media, especially television, is of little practical importance, given the small audience that these media draw throughout Latin America, a phenomenon possibly echoed in other regions in the world.

3.2.6 A standard system of State funding?

This brief overview suggests that, as with PFS, there is a remarkable diversity in subsidy arrangements. Quite simply there is no *standard* subsidy system, but a myriad of them, pointing in different directions, shaped by various institutional environments and historical conjunctures, and, in turn, creating different incentives and constraints for different political actors. As noted by Bradley A. Smith, “to say that one favors government financing of campaigns is a bit like saying that one enjoys sports. Are we talking football? Kayaking? Downhill skiing? Ballroom dancing? Chess? The options are endless.”³⁵ Any defence or criticism of State funding systems for other than ideological motives should probably start by specifying *which* subsidy system is being advocated or criticised. Even the subsidies' most common feature –the exaction that they imply for taxpayers—is neither universal nor inevitable, as the example of the U.S. Presidential Election Campaign Fund shows.

This is a sobering reminder of the great difficulty of finding meaningful generalizations about the effects of State funding systems, and thus of the danger of advocating infallible solutions to political finance problems. The law of unintended effects tends to make itself felt with peculiar intensity when it comes to political finance reforms.

Nonetheless, a few very general lessons about the effects of State funding can be safely identified. At this point, it is worth recalling the three parallel claims put forward by defenders and critics of State funding — quoted at the beginning of this section. They provide a useful guide to tease out the available comparative evidence. The lessons that follow do not amount to law-like generalizations, but almost certainly they supply useful guidelines for political finance reformers. At the very least, they give a sense of the likelihood of certain outcomes and thus a tool to moderate the expectations of both the reformers and the public.

³⁵ Smith (2001), p.89.

3.3 Lessons on the effects of State funding systems

3.3.1 State funding and political integrity

Does State funding protect the autonomy of parties and elected officials vis-à-vis their financial backers and thereby lessen the likelihood of *quid-pro-quo*s between both? Does it help to moderate the financial influence of large private contributions? A conclusive answer to both questions is very difficult and fraught with methodological obstacles.

At the very least, the effectiveness of State funding in bringing about cleaner political finance practices is contingent on many variables, including the subsidy's own amount and the factors that shape the demand of resources by political actors. Factors that affect the demand of political finance resources include the presence or absence of spending limits, the existence of publicly owned media, the length of campaigns, the relative importance of the parties' permanent and electoral functions, the institutional incentives for intra-partisan competition, the size of the floating electorate, to name a few. It is thus hardly surprising that evidence of the impact of State funding in curbing the financial influence of large private donors is inconclusive. A few examples should suffice to illustrate the point.

In Israel and the U.S., the weakness of electoral spending ceilings and a fluid electoral market structured around loose-knit catch-all parties, have favoured a rapid increase in electoral expenditure and, therefore, in the need to attract the large private donations that the enactment of DSF was meant to prevent. Since 1976, U.S. presidential candidates have benefited from a 100% public subsidy in return for an equivalent spending ceiling. By controlling the cost of presidential elections and eliminating the role of private donors, this policy, a crucial element of the sweeping electoral reforms enacted in the wake of Watergate, largely fulfilled the expectations of reformers in the 1976 and 1980 election cycles. After 1984, however, the growth of unregulated "soft money"³⁶ consistently undermined the existing contribution and spending limits and, therefore, the effectiveness of DSF. "Soft money" skyrocketed from US\$45 million in 1988 to US\$495 million in the 2000 election, well above the federal subsidy for presidential candidates. During the 1999-2000 election cycle, 44 corporate donors contributed more than US\$1,000,000 to both parties in "soft-money".³⁷

A different set of political features has limited the effectiveness of DSF in Latin American countries. There, the absence of spending ceilings, the scarcity of fee-paying party members, the feebleness of trade unions, and the weakness of political organisations founded in the wake of democratic transitions, confer business a central role in campaign funding. Kinzo reports that 93% of the private donations that funded F. H. Cardoso's 1994 presidential bid in Brazil came from private firms, particularly those in the civil construction and banking sectors, a phenomenon repeated throughout the country's gubernatorial elections.³⁸ The presence of DSF has failed to dent business dominance of

³⁶ "Soft-money" are, in essence, funds raised outside federal campaign finance regulations. They were banned by the "Bipartisan Campaign Reform Act of 2002", signed by President Bush on March 27, 2002. After a major legal challenge from its critics, the US Supreme Court upheld in late 2003 most of the bill's provisions, including the ban on "soft-money."

³⁷ Open Secrets (2002).

³⁸ Kinzo (1998), pp.130-131.

campaign finance not only in Brazil, but also in Argentina, Colombia, Ecuador, Guatemala, Costa Rica and Uruguay.³⁹

As opposed to the previous examples, the enactment of DSF in Canada seems to have ostensibly reduced the financial role of pressure groups and, particularly, corporate donors. However, causality in this case is uncertain, for DSF was enacted as part of a complex policy package that included tax incentives for small contributions and tightly enforced spending ceilings. Tax incentives, in particular, have been successful in greatly enlarging the pool of individual donors and reducing the heavy reliance of the traditional parties on business contributors.⁴⁰ As most analysts have noted, this has been a remarkable change in a country where, before 1974, traditional parties were almost exclusively funded by less than 500 large corporations.⁴¹

Similarly, the experience of most, albeit not all, West European countries appears to suggest that the role of private political donations has generally gone down as extensive subsidy systems become widespread. As in the Canadian case, other institutional factors have played a prominent role in this process. Short electoral campaigns, widespread public ownership of broadcasting stations, the banning of TV and radio political advertising outside the slots allocated by the State and, in general, a less election-centred understanding of parties, have helped to ease rising electoral costs and thus the urgency to raise large sums in private donations. In Germany, for instance, large private donations to all parties virtually halved in number and amount after the enactment of the 1994 reform to the party funding law, which significantly shifted the structure of incentives from large to small contributions.⁴² The Canadian and West European experiences with DSF thus tend to show that public subsidies can indeed help significantly to reduce the weight of large interested donations in the parties' coffers. Yet, this outcome seems to be contingent on the presence of a complex set of institutional features, rather than merely on the availability or generosity of State funding.

More importantly, even such an outcome fails to guarantee the eradication of questionable fundraising practices. Ostensible *quid-pro-quo*s between parties and corporations persist in countries with comprehensive political subsidy schemes, such as Israel, France, Spain, Italy, Austria and Germany.⁴³ Indeed, Italy, where DSF coexisted for a long time with the perverse incentives for patronage created by preferential voting, fragmented parties and one-party rule, offers a singularly powerful reminder that curbing political finance corruption requires considerably more than the mere enactment of generous party subsidies.

The consequences of DSF for the prevention of questionable exchanges between parties and donors are thus uncertain, blurred by numerous intervening factors, and not particularly suitable to law-like generalisations. Yet, all things considered, the unsystematic evidence available leans more closely towards the claims of critics of State funding:

³⁹ Casas-Zamora (2005), Chapters 3-4; Olivero (1994), Chapter 6; Cepeda-Ulloa (1997), p.99; De la Calle (1998), p.121; Cerdas (1998), pp.167-168; Ardaya & Verdesoto (1998), p.190; Torres-Rivas & Aguilar (1998), p.278; Kinzo (1998), pp.129-132; Aguiar (1994), p.79.

⁴⁰ The number of individual contributors to all Canadian parties grew from 84,610 in 1975 to 222,376 in 1993 (Stanbury [1993a], p.83; Chief Electoral Officer of Canada [1993], p.1).

⁴¹ Paltiel (1970), pp.109, 112; Stanbury (1993a), p.88 and (1993b), pp.415-416; Ewing (1992), p.94.

⁴² Pulzer (2001), pp.24-25.

⁴³ See, amongst many: "European politics plagued by funding scandals", *The Guardian*, 4/12/1999; Blechinger & Nassmacher (2001), pp.178-180; Galiardo & Berbell (1995); Rhodes (1997); Pujas & Rhodes (1998); Pulzer (2001), pp.31-32.

subsidies are not necessarily an antidote to financial dependence on private sources of funding and, even less, to unsavoury fundraising practices.

3.3.2 State funding and electoral equality

Does State funding protect or harm electoral competitiveness? Three issues need be distinguished here: the effects of DSF in keeping political newcomers at bay, in constraining the electoral opportunities of minor parties and, finally, in redressing political inequalities derived from the distribution of wealth in society.

At first glance, the review of subsidy eligibility rules suggests one conclusion: because of the widespread use of thresholds and rare funding of new political actors, DSF raises electoral barriers for newcomers. However, this is not necessarily true. In fact, DSF has on many occasions lowered electoral barriers and fostered the multiplication of political actors. The matching-grants system for primary elections in the U.S. is a case in point. These funds are available for first-time presidential contestants, and, according to most observers, have been instrumental in helping lesser known aspirants, notably Jimmy Carter in 1976, who would have otherwise been financially overrun.⁴⁴ Similarly, the immediate availability of annual grants for new party groups in Israel's Knesset has clearly lessened the costs of establishing a new political group and, ultimately, the costs of political dissent.⁴⁵

Secondly, even when DSF is loaded against political newcomers, it has proved very difficult to establish the importance of this disadvantage. Newcomers may be kept at bay in those systems that impose taxing requisites to achieve representation, by either using majority election rules, representation thresholds or the small size of multi-member electoral districts. In those cases, the effects of subsidies are nearly impossible to extricate from those of the electoral system. Conversely, when the institutional incentives favour the multiplication of political actors, it is dubious that any amount of subsidies will suffice to debar newcomers. Newcomers certainly have not been excluded in Israel, where 26 new parties achieved parliamentary representation between 1969 (when DSF was enacted) and 1996, or Italy, where 25 new parties gained seats after the introduction of direct subventions in 1974, 9 of them in the 1994 "earthquake" election alone.⁴⁶ Research on Finland and Canada has demonstrated that even in countries where DSF was set in motion as part of an explicit effort to limit the proliferation of parties, new groups have doggedly continued to break into the political system, in some cases with far-reaching effects.⁴⁷

The effects of DSF on minor parties *within* the system are more interesting and somewhat counterintuitive. Though in most countries electoral results remain the central subsidy allocation instrument, many countries have introduced corrections to purely proportional rules. In those cases, small parties receive, almost by definition, a larger proportion of DSF than their share of votes would warrant. While it is true that in very few countries minor and large parties are placed on an absolutely equal financial footing it would be mistaken to assume that DSF allocation rules are systematically biased against minor parties.

Indeed, DSF can be, and frequently is, a means to improve the relative financial situation of small parties. Rather than attempting to freeze the relative positions of large and small

⁴⁴ Corrado (1993), Chapter 2; Alexander (1989), p.106; Sorauf (1992), p.159.

⁴⁵ Mendilow (1992), pp.99-100.

⁴⁶ Figures calculated from Mackie & Rose (1991) and updates in the European Journal of Political Research (EJPR).

⁴⁷ Jenson (1991), pp.127-131; Andren (1970), p.65; Wiberg (1991), p.66.

parties, political finance reformers often improve the electoral chances of the latter and increase the dynamism of the party system. In some cases, the enactment of egalitarian allocation rules derives from systemic needs imposed by parliamentary regimes with proportional representation. In such regimes large parties may have an interest in keeping a pool of viable coalition partners. For instance, the decision to lower the threshold of eligibility for DSF in Sweden was largely the result of the interest of the Social Democrats in helping the Communist Party, whose support was often required to secure majorities in the *Riksdag*.⁴⁸ More importantly, the bargaining power enjoyed by small parties frequently turns *them* into political finance reformers. The crucial role of Germany's FDP in pushing for a myriad of generous redistribution schemes for small parties since the 1960s is well known.⁴⁹

Other motives underpin the egalitarian adjustments made to the allotment of DSF in other countries. In South Korea and Mexico the enactment of DSF in 1981 and 1986, respectively, and the gradual move towards equitable allocation rules, can be traced to the imperatives of regime-opening processes. In Mexico, in particular, the former long-ruling Revolutionary Institutional Party used DSF to nurture the development of opposition parties and thus strengthen its claim to democratic legitimacy. Interestingly, in both countries the empowerment of the opposition led to successive and ever more generous amendments to DSF rules, a process in which the challengers to the status quo gradually became an active force in the shaping of political finance arrangements.⁵⁰

An analysis of the income sources of parties provides additional evidence of the benefits of DSF for minor groups. The latter tend to obtain a larger proportion of their income from DSF than is the case for large parties.⁵¹ Data from 43 West European parties during the 1970s and 1980s shows a negative correlation between the parties' electoral size and their subsidy dependence. While small parties received an average of 60.6% of their central income from direct subsidies, well above the mean for mid-sized (49.8%) and large (44.9%) parties.⁵²

The available information casts serious doubts on the contention that State funding petrifies the party system. Indeed, a review of the electoral behaviour in 17 developed democracies (including 11 where DSF is currently in operation and 6 where it is not)⁵³ over a 52 year period (1945-1996) has shown that, despite the increasingly common implementation of DSF, electoral volatility grew considerably, in particular during the 1990s. More importantly, for the entire 52-year span, electoral volatility was *higher* in elections in which DSF was available.⁵⁴

⁴⁸ Klee (1993), p.182.

⁴⁹ Del Castillo (1985), pp.88-89.

⁵⁰ Prud'homme et al. (1993), pp.77-118; Alemán-Velasco (1995), Chapter 7; Woldenberg et al. (1998), p.324; Park (1994), pp.173-182.

⁵¹ For the purpose of this analysis, small parties are those that average less than 10% of the vote in national parliamentary elections during the period under consideration, as distinct from mid-sized and large parties (10-25%, and > 25%, respectively).

⁵² Casas-Zamora (2005), Chapter 1. See also Nassmacher (1989), pp.252-254; Nassmacher (1993), pp. 258-259.

⁵³ The cases where DSF currently operates are Austria, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Italy, Norway and Sweden. The other cases in the sample are Ireland, Japan, Luxembourg, The Netherlands, Switzerland and the U.K.

⁵⁴ Casas-Zamora (2005), Chapter 1. On the concept of electoral volatility see Pedersen (1990).

These findings have been solidly replicated in detailed case studies of the dynamics of party systems in Costa Rica and Uruguay.⁵⁵ In neither country, DSF was able to freeze the party system in any meaningful way. If anything, in the Uruguayan case the implementation of DSF appears to have significantly *increased* the number of relevant political actors and electoral competition. This is remarkable, given that in Uruguay a significant share of DSF is disbursed to political actors before the election according to their previous electoral results, thereby creating an inertial effect in favour of the status quo.

The effects of DSF in redressing socio-economic disparities between parties remain unclear. This is so partly because the common notion that right-of-centre/bourgeois parties enjoy a secular funding head start over left-wing rivals has proved, in fact, of limited use. In Western Europe large left-of-centre political parties, traditionally based upon a numerous and disciplined membership, have generally faced less daunting threats to their finances, and managed to reduce the financial gap even in the absence of DSF.⁵⁶ Indeed, in some countries, notably Austria and Sweden, leftist parties have enjoyed a consistent funding edge over their conservative opponents.

If long-term socio-economic disparities between parties are blurred in class-based party systems, they are even less apparent where catch-all parties play a dominant role, as in U.S., Canada, most of Latin America and, arguably, Israel. Other than for incumbency reasons, there are no bases to expect a significant funding bias in those systems.

However, extensive evidence from Uruguay and Costa Rica suggests that when significant financial inequalities between political actors do exist, a meaningful system of State funding can be a powerful instrument to even out the electoral arena. Thus, DSF was instrumental in providing Uruguay's left-wing Broad Front –currently in power—with the material means to challenge the century-old electoral dominance of its traditional conservative rivals, overwhelmingly favoured by business donors. In doing so, Uruguay's system of public funding became not just a protection of electoral equality but also an important safeguard for pluralism in the country. Such a role has been less obvious in Costa Rica, where major parties share a centrist ideological outlook as much as a constituency. However, even in Costa Rica State funding has advanced political equality in a more restricted but similar way: by opening pathways to power for individual politicians that lack particularly close links to the country's business elite.⁵⁷

Ultimately, the dynamics of the party system is too complex a phenomenon for it to be uniformly affected by State funding. However, the available research tends to disprove the critics' case: State funding can be, and frequently is, an egalitarian instrument; by allocating money to minor parties and challengers it may enhance, and often does, electoral competition.

3.3.3 State funding and the organization of political parties

Do subsidies affect the parties' internal structure, weakening their incentives to attract fee-paying members and favouring the growth of centralized party organs? Once again, clear-cut answers to these questions are elusive.

⁵⁵ Casas-Zamora (2001) and (2005).

⁵⁶ Duverger (1988 [1951]), pp.391-392; Heidenheimer (1963), pp.792-795; Schleth & Pinto-Duschinsky (1970), p.29.

⁵⁷ Casas-Zamora (2005), Chapters 3-4.

It is undoubtedly true that in most West European countries parties largely depend on DSF. In Europe and beyond, public funding has been the instrument of choice to bridge the gap between the sluggish growth of traditional sources of party income and the rapid increase in the costs of politics. Moreover, the available evidence shows that low levels of subsidy dependence are clearly correlated with higher reliance on membership fees and vice versa. A strong negative correlation (-0.760) was found between both variables in a sample of 41 West European parties during the 1970s and 1980s.⁵⁸

Therefore, as claimed by critics of DSF, financial dependence on the latter replaces reliance on party members. Yet, this is merely a manifestation of a broader point. Unless the structure of incentives favours the collection of small contributions—either through legal changes, as in Germany, or through a strong social sanction against large donations, as in The Netherlands or Sweden—economies of scale dictate that membership fees will inevitably be crowded out by larger sources of income, public or private, which are easier to collect. This may happen in the absence of DSF, as the recent experience of Britain clearly shows. With or without DSF the members' financial dominance in modern parties is no more than a remembrance of things past.⁵⁹

Whether the parties' reduced financial reliance on members translates into decreasing membership figures is, however, a different matter. The available evidence suggests that this is not the case (see Table 2).

⁵⁸ Casas-Zamora (2005), Chapter 1.

⁵⁹ The current presidential cycle in the US is offering, however, an interesting example that somewhat challenges the general pattern. Both Senator Obama and Senator Clinton, Democratic presidential candidates, have declined public funding for their nomination contest. In the absence of it, and building upon the experience of Howard Dean's nomination campaign in 2004, Senator Obama turned to the Internet for fundraising purposes. His success in collecting small donations has been stunning. At the end of April 2008, the Obama campaign had raised more than US\$226 million from approximately 1.5 million donors, 90% of which have contributed with less than US\$100 ("Obama's army of small donors", *The Associated Press*, 9/5/2008). Rather than the mere lack of public funding, which could have just as easily resulted in greater reliance on large donors—as in Senator Clinton's case—the experience of the Obama campaign suggests that the Internet has brought down enormously the costs associated with collecting small political donations. This suggests a very interesting window of opportunity for the future.

Table 2. Party membership trends in Western Europe, 1960-1989

<i>Country</i>	<i>Party membership as proportion of Voting Age Population (%)</i>			<i>Difference 1960-64 / 1985-89 (%)</i>	<i>Mean annual DSF per voter, 1975-89 (US\$1990)</i>	<i>Mean annual (%) of DSF in central income of parties, 1975-89</i>
	<i>1960-64</i>	<i>1975-79</i>	<i>1985-89</i>			
<i>U.K.</i> (1)	10.0	5.9	2.6	-73.7	0.00	0.0
<i>Denmark</i>	20.0	8.6	6.7	-66.7	0.08	4.0
<i>Netherlands</i>	8.7	4.1	3.0	-65.2	0.00	0.0
<i>Italy</i>	12.6	10.3	9.5	-24.6	4.04	37.5
<i>Finland</i>	18.3	16.1	14.0	-23.5	3.44	64.3
<i>Austria</i>	25.5	24.1	21.3	-16.3	1.38	28.9
<i>Germany</i>	2.9 (2)	4.2	2.6	-7.7	1.36	61.3
<i>Norway</i>	13.2	14.2	13.2	0.6	2.24	55.0
<i>Sweden</i>	20.4	21.7	21.0	3.0	3.62	57.4
<i>Belgium</i>	5.7	8.0	7.6	33.4	0.00	0.0

Notes: (1) U.K. membership figures: 1960, 1974, 1989 only. (2) 1968-70.

Source: Casas-Zamora (2005).

Major differences appear in the evolution of party membership throughout Europe between 1960 and 1989, but they seem unrelated to the presence of DSF, to the relative size of the available grants, or to the rates of subsidy dependence amongst parties. Thus, precipitous declines in party membership rates took place in countries where DSF were absent (U.K. and The Netherlands) or very low (Denmark). In the latter case, moreover, the largest drop happened before the introduction of DSF in 1986. Conversely, in Sweden and Norway, as well as Germany during the 1970s, membership rates grew in spite of notoriously generous subsidy systems and high levels of reliance on the public purse. The evidence shows that there is simply no uniform covariance between the evolution of subsidy levels and membership rates.

The assertion that DSF stifles the growth of party membership is usually conflated with the claim that public subventions magnify the size and role of party headquarters and hence incline the balance of power in favour of the party elite and against the rank-and-file. There is little doubt about the existence of a long-term increase in the resources commanded by party headquarters in Western Europe (see Table 3, column C). Moreover, most observers agree that the growth in party bureaucracy has been one of the clear-cut consequences of the introduction of DSF.⁶⁰ Indeed, as columns A-B show, low levels of subsidisation are clearly linked to relatively understaffed political parties (U.K., The Netherlands and Denmark), Ireland being the only exception.

Table 3. Changes in party central income and staff in Western Europe, 1975-1989 (1)

	<i>A</i>	<i>B</i>	<i>C</i>
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⁶⁰ Paltiel (1980), p.367-368 and (1981), pp.169-170; Nassmacher (1989), p.250; Pinto-Duschinsky (1981), p.292 and (1991), pp.228-229; Schefold (1995), p.449; Del Castillo (1993), p.90 and (1994), p.59; Mendilow (1992), pp.100-102 and (1996), p.346. See also Wiberg (1991), p.71 and Sundberg (1994), pp.174-175 on Finland; Svasand (1991), p.143 and (1994), p.325 on Norway; Pedersen & Bille (1991), p.168 on Denmark.

<i>Country</i>	<i>Mean annual DSF per voter (US\$1990)</i>	<i>Voters per member of party staff, 1989 (1000s)</i>	<i>Growth in income of party central offices (%)</i>
<i>U.K.</i>	0.00	50.8	46.0
<i>Netherlands</i>	0.00	16.4	41.0
<i>Ireland</i>	0.00	6.8	123.0
<i>Denmark</i>	0.08	13.6	50.0
<i>Germany</i>	1.36	10.0	350.0
<i>Austria</i>	1.38	10.1	286.0
<i>Norway</i>	2.24	7.7	14.0
<i>Finland</i>	3.44	7.1	6.0
<i>Sweden</i>	3.62	10.6	-4.0
<i>Italy</i>	4.04	n.a.	-25.0

Notes: (1) B includes parties on which information was available, i.e. virtually all the relevant parties in all the countries. Figures in B are the product of dividing the total votes obtained by parties in the election nearest to 1989 for the number of party staff. In C only parties where a cross-time comparison was possible were included.

Source: Casas-Zamora (2005).

Many critics of DSF denounce this trend as negative for democracy. However, a closer look at the low level of institutionalization of political parties beyond Western Europe suggests that, given the crucial roles that parties play in democratic systems, any device that helps to strengthen party organs may be a welcome addition to democracy. In this regard the experience of Costa Rica and Uruguay, the most consolidated democracies in Latin America, is telling. With very few exceptions –Uruguay's leftist Broad Front the most important one—parties in both countries remain largely dormant between electoral tournaments. Their financial turnover, membership levels and permanent activities remain pitifully weak.⁶¹ In both countries, parties are, for all intents and purposes, electoral machines. That parties in Costa Rica and Uruguay are considered amongst the most institutionalised in Latin America⁶², is more a commentary on the extraordinary feebleness of party organisations elsewhere in the region than a reflection of their peculiar solidity in both countries.

It is impossible to avoid the conclusion that in Costa Rica and Uruguay –where DSF is not only available, but relatively generous—the dramatic lack of institutionalization of party organs is related to the purely electoral nature of the public subvention. The contrast with most West European countries, where permanent subsidies are the rule, is stark. It is true

⁶¹ A few facts drawn from Casas-Zamora (2005) should clarify the point. Between March 1994 and July 1997, i.e. between the 1994 election and the onset of the next presidential campaign, *total* expenditures at the headquarters of Costa Rica's National Liberation Party –the most institutionalised in the country—amounted to US\$20,500 per month on average. In January 1996, two years before the 1998 election, its main contender, the Social-Christian Unity Party, had only 7 full-time employees in its payroll. The figure climbed to 633 in January 1998, only to plummet, once again, to 7 in January 2000, halfway through the electoral cycle. Top directing posts in both parties –such as President of the Political Directorate, Secretary General and Treasurer—carry no salary, despite being, in some cases, full-time occupations. The situation is not essentially different in Uruguay. Monthly expenses at the headquarters of the former and long ruling Colorado Party have been estimated at US\$10,000. Its largest internal sector, *Lista 15*, does not have affiliates or offices outside the campaign season. Even the central office of the left-wing Broad Front –far and away the most expensive political operation in the country between campaigns—has a routine turnover of less than US\$1 million per year. This pales when compared with the almost US\$10 million spent by the party in the course of the 1999-2000 election cycle.

⁶² Mainwaring & Scully (1995).

that parliamentary systems create strong incentives for the institutionalization of political parties, but even in presidential regimes party institutionalization levels may increase if subsidies are disbursed in a permanent way. The case of Panama –where since the 1990s one half of DSF is disbursed in annual instalments—points towards the visible effect that subsidy rules may have in nurturing permanent and more effective party structures.⁶³

The introduction of State funding has thus surely altered the financial structure of parties in Western Europe and beyond, and led them to various degrees of dependence on the public purse. This has had organizational consequences that are less clear and undesirable than critics of DSF make them out to be. It is safe to say that subsidies, particularly if disbursed permanently, have the potential to foster bigger and stronger party organizations. This is by no means a bad thing in most developing democracies, defined by unstructured and feeble parties and party systems. Other effects of State funding are less clear. Subsidies have reduced the financial weight of party membership fees in Western Europe, albeit this has also happened in their absence. And the effect of State funding on party membership figures is simply uncertain.

4. Conclusion: Some “golden rules” about political finance reform

The regulation of the role of money in politics is a vital endeavour for the health of developing and developed democracies alike. Crucial as it is –and precisely because it is crucial—the introduction and reform of political finance rules must be handled with great care. This implies, amongst other things, a conscious effort to steer clear from the rhetorical hype and conventional truths that pervade the topic. While positive and even necessary, the current media infatuation with political finance issues in many democracies has propagated a powerful mythology populated by greedy contributors, corrupt politicians, bought-and-sold policies, and all-knowing reformers. These cardboard images often bear little resemblance with political finance realities. The truth is that political money rarely determines political outcomes, and that regulation instruments seldom achieve more than a fleeting and moderate success in curbing its influence.

In this regard, the comparative evidence available, limited though it is in many aspects, suggests the convenience of observing a few sobering rules when designing or reforming a political finance system:

Pay attention to fundamentals

If the difficulties in regulating political financing are common to all democracies, they are even clearer in the case of developing democracies or regimes undergoing democratic transitions. As Torres-Rivas and Aguilar sharply point out in their case study on Guatemala, the investigation and regulation of electoral financing are underpinned by “assumptions of modernity.”⁶⁴ That is, they assume the existence of consolidated electoral and controllership institutions, minimally institutionalized political parties and a skillful, diligent, independent press that is protected from political intimidation. The regulation of electoral financing demands patience and attention to fundamentals. It is a “second generation” political reform that democratic systems can only reasonably undertake once basic tasks such as the registration of citizens or the elimination of electoral fraud have been successfully completed.

⁶³ Pinilla (1998).

⁶⁴ Torres-Rivas & Aguilar (1998), p.283.

Seize crises

Even as a “secondary” reform, comprehensive attempts to regulate political financing do not occur spontaneously and inevitably. In both consolidated and emerging democracies, the experience has shown that pre-emptive political finance regulation is very rare and that more often than not rules are born amidst crises and scandals that place the issue at the center of the political agenda. Crisis is the mother of reform and, in many ways, political finance reformers’ best ally.

Pay attention to the policy combination and do not expect magic wands

This paper has shown that few general propositions can be advanced about the effects of political finance rules and, in particular, State funding systems. The available evidence points towards a more sober evaluation of State funding than that envisaged by their advocates and critics. As all political finance instruments, State funding hardly seems to change dramatically or single-handedly the fate of any political system. Wiberg rightly notes that, “the impact of the public financing of political parties has been widely overestimated in the political debate... Public financing is only one element in a complex network of relations.”⁶⁵

The paucity of these findings should not come as a surprise. Public funding systems are not just extremely heterogeneous but also part of a wider regulatory framework that admits as many permutations as the subsidies themselves. The available evidence cautions against general empirical claims that isolate specific regulation instruments from other parts of the political finance system. Devoting attention to the policy combination is crucial if we are to predict with relative accuracy the effects of political finance rules. To do otherwise is a recipe for bad policy prescriptions and unpleasant consequences.

Factors such as regime type, electoral system, unitary vs. federal structures, fragmentation of the party system, strength of party identities, range and depth of government intervention, and judicial prerogatives, to name but a few, mould the incentives and financial needs of political actors, the obstacles to monitor the flow of political money, and, ultimately, the effects of any political finance system. Thus, for instance, the parties’ economic requirements and the political finance reform issues that will arise in a parliamentary system are naturally different from those in a presidential regime. While the strengthening of parties is a systemic need of the highest order in the former, in fixed-term presidential systems the permanent organization of parties is far less crucial and the incentives for the parties’ electoral orientation are much higher. Similarly, candidate-oriented electoral systems, preferential voting systems, federal structures and highly fragmented party systems, increase the number of campaign structures and minimise the economies of scale that come with centralisation. By multiplying the inlets and outlets of political money and hence the obstacles to enforce funding controls, decentralised electoral structures demand a different regulatory framework than that required by a system based upon closed party lists in a unitary country. Thus, a successful political finance regulation requires that reformers grasp the linkages that bind political finance rules to their institutional and political surroundings.

Be moderate

⁶⁵ Wiberg (1991), p.115.

While it is true that when it comes to political finance regulation there are no substitutes for good enforcement of the law, it is just as certain that the regulatory medicine should be taken in carefully administered doses. History has not been kind with attempts to introduce draconian controls over political finance. Thus, as mentioned above, general spending ceilings have proved to be very difficult to enforce and have accumulated a long history of failure, ranging from the U.S. to Japan. The same can be said of attempts to ban private political contributions altogether. In the few cases in which reformers have travelled down this road –such as India and France— they have met unpleasant surprises: private contributions kept on flowing in singularly corrupt ways, forcing reformers to backtrack and legalize them again. Here lurks a crucial lesson: the more difficult legal fundraising becomes for political parties and candidates, the higher the likelihood that they will resort to opaque fundraising procedures.

Be willing to pay the cost of reform

Any system of political finance regulation must come with the resources to enforce it. The list of highly sophisticated reforms, thwarted by the lack of financial, human or legal resources bestowed on the authorities entrusted with their implementation, is endless. The post-1997 Costa Rican experience demonstrates this point with admirable clarity. Similarly, it is worth mentioning the recent political finance reform in Argentina –a country of more than 40 million people, with federal structures and elections at many different political levels. There, after enacting a very rigorous legal framework for political finance activities, legislators bestowed the enforcement of the rules in less than 20 judges in the whole country, that predictably enough wound up overwhelmed by the task in all electoral processes held ever since. In the long run, these failures, normally preceded by great expectations, are arguably more harmful to democracy than the complete absence of political finance regulation.

Be ready to revise

In Germany, political finance regulation is known as the “endless legislation.” Indeed, reformers must be very aware of the tentative quality of their efforts and the need to revisit them constantly. New funding sources and practices will replace old ones, and unexpected ways of taking advantage of the existing legislation will be developed in due course by political participants. As the construction of democracy itself, the configuration of an effective political finance system is a dynamic process, a never-ending journey in which precious few stations are likely to be an unqualified success. This leads to the final and most important rule.

Be realistic

It is reasonable to expect that well conceived and enforced regulations can significantly reduce the most questionable political finance practices. However, expecting those regulations to eradicate, once and for all, disturbing political finance practices is foolish and counterproductive. Would-be political finance reformers should be under no illusions about the unrewarding nature of their endeavours. There is, after all, very little evidence that the enactment and even the proper implementation of political finance rules help to increase dramatically the legitimacy of political systems or the popular standing of reforming actors. The struggle to legitimise political finance activities is, at best, an up-hill battle. When deregulated, these activities breed suspicion and damning mythologies; when poorly regulated, they nurture disappointment with reform and scepticism about the

politicians' motives; when rigorously regulated, they beget scandals about illegal funding and increased cynicism about politics. Political finance reformers may fail even when they succeed. Whatever lofty ambitions we may harbour, political finance reform is no more than an attempt to limit the damage inflicted on pivotal democratic values by the inescapable role of money in politics.

Yet, in spite of it all, reform we must. The dangers of deregulation of political finance for democracy remain far greater than those derived from the alternatives. The preceding lessons are not meant as a call for inaction, but rather as a gentle reminder of the difficulties that lie ahead for political finance reformers. It is those obstacles, however, that make their endeavour all the more worthwhile.

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