

# **Financing Politics: A Global View**

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Democratic elections and democratic governance involve a mixture of high ideals and, all too often, dubious or even sordid practices. Election campaigns, political party organizations, pressure groups, and advertising all cost money. This must be found from somewhere. The financing of political life is a necessity—and a problem.

The frequency with which new laws concerning campaign and party finance are enacted is testimony to the failure of many existing systems of regulations and subsidies. Hardly a month goes by without a new scandal involving political money breaking out in some part of the globe. Despite a stream of scandals and despite an increasing flow of academic studies, political financing and the abuses thereof remain shrouded in mystery. Many commonly heard notions surrounding them are unproven or wrong. This is partly because “political finance” takes so many forms and is difficult to define, and partly because there remain large gaps in research (especially about political money in emerging democracies). In this essay I will attempt to sketch a survey and summary of the current state of knowledge about the subject.

We may first want to define the concept of party funding. A broad definition of party funding includes not only campaign expenses but also the costs of maintaining permanent offices, carrying out policy research, and engaging in political education, voter registration, and the other regular functions of parties. Beyond campaigns and parties, money is spent on other direct political purposes such as political “foundations” and other organizations which, though legally distinct from parties, are allied to them and advance their interests; the costs of political lobbying; expenses associated with newspapers and media that are created and paid to promote a partisan line; and the costs of litigation in politically relevant cases. Clearly, the number of channels through which money may be poured into politics not only leads to problems of definition and research, but makes political financing difficult to control as a practical matter as well. As soon as one channel of political money is blocked, other channels will be used to take its place.

### **The Problem of Corruption**

The meaning of “corrupt” political financing is often unclear. References in common parlance to “corrupt” political financing usually refer to one of the following: a) political party contributions that contravene existing laws on political financing (even if the donor did not obtain any improper benefit in return for their contributions); b) the use for campaign or party objectives of money that a political officeholder has received from a corrupt transaction (in such a case, all that differentiates corrupt political funding from other forms of political corruption is the use to which the bribe is put by the bribe-taker; c) unauthorized use of state resources for partisan political purposes; d) acceptance of money in return for an unauthorized favor or the promise of a favor in the event of election to an office (examples of this corrupt practice are noted in **Box 1**); e)

contributions from disreputable sources (even though there may be no evidence of an exchange of favors or of promises of future favors, the presumption is that tainted sources are likely to have tainted motives); and f) spending of money on banned purposes such as vote buying.

## **Box 1**

### **A SAMPLING OF CAMPAIGN FINANCE SCANDALS**

**Brazil:** With impeachment hanging over his head, President Fernando Collor de Mello resigned in late December 1992 as charges circulated concerning kickbacks and illegal campaign contributions from companies doing business with the government. The Supreme Court later acquitted him. His campaign fundraiser, Paulo Farias, was sentenced to house arrest and was found shot to death in 1996.

**Croatia:** After the Croatian Democratic Union fell from power in 2001, it came out that the party had raised most of its funding through “racketeering” schemes in which government contractors would be paid only in return for substantial contributions to party coffers.<sup>1</sup>

**Ecuador:** A scandal erupted when it emerged that the Christian Democratic Party’s successful 1998 candidate for president, Jamil Mahuad, had accepted an undisclosed donation of US\$3.1 million from the owner of the Banco del Progreso. The Christian Democrats faced a fine of US\$6.2 million.

**Germany:** In the spring of 2002, Norbert Reuther, the former leader of Cologne’s ruling Social Democrats, was arrested for accepting illegal political donations. The payments were allegedly connected with contracts awarded to a waste management company for the construction and operation of a \$353 million garbage incinerator in the city.

**India:** The Bofors Affair of 1987 onwards and the Tehelka.com Affair of March 2001 both involved allegations of political donations for arms contracts. The former scandal involved politicians close to Prime Minister Rajiv Gandhi and a contract for Bofors, the Swedish arms manufacturer, for FH-778 guns.

**Italy:** The long-ruling Christian Democrats were engulfed and destroyed after the end of the Cold War by a torrent of allegations that triggered an investigation called “Operation Clean Hands.” By 1994, no fewer than seven high-ranking party officials had committed suicide while under investigation. In 2000, former Socialist premier Bettino Craxi, who had fled to avoid prosecution and then received a jail term in absentia, died in Tunis.

**Japan:** The 1990s saw several alleged cases of “donations for contracts” including the conviction in 1998 of Osaka oil dealer Tzui Jun’ichi and a 2000 scandal involving the alleged relationship between former construction minister Nakao Eiichi and a building company.

**Papua New Guinea:** Reported instances of “grand corruption” include payments by foreign corporations of election expenses in return for licenses, as well as personal bribes to politicians. The payments frequently came from over-seas logging companies.

**South Korea:** In 1996, former presidents Roh Tae Woo and Chun Doo Hwan were sentenced to long prison terms and fines totaling US\$600 million. Among their offenses was the collection of a slush fund, two-thirds of which went to their political party. The

Hanbo Affair of 1997 involved allegations that the bankrupt conglomerate had received special treatment in return for massive political contributions to then-President Kim Young Sam's 1992 campaign.

**Spain:** According to the scholar of political financing and Spanish cabinet minister Pilar del Castillo, sources close to the building trade acknowledged in 1991 that the payment into party coffers of commissions ranging from 2 to 4 percent was considered "a common method to obtain work contracts."<sup>ii</sup>

**United Kingdom:** The "Formula One Affair" of 1997 involved accusations that the newly elected Labour government of Prime Minister Tony Blair had changed its policy and begun allowing televised tobacco advertising during Grand Prix auto-racing events in order to forward the commercial interests of a donor who had contributed \$1.55 million. Whether the donation had affected the Labour government's change of policy remained unclear, but the donation was returned.

All forms of corrupt political funding described above, from illegal contributions to vote buying, have to do with parties and election campaigns in the immediate sense. There are, of course, other kinds of suspect ways in which money can play a role in politics. To give just one recent example, the scandal that helped to drive Peru's President Alberto Fujimori from office in 2001 involved a videotape of members of Congress taking money being offered to them on behalf of President Fujimori in exchange for their votes.

### Regulations

There is no shortage of regulations concerning political money—many of them introduced as a response to scandals. The global prevalence of various kinds of public measures concerning political financing is summarized in Table 1. The statistics are based on the author's research into countries in every region of the world. For the purposes of this essay, the analysis has been limited to countries rated by Freedom House in 2001 as "Free" or "Partly Free." Table 2 on pages 76–77 provides information on 104 countries indicating whether they have three important kinds of regulations and subsidies: Disclosure regulations, direct public subsidies, and the provision of free political broadcasts.

For American readers, the most striking feature of Tables 1 and 2 is that the United States stands out among the economically advanced democracies by its lack of any provision of free political broadcasts for political parties or for candidates. Most countries do provide such free broadcasts, and those that do not generally are either very small or very poor. A second point is that countries with English-speaking backgrounds tend to have both political financing systems and electoral systems that differ from those in Continental Europe and in countries (such as most Latin American states) that have been influenced by Continental traditions. Accordingly, countries that belong to the Commonwealth are characterized by having less public funding and less regulation of political financing. Third, when it comes to political finance rules, countries that have emerged from the former Soviet bloc have rules which are close to those of Continental Western Europe.

**TABLE 1—REGULATIONS AND SUBSIDIES IN 104 COUNTRIES**

<b>Regulations</b>	<b>Percentage</b>
Disclosure rules (any)	62%
Ban on foreign donations (partial and/or complete)	49%
Campaign spending limits (any)	41%
Disclosure of individual donors (partial and/or complete)	32%
Contribution limits (any)	28%
Ban on paid election advertising on TV	22%
Ban on corporate donations (partial and/or complete)	16%
Ban on corporate donations (complete)	8%
<b>Subsidies</b>	
Free political broadcasts	79%
Direct public subsidies	59%
Subsidies in kind (apart from political broadcasts)	49%
Tax relief political donations	18%

Notes: Table 1 excludes laws restricting the purchase of votes and rules about the declaration of assets by candidates, even though these are both significant. Statistics are based on information from the 104 countries listed in Table 2 on pages 76–77, except for spending limits (N=103), tax relief (N=103), disclosure rules (N=114), and direct public funding (N=143). Table 2 includes only countries that Freedom House rated as “Free” or “Partly Free” in its report produced at the end of 2001, the most recent one available at the time of this writing. The total of these countries was 143. For the Freedom House chart, see Adrian Karatnycky, “The 2001 Freedom House Survey: Muslim Countries and the Democracy Gap,” *Journal of Democracy* 13 (January 2002): 108–9. The statistics refer to laws in force at various times in 2000–2002 and do not fully take account of changes during this time. Data on disclosure rules come from Money and Politics Handbook: A Guide to Increasing Transparency in Emerging Democracies (Washington, D.C.: Office of Democracy and Governance, Technical Publication Series, 2002). Other sources are Michael Pinto-Duschinsky, *Handbook on Funding of Parties and Election Campaigns: Overview* (Stockholm: International IDEA, 2001, 145–65 [http://www.nimd.org/2001/11\_25\_conference\_report\_2\_english.pdf]); Janis Iktens, Daniel Smilov, and Marcin Walecki, *Campaign Finance in Central and Eastern Europe* (Washington, D.C.: International Foundation for Election Systems, 2002—a revised version of a report of 2001 available at http://www.ifes.org/reg\_activities/pdf/ACEEEO-campaign-finance-01-31.pdf); Michael Pinto-Duschinsky, *Political Financing in the Commonwealth* (London: Commonwealth Secretariat, 2001); and information collected by the author.

**Table 2—Three Types of Campaign Finance Measures**

<b>Country</b> ( <i>Italics denote countries that are not categorized by Freedom House as electoral democracies</i> )	<b>Any Direct Public Funding?</b>	<b>Any Disclosure Laws?</b> ( <i>Astericks denote that individual donations must be disclosed by parties</i> )	<b>Free TV Time To Candidates and/or Parties?</b> ( <i>Astericks denote ban on paid political advertising on TV</i> )
Albania	yes	no	yes
Antigua and Barbuda	no	no	no

Argentina	yes	yes*	yes
Armenia	yes	yes*	yes
Australia	yes	yes*	yes
Austria	yes	yes	yes
Azerbaijan	yes	yes	yes
Bahamas	no	no	yes
Bangladesh	no	yes	no
Barbados	no	yes	yes
Belgium	yes	yes	yes*
Belize	no	no	yes
Bolivia	yes	yes	yes
Bosnia-Herzegovina	yes	yes*	yes*
Botswana	no	yes	yes
Brazil	yes	yes*	yes*
Bulgaria	yes	yes	yes
Canada	yes	yes*	yes
Chile	no	yes	yes
Colombia	yes	yes	yes
Costa Rica	yes	yes*	yes
Croatia	yes	no	yes
Czech Republic	yes	yes*	yes*
Denmark	yes	yes*	yes
Dominica	no	no	no
Dominican Republic	yes	no	yes
Ecuador	yes	yes	no
El Salvador	yes	no	yes
Estonia	yes	yes*	yes
Fiji Islands	no	no	no
Finland	yes	no	yes
France	yes	yes	yes*
The Gambia	no	yes	yes
Germany	yes	yes*	yes
Ghana	no	yes	yes
Greece	yes	yes*	yes
Grenada	no	no	no
Guatemala	yes	no	yes
Guyana	no	no	no
Honduras	yes	no	no
Hungary	yes	yes*	yes
India	no	yes	yes
Indonesia	yes	yes	no
Ireland	yes	yes*	yes*
Israel	yes	yes	yes*
Italy	yes	yes*	yes*
Jamaica	no	yes	no

Japan	yes	yes*	yes*
Kiribati	no	no	no
Korea, South	yes	yes	yes
Latvia	no	yes*	yes
Lesotho	yes	yes*	yes
Lithuania	yes	yes*	yes
Macedonia	yes	yes	yes
Malawi	yes	no	yes
Malaysia	no	no	no*
Malta	no	yes	yes
Mauritius	no	yes	yes
Mexico	yes	yes	yes
Moldova	no	yes*	yes
Mozambique	yes	no	yes
Namibia	yes	yes	yes
Netherlands	yes	yes*	yes*
New Zealand	no	yes*	yes
Nicaragua	yes	yes*	yes
Nigeria	no	yes	no
Norway	yes	yes	yes*
Panama	yes	no	yes
Papua New Guinea	yes	yes*	no
Paraguay	yes	no	yes
Peru	no	yes	yes
Philippines	no	yes*	yes
Poland	yes	yes*	yes
Portugal	yes	yes*	yes*
Romania	yes	yes*	yes
Russia	yes	yes*	yes
St. Kitts & Nevis	no	no	no
St. Lucia	no	no	yes
St. Vincent & Grenadines	no	no	no
Samoa	no	no	yes
Senegal	no	no	yes*
Seychelles	yes	no	yes*
Singapore	no	yes*	yes*
Slovakia	yes	yes*	yes*
South Africa	yes	no	yes
Spain	yes	yes	yes
Sri Lanka	yes	no	yes*
Sweden	yes	no	yes*
Switzerland	no	no	yes*
Taiwan (Republic of China)	yes	yes	no
Tanzania	yes	yes*	no
Thailand	yes	yes*	yes

Tonga	no	yes	no
Trinidad & Tobago	no	yes	no
Turkey	yes	no	yes*
Tuvalu	no	no	no
Uganda	yes	no	yes
Ukraine	no	yes*	yes
United Kingdom	yes	yes*	yes*
United States	yes	yes*	no
Uruguay	yes	no	yes
Vanuatu	no	no	yes
Venezuela	no	no	no
Zambia	no	no	no

### **Too Much Law, Too Little Enforcement**

Laws are one thing; whether they are followed is quite a different matter. In country after country, those investigating political financing receive the warning that laws are a dead letter or are honored in the breach. The difficulty of ensuring that regulations are effective is illustrated by the most basic type of rules: those concerning disclosure. As shown in Table 1, 62 percent of the 114 countries have regulations requiring public disclosure of at least some of the financial accounts of parties or candidates. Yet scholars of political funding have almost exhausted the vocabulary of contempt in describing the ineffectiveness of these rules.

Besides disclosure laws being ignored because of lack of political will to enforce them, such laws are frequently evaded because they apply only to a limited range of political payments. To be fully effective, financial disclosure requires a very broad application. This includes financial disclosure for 1) primary elections and other significant forms of internal party campaigns for candidate selection; 2) election campaigns by individual candidates for public office; 3) the routine (noncampaign) budgets of national and local party organizations; 4) personal political funds of individual politicians; 5) interest groups participating in political campaigns (often referred to by the technical name of “third parties”); and 6) referendum campaigns. It is possible to take the case for widening the scope of regulation even further to cover partisan newspapers, political activities by religious organizations, and even the funding of politically relevant lawsuits. It is questionable whether it is practical to include all these activities within the scope of rules governing the disclosure of political payments.

The dilemma for the reformer is that, if only a few direct channels of political money are subject to the disclosure rules, those wishing to exert influence through secret funds will naturally use those channels that remain unregulated, for example, donations to parties can be dressed as loans, voluntary services, business transactions, or in other forms of disguise.

Evidence for this is the series of unending “reforms of reforms” that have taken place in a number of countries including France, the United States, Italy, and Germany. The

desirable scope of political finance regulations and subsidies is bound to remain a subject of debate. There is little doubt, however, that all too often laws express objectives (such as transparency of political donations) without considering in sufficient detail how to implement those objectives. There is, in short, too much law and too little enforcement.

### **Drawing Some Lessons**

Several conclusions emerge from this review. First, there is a lesson for bodies such as the World Bank and the International Monetary Fund, which have been prominent in the campaign against corruption but which have been reluctant to enter the thicket of political financing. The links between political financing and political corruption are so common and so important that these organizations cannot reasonably expect to tackle corruption if they turn a blind eye to the issue of political funding.

Second, there is a lesson for reformers: It is dangerous to assume that the problems of political financing are amenable to simple legislative remedies. There should be more stress on the enforcement of a few key laws such as those on disclosure, and less on the creation of an ever-expanding universe of dead-letter rules.

Third, there is an urgent need for investigation into the facts of political financing by scholars, journalists, and—last but not least—politicians themselves. This applies especially to developing democracies, in many of which the study of political financing is in its infancy. Such investigation is not merely a matter of academic curiosity (important though this is). Detailed and persistent scrutiny often provides a crucial foundation for efforts to contain the abuses that are always liable to occur wherever competitive elections are held and organized political parties exist.

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<sup>i</sup> The system of so-called CDU racketeering is described in “Constitution Watch: Croatia,” *East European Constitutional Review* 10 (Spring–Summer 2001): 12–13.

<sup>ii</sup> . Pilar del Castillo, “Problems in Spanish Party Financing,” in Herbert E. Alexander and Rei Shiratori, eds., *Political Finance among the Democracies* (Boulder, Colo.: Westview, 1994), 100.