POL1050: Money, Power and Democracy

Class 4: Political Finance (Funding) – video lecture

Schedule

This week: Political Finance

- Wednesday: *Campaign spending* (Outputs)
  - Does it matter?
  - Why does it vary accros countries?

- Video lecture: *Funding* (Inputs)
  - Types
  - Corruption
  - Political Finance Regimes (fighting against corruption)

Reminder: What explains cross-national variation in (campaign) spending?

- Limits
- **Funding**
- **Rules!**
    - Tax benefits for donations
    - Banning of private donations
    - Donation limits
    - Public funding
    - Bans on vote-buying
    - Stricter transparancy rules
    - Bans on advertising
    - …

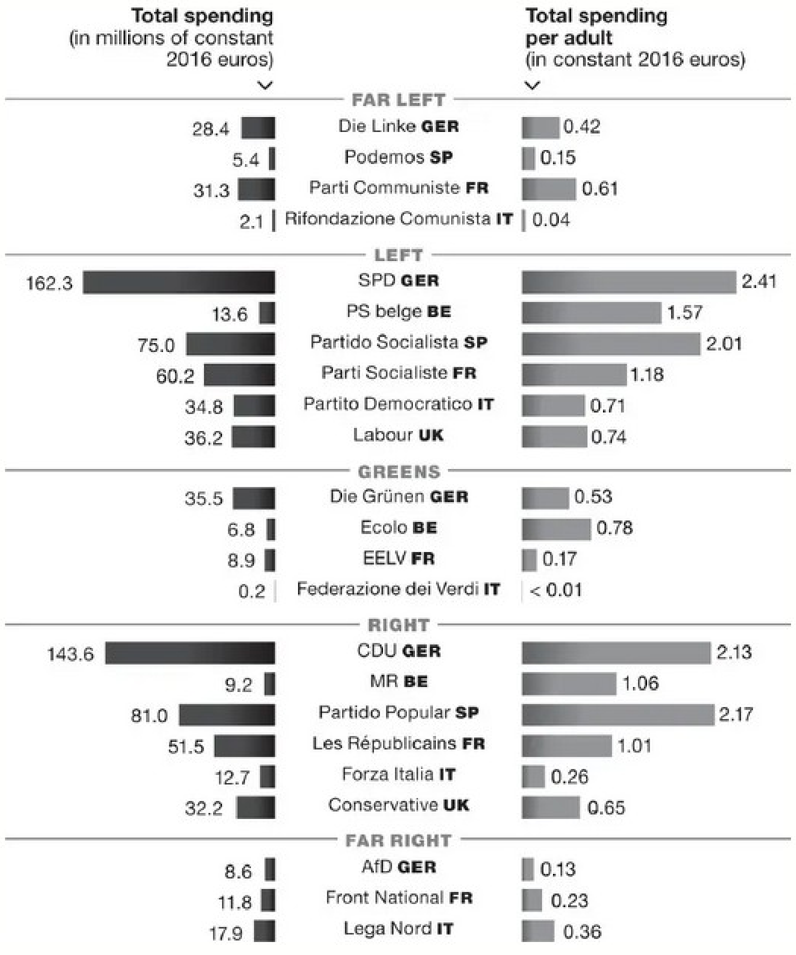
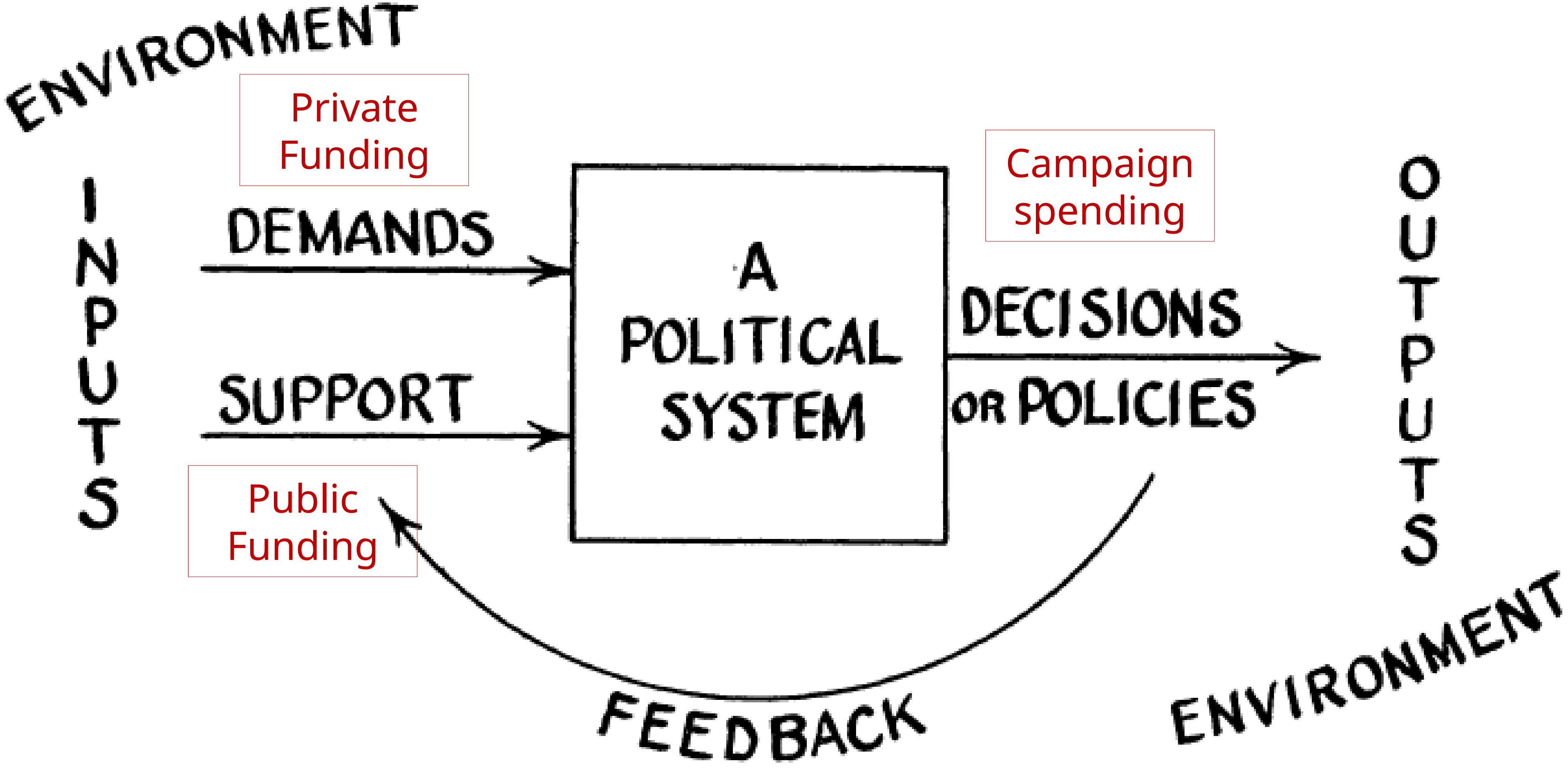


Figure 6. Annual spending by the main political parties (Germany, France, Italy, Spain, Belgium, and the United Kingdom), annual averages 2012–2016

Cagé, J. 2020. The Price of Democracy.

Types of Funding: Easton’s political system (1953)



Public Funding …

Resources provided by the **state** (~*Support*)

- Relatively new: Uruguay (1928) first country to offer reimbursements for campaign expenses
  - Concern for undue influence of donors
  - Party insulation + broader representation and stronger competition
  - Followed by Costa Rica (1956) and Germany (1959)

- Can take on different forms:
  - Direct: a priori financial means or reimbursement
  - Indirect: goods and services, airtime on state TV/Radio, tax benefits, …

Year	Country
1928	Uruguay
1956	Costa Rica
1959	Germany
1959	Argentina
1966	Sweden
1967	Finland
1970	Norway
1971	Brazil
1973	Venezuela
1974	Italy, Nicaragua
1975	Austria
1977	Mexico, Spain, Portugal
1978	Ecuador
1981	Honduras
1983	El Salvador
1984	Greece
1985	Guatemala, Colombia
1986	Denmark
1988	France
1989	Hungary, Belgium
1990	Bulgaria, Romania, Paraguay
1991	Serbia, Cyprus
1992	Czech Republic, Slovakia
1993	Poland, Croatia
1994	Slovenia
1996	Estonia
1997	Ireland, Bolivia, Panama, Dominican Republic
1999	Luxembourg, Netherlands, Lithuania
2006	Iceland

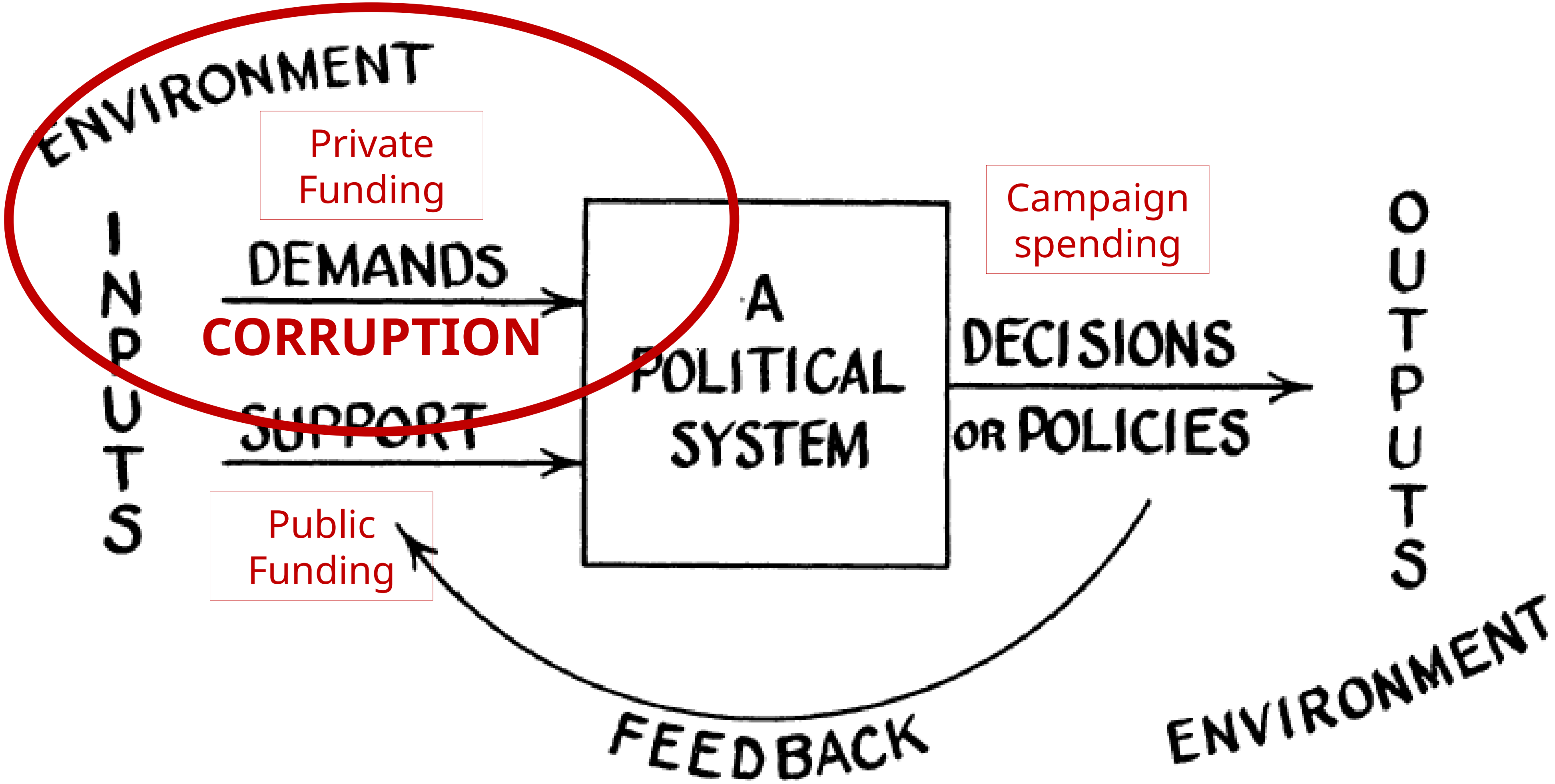
Vs. Private Funding

Donations/contributions by **private actors** (corporations, interest groups, individuals, …) ~ *Demands*

- Large donors: *investment* logic **(Bouton et al., 2024)**
  - *Electoral* motive
  - *Influence* motive
  - Success is unclear (difficulty of establishing causal effects)

- Small donors (individuals): *consumption* logic **(Bouton et al., 2024)**
  - Not private benefits, but participation
  - In response to fundraising efforts by political parties

Funding & Corruption



Funding & Corruption

- General definition of **corruption**: The abuse of public office for private gain **(Rose-Ackerman 1999)**
- In terms of **political finance:**
  - Exchange of money or goods (**private funding**) for political **influence** **(Della Porta and Vannucci 1999; Evertsson 2013)**
    - *Explicit* exchange: *quid pro quo*
    - *Implicit* exchange: general understanding (corrupt even if not breaking laws!)
  - Embezzling state resources (**public funding**) into campaign/own accounts
- What is the private gain?
  - Want to win elections – need money – but diminishing returns (see previous class)
  - Financial profits

Political Finance **Regimes** as the answer?

"[…] the framework of public policies, legal statutes, judicial rulings, procedural rules, institutions, and informal social norms that regulate the role of money in politics." **(Norris & Van Es, 2016: 14)**

Example: Irish Referendums

- Standard legislation
  - Referendum Acts 1992-2022
  - Electoral Acts 1992-2022

- Court decisions:
  - McKenna v. an Taoiseach (1995): no public funding
  - Coughlan v. Broadcasting Complaints Commission and RTE (2000): equal airtime for campaigning sides

IRISH POLITICAL STUDIES
https://doi.org/10.1080/07907184.2024.2371780

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Direct democracy and party behaviour in the Republic of Ireland: a campaign finance perspective

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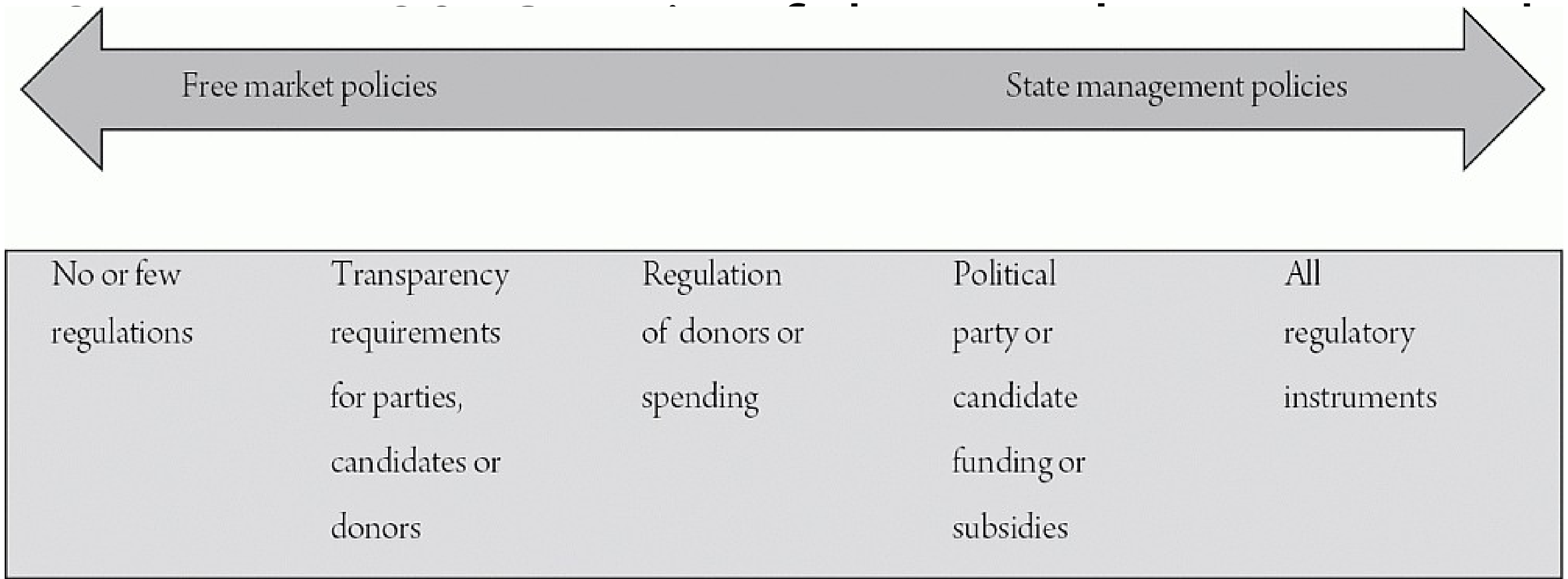
ABSTRACT
Studies on the Irish referendum experience have generally accepted that political parties play a fundamental role in the direct democratic process. While this is rarely problematised, parties often campaign in referendums in order to steer them towards outcomes that are strategically beneficial. Contemporary research on Irish referendums has delved into how parties shape their campaigns to achieve these goals, but a more preliminary question is still to be addressed: to what extent do parties participate in referendum campaigns? This paper attempts to do so by examining campaign expenditure, which offers a concrete quantitative indicator for party engagement vis-à-vis referendums. Departing from theory on party behaviour and referendum instrumentalization, the article takes into account Irish regulations on campaign finance before offering a descriptive and explorative comparison of the expenditure of Irish political parties in recent referendum campaigns. Several patterns within the data are then discussed in light of potential influential factors identified in previous scholarly work. Results suggest that a referendum's topic and its salience in the public sphere, as well as a party's financial resources and government status, could explain party behaviour in Irish referendum campaigns, and a set of congruent hypotheses for future research are formulated in the conclusion.

KEYWORDS Referendums; political parties; political finance

https://www.tandfonline.com/doi/full/10.1080/07907184.2024.2371780

Libertarian vs. Egalitarian Regimes

- **Smilov (2007)**: political finance regimes make trade-offs between
  - *Libertarian* values: little restrictions, freedom, market-thinking,…
  - *Egalitarian* values: level playing field via public finance and expenditure restrictions
- **Norri** 2013):



Types of Regulation

International IDEA's Political Finance Database

1. **Bans and limits on private income**
   The first section looks at bans on who can contribute to political parties and candidates and how these donations are limited.
2. **Public funding**
   The second section covers the provision of direct and indirect public funding available to political parties and candidates.
3. **Regulations on spending**
   The third section deals with the rules for how much and on what political parties and candidates can spend money.
4. **Reporting, oversight, and sanctions**
   The fourth section addresses the requirements for financial reporting, oversight of political finance regulations and the sanctions that are available for breaches.

Political finance reform to combat corruption?

- Origins of political finance regimes: late 19th century
  - Battle electoral corruption in US and UK

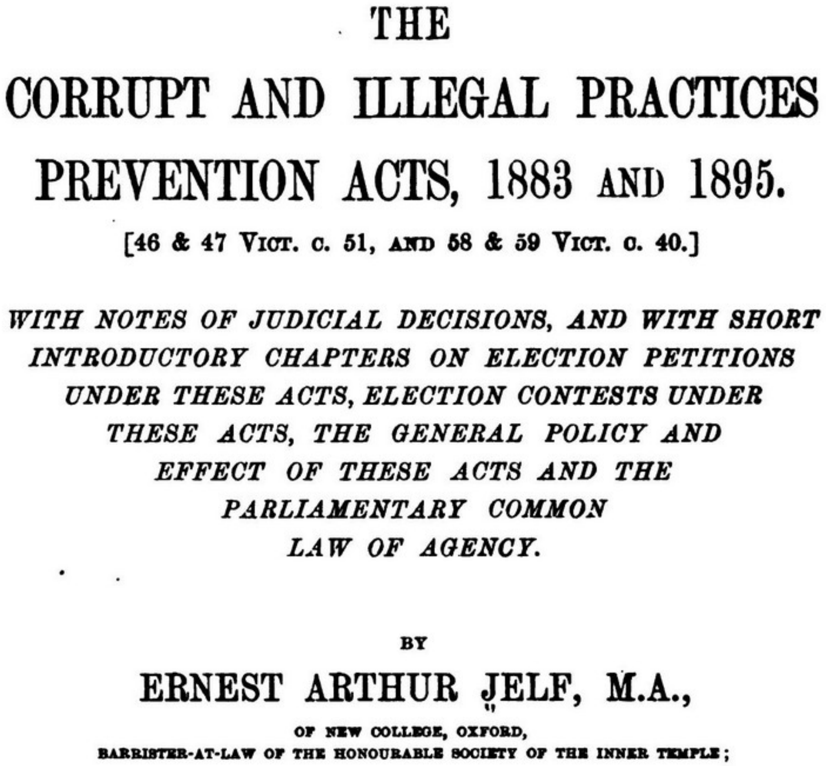

PART 3

WINNING AT ANY COST

HOW MONEY POISONS KENTUCKY'S ELECTIONS

A vote-buyer on his trade: To win, you have to do it

Winning at any cost, Kentucky Courier-Journal, october 11–18, 1987


THE

CORRUPT AND ILLEGAL PRACTICES PREVENTION ACTS, 1883 AND 1895.

[46 & 47 VICT. C. 51, AND 58 & 59 VICT. C. 40.]

WITH NOTES OF JUDICIAL DECISIONS, AND WITH SHORT INTRODUCTORY CHAPTERS ON ELECTION PETITIONS UNDER THESE ACTS, ELECTION CONTESTS UNDER THESE ACTS, THE GENERAL POLICY AND EFFECT OF THESE ACTS AND THE PARLIAMENTARY COMMON LAW OF AGENCY.

BY

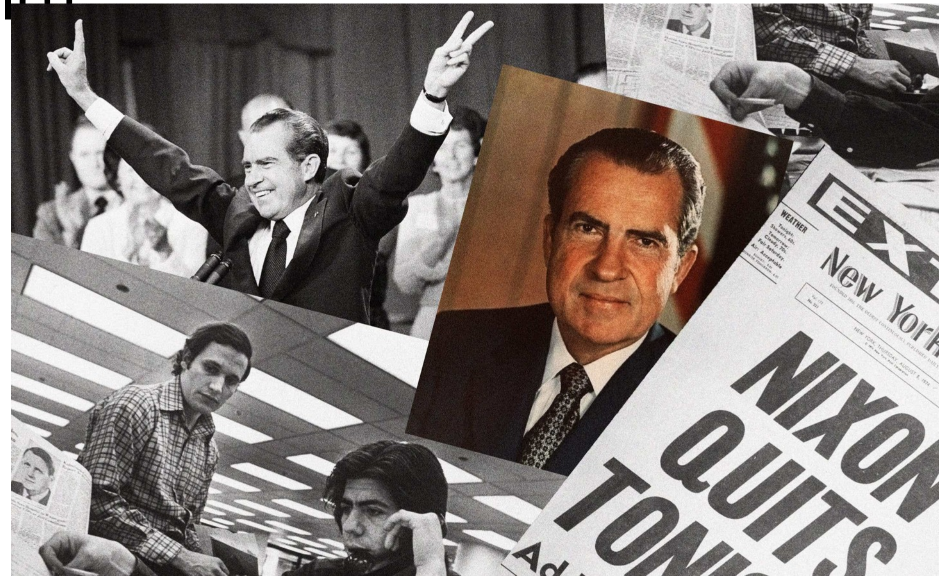
ERNEST ARTHUR JELF, M.A.,

OF NEW COLLEGE, OXFORD,

BARRISTER-AT-LAW OF THE HONOURABLE SOCIETY OF THE INNER TEMPLE;

Political finance reform to combat corruption?

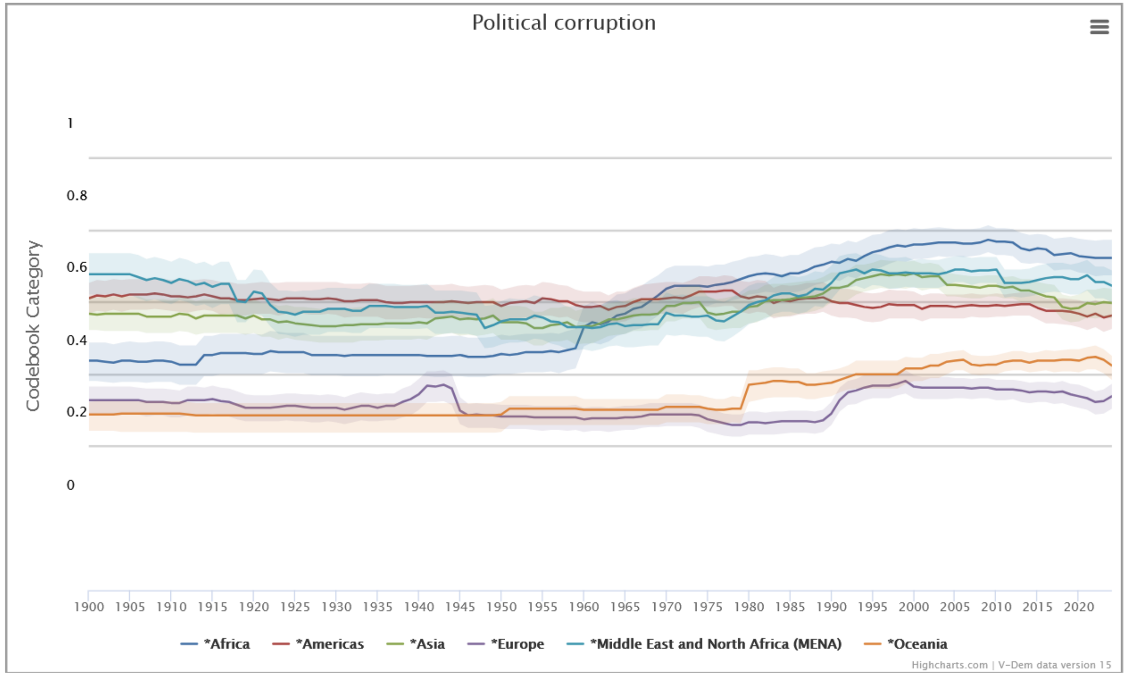
- Origins of political finance regimes: late 19th century
  - Battle electoral corruption in US and UK
- Reforms generally share several features **(Hummel et al., 2019)**
  - Response to major political scandal (Watergate)
  - Public calls by policy-makers to combat corruption (thereby curbing special interests and leveling playing field)



Do regulations lead to less corruption?

Measuring Corruption:

- Treated as a *latent variable*
- Measured through indices built with factor analysis
    - V-Dem Corruption Index



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Measuring Corruption:

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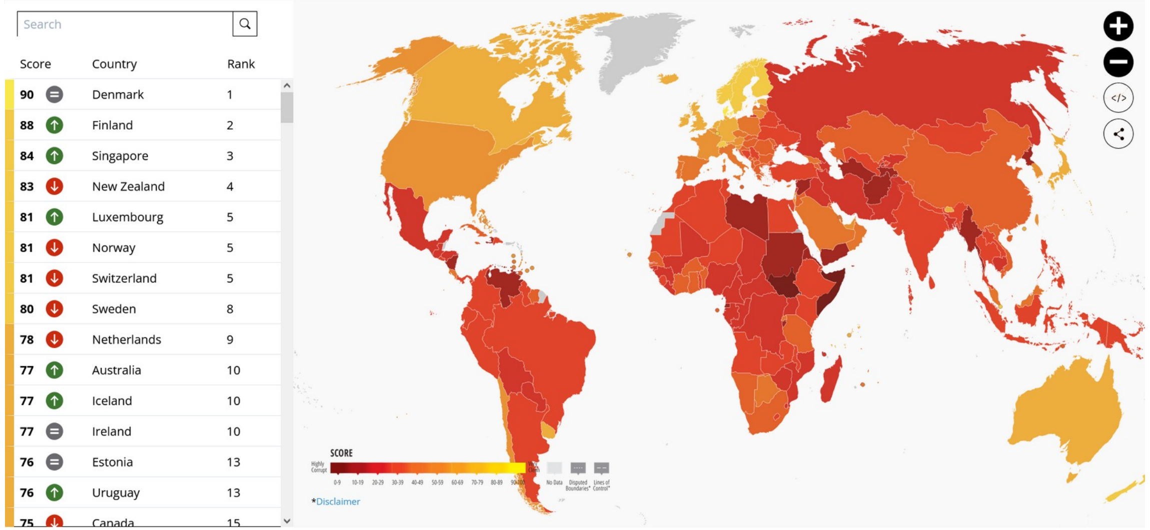
  - [Transparency International Corruption Perceptions Index]



Do regulations lead to less corruption?

<u>Case Studies & Natural Experiments:</u>

- Paraguay 1996 reform: strong effect of public funding along with transparency requirements **(Hummel et al., 2019)**

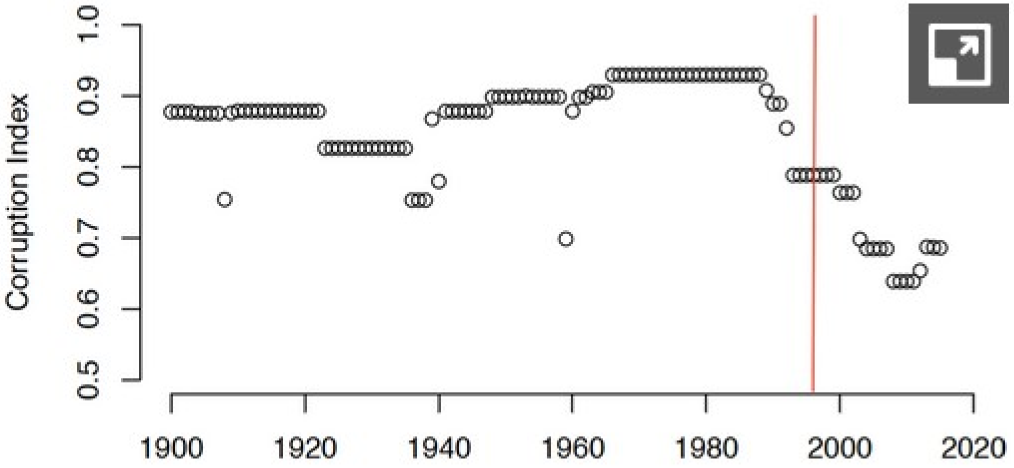


Figure 3. Corruption in Paraguay, 1900–2015

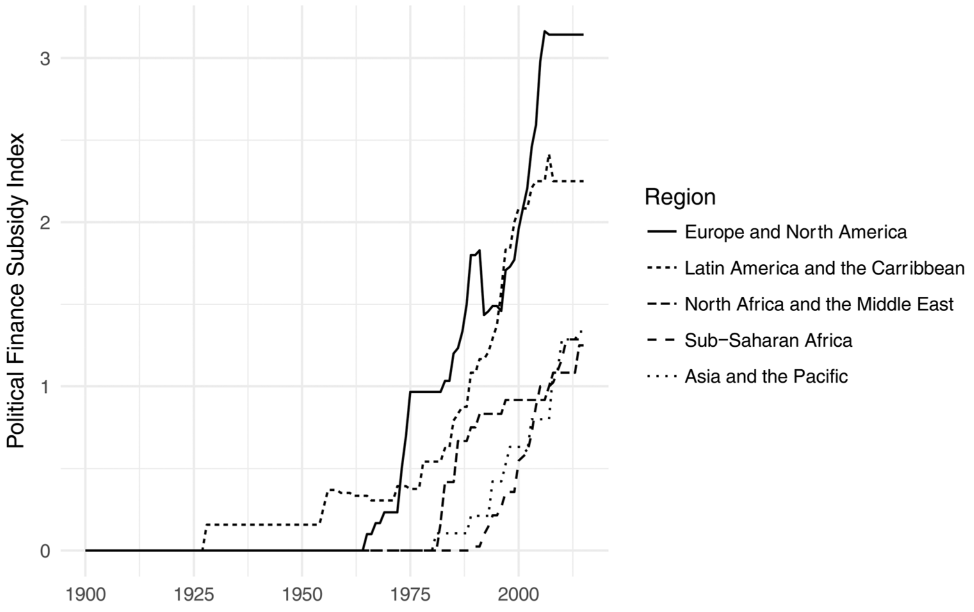
Note: the vertical line marks the initiation of political finance reform (1996). Corruption is measured by the V-Dem political corruption index.

Do regulations lead to less corruption?

Comparative Studies

- Reduce regimes to indices (~measures of corruption)
- Hummel et al. (2019): public subsidies reduces corruption

Name (label)	Definition	Sources
Campaign subsidies de jure (*campaignfin_onpaper*)	National law legislates public subsidies to political campaigns.	National laws, experts
Campaign subsidies de facto (*campaigns_pubfin*)	Observers document the government disbursing campaign subsidies.	Supranational reports, election observer reports, experts
Party subsidies de jure (*partyfin_onpaper*)	National law legislates public subsidies to party organizations.	National laws, experts
Party subsidies de facto (*partyorg_pubfin*)	Observers document the government disbursing party subsidies.	Supranational reports, election observer reports, experts
Majority public money (*majority_pubfin*)	The majority of money in political campaigns comes from the government.	Global Integrity data, GRECO reports, government statistics, experts



Construction of Political Finance Subsidy Index (PSFI): variables (left) + average additive PSFI

Do regulations lead to less corruption?

Comparative Studies

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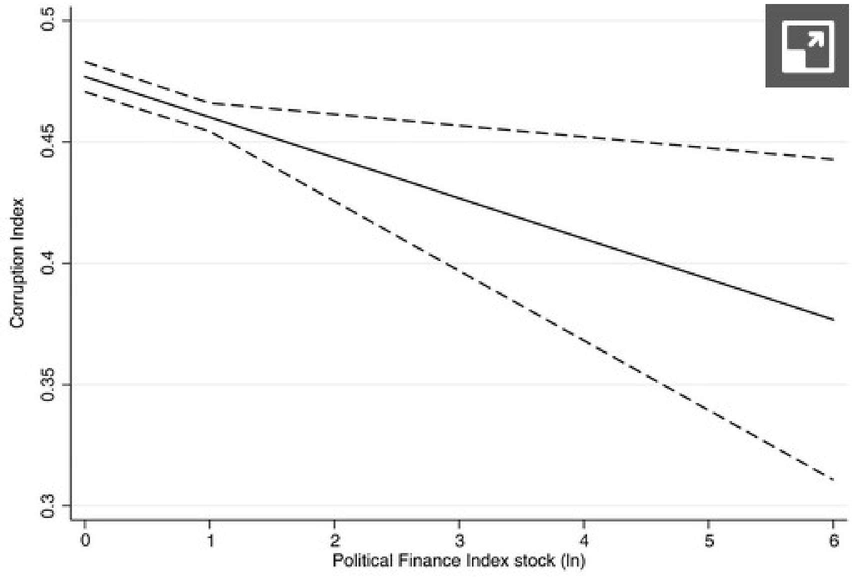

Figure 4. Predicted values for corruption as PFSI stock (log) increases

Note: Predicted values calculated holding all other variables in the benchmark specification (Model 2, Table 3) at their means, and surrounded by 95% confidence intervals.

Do regulations lead to less corruption?

Comparative Studies

- Reduce regimes to indices (~measures of corruption)
- Hummel et al. (2019): public subsidies **reduces** corruption
- Casal Bértoa et al. (2014): stringent regimes **encourage** (perception of) party corruption
    - More public funding
    - Control and sanctioning of party finance
    - Caps on private donations
        - Parties will use illegal avenues instead
        - Difficult to adjust

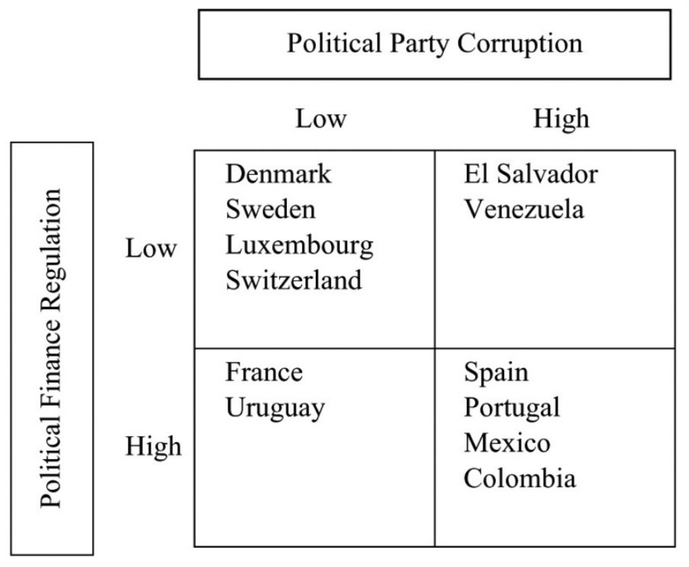

Figure 2. Political finance regulation and political party corruption.

Or maybe it's the other way round?

- Both van Es (2016) and Horncastle (2023) find that political finance regimes are more extensive when **perceptions** of corruption increase
- Points to **endogeneity** problem:

"Any analysis of cross-national data quickly encounters complex issues of chicken-and-egg endogeneity: for example, countries like Japan and Italy with major corruption scandals may be more likely to pass more stringent political finance laws, while new regulations can affect subsequent levels of political corruption. (van Es, 2016)

Conclusion

- Funding of political activity is important for political actors
- But source determines possibility of corruption
    - Private funding: more likely
    - Public funding: less likely

- Political finance reforms aimed at reducing corruption
- But difficult to assess whether it is succesful
- In the end: difference between *de jure* and *de facto*