Introduction

The complexion of political finance in the mature democratic nations has undergone significant changes in the last two decades. Spurred in some cases by scandal, in others by the rapidly escalating costs of politics, many governments have enacted new laws to regulate or to alter their national systems of political finance. Among these reforms are laws governing disclosure, transparency, expenditure and contribution limits, as well as direct forms of public subsidies to parties and candidates.

Concurrently, while scholarship concerning reforms in individual countries has flourished, there has been a paucity of literature addressing itself to comparative themes: the two most recent book-length texts on the subject were *Comparative Political Finance: A Symposium*, edited by Richard Rose and Arnold J. Heidenheimer as a special issue of the *Journal of Politics* in 1963; and a book, edited by Arnold J. Heidenheimer, *Comparative Political Finance: The Financing of Party Organizations and Election Campaigns* (Lexington, Massachusetts: D. C. Heath and Company, 1970). The present volume seeks to address this gap in the comparative literature on political finance.

The two chapters which frame this book – written by myself and Karl-Heinz Nassmacher – deal with comparative themes. The other eight chapters are case studies of political finance in individual countries. This is a representative group of countries and authors: Michael Pinto-Duschinsky writes on British political funding, Khayyam Zev Paltiel on Canada, Ernest A. Chaples on Australia, myself on the United States, Jonathan Mendilow on Israel, Hans-Peter Schneider on the Federal Republic of Germany, Pilar del Castillo on Spain, Gian Franco Ciaurro on Italy, and Ruud Koole on the Netherlands. All chapters investigate the problems common to democracies seeking to regulate uses of money in election campaigns. The topic has been the subject of national commissions in the United States, Canada, Australia, Great Britain and West Germany, among others. This is an indication of the extent of concern about political financing, in presidential as well as parliamentary systems, in both strong and weak party systems.

Though the broader theme of comparative political finance is the intended subject of this volume, the particular issue of the role of public funding has emerged as a salient feature. Seven of the country studies deal substantially with the effects of public funding on the political system; Britain is an exception because its system of public funding only indirectly subsidizes its parties through availability of free television time and its candidates through free mailing. Thus it is appropriate that the chapters which address comparative themes focus also on the subject of public financing.

In the first chapter, I note that the effects of public money on political systems have not received sufficient attention in the analysis of political finance. Public funding has an impact upon political parties, individual and group contributors, and on government itself. Some of these effects may be intended by the sponsors of the various legislations, while others may arise as unintended consequences. The chapter attempts a preliminary revision of previous political finance theory to include government as a constituent element of its formulation. It goes on to discuss the role of public funding in comparative perspective, noting the numerous forms and effects of such funding. The design of public funding programs should include consideration of the mechanisms by which the money is raised, who should receive the subsidy, and how and when it should be made. The chapter addresses the possibility that funding mechanisms can be used unfairly and suggests measures to avoid the establishment of programs which may do damage to the ideal of equality of opportunity. I conclude that policy makers in each country must strike their own balance between the competing forces of public and private monies, attempting policy tradeoffs in which the greater good outweighs the occasional hurts.

Michael Pinto-Duschinsky reports on the continuing British political debate over the funding of parties, including skirmishes over proposals to provide direct public funding. He reviews the finances of the Conservative and Labor Parties, as well as those of the Alliance between the Liberal and Social Democratic Parties. Pinto-Duschinsky examines trade union donations to the Labor Party in particular detail, noting that, despite declining union membership, the party has managed to receive increased funding from unions between 1979 and 1983 due to increases in the political levy assessed from each union member. In fact, union donations to the Labor Party have exceeded business donations to the Conservatives since 1979. Pinto-Duschinsky notes two salient features of British political finance in the mid 1980s. The first is the emergence of the Alliance, which has been the most successful third party since the First World War in terms of collecting both small and large individual contributions. Secondly, the Conservative Party, which has achieved great political success, has nonetheless lagged in its fund raising. This, Pinto-Duschinsky suggests, may be partially the result of its failure to employ direct mail solicitation methods.

Responding both to scandals and to rising campaign costs, Canadian lawmakers have devoted considerable attention to the area of political finance since 1963. But the reforms which have resulted from this attention, writes the late Khayyam Z. Paltiel, have generally worked to the advantage of the established parties and have run counter to the principle of equality of opportunity. The Canadian federal registration law for parties, for example, requires at least twelve sitting Members of Parliament or the sponsorship of fifty candidates, thereby severely handicapping those who would attempt to establish regional groupings outside the two large central Canadian provinces. Canadian federal law, Paltiel notes, "appears to opt for less rather than greater public participation, except through established parties." A similar situation exists below the federal level, where public subsidy programs are in place in eight out of ten provinces. In Quebec, for example, only those parties which obtain the first and second largest number of votes in each constituency are assured of reimbursements. Citing these and other instances, such as Bill C-169, which was promulgated clearly for the convenience of the major parties and which had several of its provisions struck down in a court challenge concerning their constitutionality, Paltiel argues that fundamental reform of the federal Election Expenses Act is in order. Specifically, he calls for changes in the regulatory administration of the law, including the creation of an agency along the lines of the formal Commission on Election Contributions and Expenses of Ontario. Such a body would avoid the "colonization of the regulators by the regulated," assuring "input from others than incumbents." Paltiel observes that Canadian public funding, by enabling less affluent candidates to borrow funds, has granted some groups, such as women, a greater degree of access to the political process. Overall, however, the two major parties have been the principal beneficiaries of the extant public funding system.

As Ernest A. Chaples observes, public financing in Australia emerged as a partisan issue of the Labor Party. Responding to the combined pressures of spiraling campaign costs in the television era and its inability to compete adequately with the conservative parties in raising funds, Labor has long been an advocate of public funding measures. Amid strong conservative opposition, public funding was enacted in New South Wales in 1981. It was only after the successful application of the law in New South Wales in 1981, combined with growing conservative acceptance of the funds (which they had originally boycotted), that legislation on a national scale was brought forward and passed with little controversy in 1983. Though Chaples reports widespread non-compliance with campaign expenditure limits and disclosure laws, he finds that there may be an emerging consensus in Australia concerning public funding legislation. Conservative parties are much more opposed to disclosure of contributions than to a minimal public funding program. Chaples predicts that now that public financing has taken hold at the federal level in Australia it will probably be enacted also in the states of Victoria, South Australia and Western Australia.

In my chapter on American presidential elections, I provide an overview of campaign fund raising and spending in the 1984 election, including the pre-nomination, convention and general election periods. I also review the effects on three presidential elections of the dramatic changes made to the laws regulating federal election campaign finances in the 1970s. Mainly in the wake of Watergate, public funding, contribution limits, expenditure limits and disclosure requirements were enacted with the intention of minimizing opportunities for undue financial influence on officeholders and to make the election process more open and competitive. The new laws have accomplished some of their aims, but they also have had some unintended, and not always salutary, consequences. Public matching funds have had the effect of helping to establish candidates, such as Jimmy Carter, George Bush, Gary Hart, John Anderson and Jesse Jackson, who lacked early access to traditional sources of contributions. But the laws also have led candidates seeking their parties' presidential nominations and those who support them to alter traditional campaign strategies and tactics. For example, by prohibiting candidates from gathering seed money for their campaigns through large contributions, the contribution limit has given an advantage to well-known candidates who have already achieved significant name recognition and has forced less well-known candidates to begin fund raising for their campaigns as much as a year and a half before the nominating convention. The law has exchanged the big giver for the big solicitor: contribution limits have forced many campaigns to rely on those who specialize in direct mail solicitations and on "elite solicitors" who can tap into networks of individuals capable of contributing up to the maximum allowed. The degree to which the laws have failed to achieve their intended effects testifies at least as much to the inventiveness of political actors in circumventing the laws and to the intractability of election campaign finance in a pluralistic society as to the deficiencies of the laws themselves.

Jonathan Mendilow's chapter on Israeli political finance presents a summary of the political conditions surrounding the extremely heavy spending by Israeli parties in 1965 which resulted in a call by parties across the political spectrum for political finance reform. The result was the Law for the Elections to the Knesset and to the Local Authorities, 1969, which initiated the public funding of electoral expenses, expenditure limits and the auditing of campaign finances. Public financing represented a fundamental change in the way parties were viewed, since Israeli parties were by tradition totalistic in nature, tracing back to the pre-1949 period when parties were state-like entities, performing educational, health, housing, welfare and cultural functions. By contrast, the principle of state financing of parties is "based on the recognition of the right to disagree and on the desirability of party competition." Certain public funding issues are unique to Israel, such as the controversy concerning public monies granted to certain religious organizations which are connected to major political parties. Mendilow's chapter also covers major alterations made to the public funding program in 1973 and traces the changing degrees to which the parties have complied with the law in the years since its enactment. He notes major breaches of the spending limits by the major parties in the 1985 elections and suggests a series of measures which might help prevent further abuses.

Gian Franco Ciaurro notes that public financing in Italy emerged as a response to public displeasure concerning a situation in which political parties obtained funds in a variety of questionable ways, including the illegal diversion of public monies directly to party coffers. The public funding system which came into effect in 1974 subsidizes the national, regional and European parliamentary electoral expenses of parties, as well as their ongoing daily expenses. As a transparency measure, the law requires the publication each year of the parties' financial balance sheets for the previous year. Ciaurro examines these documents, noting several factors which point to their unreliability as clear indicators of Italian party finance. For example, since the law requires only that the parties publish their national balances, the substantial sums raised and spent by local and peripheral party organizations are not accounted for officially. Ciaurro estimates that actual party spending amounts to more than double the figures declared in the official balance sheets. In addition, the amounts reported for certain party activities are far below what one might logically expect such activities to cost. "In some instances," Ciaurro comments, "the reported figures stretch the limits of the observer's credulity." Further, the undependability of the official accounts is highlighted by numerous recent court cases involving ongoing illegal campaign contributions and "kick-backs" to party treasuries. Despite these limitations, Ciaurro argues, the balance sheets do provide some useful data. He finds that membership dues play a relatively minor role in party income, in contrast to that supplied by public funding. Only the Communist and Socialist parties were able to consistently declare that public funding accounted for less than half their income; though the Christian Democrats appear to be relying less on public funds over time, all of the other Italian parties declared public funding to be their sole or predominant source of income. Ciaurro also notes that the parties spend a large portion of their funds propping up deficit-ridden party newspapers, which have little influence with the electorate but are too much an element of party honor to be abandoned. Reflecting on the first twelve years of Italian public financing, Ciaurro concludes that the system has had little impact on closing off questionable fund-raising efforts by the parties. He argues that the system sometimes acts as an incentive for parties to increase their overall expenditure levels, and, in addition, has encouraged a concentration of power in the central executives of the parties. He suggests that the system of cash grants to parties might well be wholly or partially replaced by the provision of certain free services to the parties.

Pilar del Castillo opens her chapter with a description of the party system which began to develop in Spain after the death of General Franco in 1975. The lack of a stable party system, she points out, hampers methodic analysis of the parties and, in turn, of party finances. Such difficulties are aggravated by the lack of an effective system of legal control and by the failure of the parties to disclose their financial accounts. Castillo reviews the consequences of the laws establishing public financing of Spanish political parties, noting that, while both extra-parliamentary and minor parliamentary parties are marginalized by the compensation structure, such parties have thus far neglected to protest this discrimination in the courts. Castillo reviews existing prohibitions on contributions, expenditure limits and disclosure laws, remarking that, until 1985, party compliance with the latter laws has been deficient due to an understaffed and underfinanced Junta Electoral Central (the Spanish election commission) and a system of fines that are too small to be meaningful deterrents to non-compliance. The deficiency of disclosure was exacerbated by the negligence of the Junta Electoral Central, which did not even publish reports for the 1979 and 1982 elections and has refused reporters and investigators the right to inspect the financial accounts presented by the parties. "The financing of political parties between 1977 and 1985," Castillo writes, "has lacked practically all legal control." The Electoral Law of 1985 addresses some of the deficiencies in the disclosure laws, increasing the penalties for non-compliance with the disclosure regulations and requiring disclosure of individual contributions. The effectiveness of the new regulations, however, remains to be seen. Given these limitations, Castillo attempts an outline of party finance in Spain, working from data gathered in interviews with party managers, published party reports and news accounts. As Castillo concludes, without a normalization of the party system and, especially, without adequate disclosure, a complete and accurate picture of Spanish political finance will continue to be extremely difficult to construct.

Ruud Koole sets the background for his study of Dutch political finance by describing the decline, since the 1960s, of the "pillarized," or consociational party system that had been in place since the 1920s. This system was characterized by several societies, or "pillars," organized around political, cultural, religious and ideological identification, which existed side-by-side in Dutch society; the principal pillars were Catholic, Protestant, socialist and liberal societies. It is this lingering system of pillarization that, in Koole's view, has hindered the development of public funding of Dutch political parties. Political parties in the Netherlands have traditionally relied heavily on membership dues and on other small contributions from individual members. The financing of parties by the business sector, so prevalent in other democracies, is relatively taboo. Each individual pillar has found its own justifications for echoing the Christian Democrat's appeal for "sovereignty within one's own circle." Thus, public funding had been "accepted only very reluctantly and always on the condition that the dependence of a party or foundation on its rank-and-file membership would not be endangered." In addition, the total amount of money needed to finance Dutch politics is relatively small when compared with other mature democratic nations. Limited public funding, the near absence of business donations and a relatively inexpensive party system contribute to Koole's overall assessment of the "modesty" of Dutch political finance.

Hans-Peter Schneider's chapter documents the deliberations, in 1982–3, of the West German Presidential Committee of Experts on Party Funding, of which Schneider was a member. Schneider's article provides a unique perspective in that it shows, from the viewpoint of a participant, the actual lines of reasoning employed in the promulgation of political finance regulations. The recommendations issued by the panel covered a wide range of political finance issues, including public funding of parties, transparency, the legality of foreign contributions, and related tax laws. The Committee's overall intent, Schneider writes, was to "shift the emphasis of party funding in Germany away from the state and toward the individual citizen." Schneider also reports on the Bundestag's response to the Committee's proposals, as well as on the public response to the Bundestag's eventual revision of federal election law. Schneider notes that portions of the new law were successfully challenged in the courts by the Green Party on grounds that provisions dealing with tax deductibility of contributions gave greater advantages to parties supported by the wealthy. These provisions were struck down in 1986 by the Federal Constitutional Court in Karlsruhe, which found them to be in conflict with equality of opportunity.

In the closing chapter of the volume, Karl-Heinz Nassmacher studies public funding programs in Western Europe, focusing on the cases of Austria, Italy, Sweden and West Germany. The chapter presents a comparison of the legal framework and impact of subsidies in these nations, evaluating differing techniques of subsidization, their impact on internal party structure and competition, related controls on income and expenditure and procedures to cope with inflation. It is important to note, as Nassmacher does, the fundamental differences between North American and European political finance. In the "campaign- and candidate-oriented political cultures of North America," he writes, "political finance heavily connotes campaign finance pointing at money spent in order to influence the outcome of an election. In Europe, the term political finance can appropriately be used as a synonym for party finance." In each of the four countries studied, public funding provides considerable support for party activities, though West Germany provides greater support than Austria and Sweden with Italy lagging even further behind. Nassmacher looks at the issue of whether public funding contributes to the "petrification" of party systems, that is, whether it reinforces the relative political strength of the established parties and whether it allows for the entry of new parties into the system. In general, he finds, public subsidies have neither kept the governing party in power nor excluded new parties from competing successfully. Another concern related to public funding is that subsidies often foster centralization of power and bureaucratization within parties. Noting European evidence which substantiates such worries, Nassmacher suggests that direct public subsidies are less likely to alleviate this problem than tax incentives for individual political donations. "In this respect," he adds, "the European countries should learn a lesson from North American experience." Nassmacher also notes that, in each of the four countries he studied, regulations regarding disclosure limitations on expenditures and contributions are inadequate and thus the financial accountability of the parties is limited. The "underregulation" of political finance which is prevalent in Western Europe, he concludes, is not "the optimum for public policy."

1

Money and politics: rethinking a conceptual framework

HERBERT E. ALEXANDER

The effort to understand the relationships between money and politics is an enterprise as old as the development of political theory. From Aristotle on, many political philosophers have regarded property or economic power as the fundamental element in politics. According to some, the attempt to reconcile economic inequalities lies at the base of the problem of money in politics. In this view, broadly based political power, such as that effected through universal suffrage, has helped mitigate the political effects of disparities in economic resources. The wealth of one group with small membership thus may be matched by the human resources or voting power of another. I myself have written in this vein.[1]

Now in the latter part of the twentieth century, another factor, not included in earlier analyses, needs explication. I refer to the power of government to set the rules of electoral competition and especially to provide public funds for use in the electoral process. The intent of this essay is to analyze the governmental factor and relate it to traditional theory in order to make the contemporary role of money in the political process, and the articles that follow in this volume, better understood.

In the context of political donations made by individuals or groups, I wrote elsewhere that, in virtually all societies, money serves as a significant medium by which command over both energies and resources can be achieved.[2] The distinguishing characteristics of money are that it is transferable and convertible without necessarily revealing its original source. The convertibility of money is of particular advantage in politics. Money can buy goods, skills and services. Other resources, in turn, can be converted into political money through an incumbent's advantages of public office (for example, in awarding contracts and jobs), in controlling the flow of information, and in making decisions. Skillful use of ideology, issues, and the perquisites or promises of office attracts financial support to political actors – in legitimate forms as contributions or dues, or in unethical or illegitimate forms such as personal bribes.

The convertibility of money, then, makes the financing of politics a significant component of the governing processes of all but the most primitive societies. But money is symbolic. The deeper competition is for power, prestige or other values. In this sense, money is instrumental, and its importance lies in the ways it is used by people to try to gain influence, to convert into other resources, or to use in combination with other resources to achieve political power.

Power is distributed unequally in society. It does not vary directly with wealth, status, skill, or any other single characteristic; rather, the degree of power is determined by many such factors, not one of which stands alone and not one of which has meaning unless related to the purposes of the individual and the environment in which he or she acts. Money, therefore, is but one element in the equation of political power. But it is the common denominator in the shaping of many of the factors comprising political power because it buys what is not or cannot be volunteered. Giving money permits numbers of citizens to share in the energy that must go into politics. In affluent societies, many individuals find it easier to show their support for a candidate or their loyalty to a party by writing a check than by devoting time to campaign or other political work. Of course, many citizens have no special talent or taste for politics, or they will not give their time, so that money is a happy substitute and at the same time a means of participation in a democracy.

If money is considered as a substitute for service, however, it does not require so firm a commitment; for example, one might give money to both parties, but one is less likely to give time to both. Yet money has one advantage over service in that it is not loaded down with the personality or idiosyncracies of the giver. Because of its universality, money is a tracer element in the study of political power. Light thrown upon transactions involving money illuminates political processes and behavior and improves our understanding of the flows of influence and power.

This conventional analysis, however, does not focus on the role or impact of money when its source is government or public funds. In this case, the source is well-known, directly the government, indirectly the taxpayers. Is money neutral when it comes from government sources? Does the piper call the tune when the government is the source? What are the influences at work when the source is the government? How is government power utilized in the electoral and political arenas? Does government funding lead to more or less competition? Is equality of opportunity enhanced or diminished? What is the extent to which voter turnout or party participation are enhanced or diminished due to public funding?