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INTERNATIONAL COMPARISONS

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(1) INTRODUCTION

(A) Scope of this study

This report addresses the following questions:

- In which countries are political parties publicly funded? What are the main forms and amounts of such funding? What are the main academic works on the effects of public funding?
- In which countries are there donation caps? What is the level of the caps? What are the problems, if any, associated with such caps (such as forms of evasion, problems of enforcement)?
- Spending limits. Are there countries with a legal limit on overall party spending during an entire parliamentary cycle? What are the problems, if any, associated with such limits (such as forms of evasion, problems of enforcement)?
- The regulation of political donations by institutions (especially, companies and unions). What is the international experience?

These questions do not cover the gamut of topics relating to political financing regulations and subsidies. They were selected in November 2010 as being potentially of the greatest interest to the inquiry of the Committee on Standards in Public Life.

(B) Problems of definition and evidence

In recent years, academics and international organisations alike have given increasing attention to the topic of political finance. By now, there is such an extensive and varied literature that it is hard to summarise it. (See, for example, Pinto-Duschinsky 2008b and the 44-page bibliography in Nassmacher 2009.) Apart from the amount of literature, two inter-connected problems make it difficult to reach definitive conclusions: problems of definition and lack of measurable evidence.

Obviously it will be impossible to measure and compare the amount of "political funding" in different countries unless there is a commonly accepted definition of what counts as "political funding". Equally, the term "public funding" is capable of bearing a variety of meanings. The other terms commonly used in discourse about political finance also lack clear definitions.

The problem of definition arises for two main reasons. First, there is no clear boundary between activities which are "political" and those which are not. Many aspects of life bear on politics and many forms of spending may be politically motivated and be politically motivated even if they do not take the form of donations to political parties or to candidates for election to public office. An article in a newspaper or a sermon in a

place of worship urging worshippers to support a particular candidate or policy may intentionally be political insofar as they aim to influence voters in a forthcoming election or to pressure legislators or the government on some particular issue even though their associated costs normally fall outside the scope of laws regulating political financing.

Second, as the funding of parties and election candidates becomes more widespread, it becomes rational to divert activities previously conducted by them to other, unregulated bodies. In Germany, regulations of political parties have been evaded by conducting party-related activities through legally independent off-shore islands of parties called "political foundations". Thus, the Konrad Adenauer Foundation is "near" (in German legal terminology) to the CDU but legally is not a part of it. The Friedrich Ebert foundation is "near" to the SPD but is a separate body for legal purposes. For legal purposes, the "party foundations" deliberately are distinct from their parent political parties; in real-life, they are not completely distinct. Thus, the words "political party" are fuzzy. This creates problems for those researching into party funding as well as for authorities tasked with regulating it.

It is not only the definition of what constitutes a "political party" which is subject to ambiguity but also the term "public funding". This is capable of several uses: the first use refers to direct financial grants from governmental funds to political parties and/or candidates. A second use refers to the financial value of free facilities offered to them: free broadcasting, free use of public buildings to hold political meetings, free or subsidised use of the public mail to deliver election literature and the like. A third meaning refers to the use - often unauthorised - of public resources for partisan purposes. This may consist of political work carried out by public employees during time for which they are being paid to carry out their public duties. It may take the form of the use of public vehicles, offices, telephones or other equipment on governmental premises to carry out political party work. It may consist of public information campaigns which, in formal terms, provide politically-neutral messages but which actually are designed to boost the political prospects of the party in power. A fourth meaning of "public funding" is the practice found in a considerable number of political parties of pressuring elected officeholders and incumbents of public positions awarded through party patronage to contribute a percentage of their public salaries to party coffers.

The varieties of public funding are illustrated by a 2009 report by the GRECO organisation of the Council of Europe on political financing in France. Apart from direct financial payments from public funds to French political parties and to candidates, there is extra "indirect" state aid in the form of tax deductibility of political donations, free broadcasting time, "in-kind services provided by local authorities (supply of staff and premises [etc], funding of political newspapers with little advertising and help for parliamentary groups." (GRECO, Third Evaluation Report on France, 2009.)

The existence of these many forms of public funding - legal and illegal - poses a problem for academic researchers and for those concerned with public policy. To limit the inquiry to the form of public funding which is easiest to ascertain and quantify - direct public funding to parties and candidates - makes for an easy life for the researcher. It also makes

the results potentially misleading. The additional forms of public funding may be far more important. Thus the recent comparative analysis of the German scholar Michael Koss (Koss 2010) arguably suffers from its working assumption that direct public funding is the only form of state financial aid to parties and candidates. Concerning the position in the United Kingdom, the present author has argued that indirect forms of public funding are crucial and that any credible account of the realities of British political finance needs to take them into account (Pinto-Duschinsky 2008a).

The problems do not end here. Even where problems of definition do not arise, collections of data frequently are wildly inaccurate. With the international spread of rules requiring political parties and candidates to publish accounts, far more factual information is now at the disposal of the researcher than in the past. National electoral authorities and international organisations vie with each other in publishing and analysing some of the data. Yet, it is of variable quality. Some years ago, the French scholar and parliamentary official Yves-Marie Doublet wrote that the official financial accounts of French political parties were works of fiction as were those of other countries (Pinto-Duschinsky 2001a:14). Marcin Walecki has commented that the imposition of low ceilings on permitted campaign spending in such countries as Russia merely had led to under-reporting of costs (Walecki 2005:167; Ikstens *et al.* 2002:26).

The combination of these difficulties has forced academics and international organisations alike to take a tough choice. On the one hand, they have had the option of abandoning any attempt at comparative statistical analysis. On the other hand, they have been able to conduct such analyses but only on the basis of defective data and inconsistently defined categories.

(2) PUBLIC FUNDING

It is a common fallacy that the funding of political parties and candidates for elective office by the state is a relatively recent development. In fact, those holding governmental office have long found ways to use the state coffers for partisan purposes. In the United Kingdom, secret service funds were employed until the late nineteenth century for the purpose (See Pinto-Duschinsky 2002.) Similar secret funds have been used more recently by heads of government in Germany and France for political ends (see, for example, Pinto-Duschinsky 2002:79; Pinto-Duschinsky 1998). Some of the costliest uses of public money for party political ends occur in countries where members of the legislature, mayors and members of local government authorities use public funds to employ persons whose real duties are to carry out party work or to distribute materials favours to electors. Such favours effectively are forms of vote-buying financed by the tax-payers.

What is relatively new is legislation bestowing on qualifying political parties and/or candidates an entitlement to direct, transparent payments from the public purse. Casas-Zamora has called this "direct state funding" in order to distinguish it from the many other forms of state aid which have already been mentioned. Laws and regulations providing for direct state funding date mainly from the 1950s onwards, though Kevin

Casas-Zamora has established that Uruguay introduced it in 1928 (Casas-Zamora 2005).

The data given below relate mainly to "direct state funding". It must be stressed that the analysis of such funding is akin to an analysis of the visible tips of icebergs. This is perhaps a dangerous method for a comparative study designed to be of relevance to the United Kingdom since the UK is a country in which extensive public funding exists but is mostly below the water line, such as free political broadcasts and the use for partisan purposes of the allowances to MPs, MEPs and Members of Devolved Assemblies, the costs of Special Advisers to Ministers and 'party taxes' – that is, donations to political parties made by elected office-holders from their public salaries (see Pinto-Duschinsky 2008:7,27).

(A) In which countries do political parties receive direct state funding?

The comparative study of direct state funding which covers the greatest number of countries is that of Magnus Ohman (Ohman 2011). He does not attempt to measure the extent of direct state funding in each country. His statistics may thus give a somewhat misleading impression by including countries (such as the United States) with extremely limited forms and amounts of such funding. They also include countries which adopted but then abandoned public funding. However, there is no ambiguity about the strong general trend to direct state funding around the world and especially on the European continent.

Ohman found there is some form of direct state funding of political parties in 106 out of 176 countries for which he collected information, which is 60 % (Ohman 2011, 3). The proportion of countries with direct state funding ranged from 38% in the Middle East and North Africa (MENA) to 91% in Europe.

TABLE 1
Percentage of countries in different regions with direct state funding of political parties,
2011

REGION	
Africa	56%
Americas	53%
Australasia	43%
Europe	91%
Middle East and North Africa (MENA)	38%
ALL COUNTRIES	60%

SOURCE: Ohman 2011. NOTE: According to the author's study of public funding in 143 countries in 2001, there was direct public funding in countries rated 'free' and 'partly free' by Freedom House in the following proportions: Western Europe: 87.5%; former Communist countries: 86%; Americas: 76%; Africa: 50%; Asia:

47%; Oceania: 14%; Caribbean: 8%. The separation in this calculation of the Caribbean and the Americas accounts for the difference with Ohman's figures, which include the Caribbean under the Americas (see Pinto-Duschinsky 2002: footnotes 8 and 10).

Ohman collected information about the year in which direct state funding was first introduced for 70% of the countries with such funding. The date of first introduction of direct state funding in these countries is shown in Table 2, which has been slightly adapted from Ohman's research with the author's assistance. The data in this table, as in some of the subsequent ones, concentrates on countries in Europe and North America. These countries, together with Australia and New Zealand arguably are especially relevant to policy-makers in the United Kingdom.

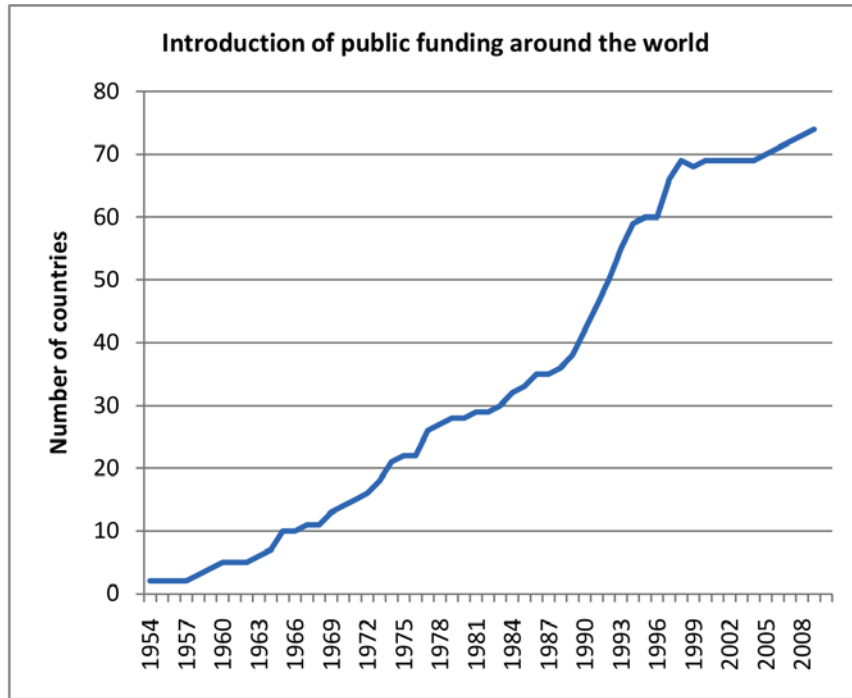
TABLE 2
Year of introduction of direct state funding of political parties in selected countries in Western Europe, North America and the Commonwealth

COUNTRY	YEAR
Germany (West)	1959
Norway	1960
Austria	1963
Netherlands	1964
Sweden,	1965
Finland	1967
Denmark,	1969
Belgium	1970
USA	1971
Ireland	1973
Canada, Italy	1974
Spain, Portugal	1977
Australia, Greece	1984
France	1988
South Africa	1993
United Kingdom	2000

SOURCE: Adapted from Ohman 2011.

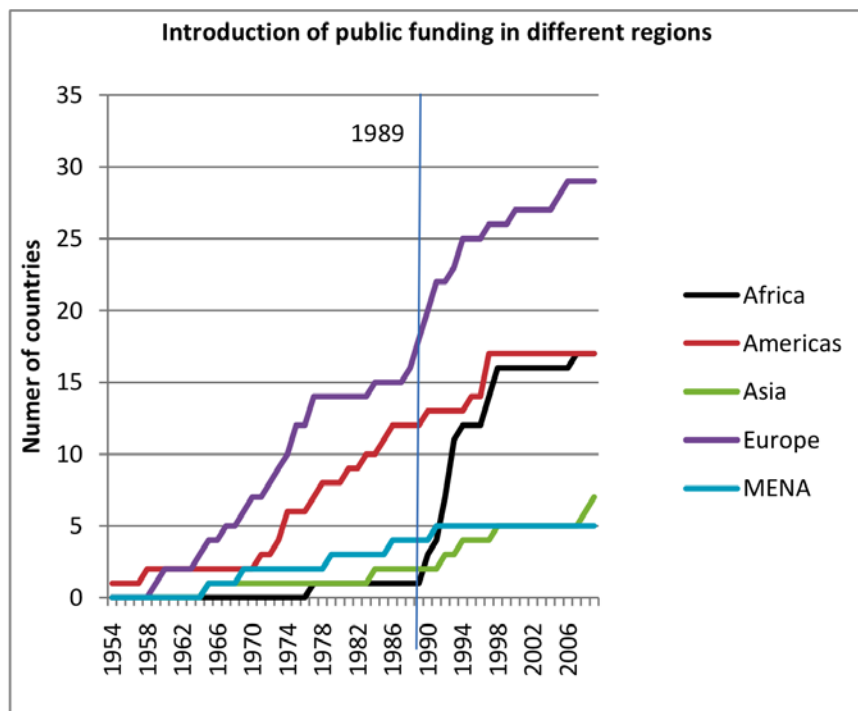
A visual impression of the trend toward direct state funding is given by Ohman in Graph 1.

GRAPH 1



The year in which direct state funding was first introduced in different regions is shown by Ohman in Graph 2.

GRAPH 2



In a small number of countries direct state funding has been introduced and subsequently abandoned. Again, the information in Table 3 is derived from Ohman.

TABLE 3
Some countries in which direct state funding of political parties has been abandoned

COUNTRY	YEAR
Nigeria	1983, 1993 and 2010
Venezuela	1999
Tanzania	2000
Peru (de facto)	2006
Bolivia	2008
Azerbaijan	2010

SOURCE: Ohman 2011. NOTE: On the reasons for abandonment, Ohman only states that public funding was abandoned in Nigeria in 1983 and 1993 following military coups.

As in many other respects, there is a distinct difference between the United Kingdom model of political financing and the predominant model in the rest of Europe. The UK model is in line with that of English-speaking and Commonwealth countries. This is in part because direct public funding systems are more common in countries with proportion representational systems of elections. Though somewhat dated, the author's study of Political Financing in the Commonwealth illustrates the contrasts (See Table 4.) Among the main Commonwealth countries and the USA, only Canada and South Africa have significant systems of direct public funding of the routine activities of parties.

TABLE 4
The Westminster Model: electoral systems and direct public funding of parties and candidates in Commonwealth and non-Commonwealth countries, based on 111 countries, 2001

	COMMONWEALTH COUNTRIES	OTHER COUNTRIES
First-past-the-post electoral systems	69%	20%
Direct public funding of parties and/or candidates	24%	86%

SOURCE: Pinto-Duschinsky 2001, Table 7. NOTE: the statistics are affected in part by the fact that the Commonwealth includes a relatively high proportion of countries in the Caribbean and Pacific with very small populations. Micro-states generally have few political financing regulations or subsidies.

(B) What are the main forms of direct state funding?

Direct state funding may be analysed, first, according to the recipient. This may be (1) the extra-parliamentary organisation of a political party, (2) a candidate for public office (whether an independent or a party candidate), (3) the parliamentary organisation (caucus, fraction) of a party, (4) a foundation linked with a political party (5) an associated body of a party such as a youth or women's organisation, (6) a party newspaper. In this study, the focus will be on the first two types of funding, largely because of the shortage of comparative data on the other types.

Casas-Zamora, whose study of direct state funding is especially detailed and rich, has stressed that it takes so many different forms in different countries that there is no simple model of state aid. Moreover, these variations make it difficult to draw general conclusions about the effects of direct state funding. (See Casas-Zamora 2005 and 2009.)

Concerning direct state funding of the *extra-parliamentary organisations of a political party*, there is a distinction between funding intended specifically for electoral campaigns and for the routine operations of the party between elections. For example, direct public funding in Australia is limited to campaign costs. Parties do not receive regular payments to cover routine activities of party organisations between elections. By contrast, direct state funding in Germany is on a regular basis and there are no special payments for electoral campaigns. In Canada, there is public funding both for routine and campaign activities. Table 5 categorises countries according to whether direct state funding is for routine or campaign costs or both. Direct state funding is more often provided for routine party purposes than for election campaigns alone. The only countries among the 22 listed in Table 5 where public funding is exclusively for election campaigns are Australia and the USA. The situation is complicated in some federal countries by the fact that provincial and state governments sometimes have their own regulations for state elections. In the USA, for example, there are dozens of different regulatory regimes in the different states. (See, for example, Mendilow and Brogan, forthcoming.)

TABLE 5

Direct state funding of political parties for routine and campaign purposes, 2007-2011

COUNTRY	Direct state funding for routine party purposes	Direct state funding for election campaigns
Australia	No	Yes
Belgium	Yes	No
Canada	Yes	Yes
Cyprus	Yes	Yes
Czech Republic	Yes	Yes
Denmark	Yes	No
Finland	Yes	Yes
France	Yes	Yes
Germany	Yes	No

Greece	Yes	Yes
Iceland	Yes	No
Ireland	Yes	Yes
Luxembourg	Yes	Yes
Malta	No	No
Netherlands	Yes	No
New Zealand	No	No
Norway	Yes	No
Poland	Yes	Yes
Portugal	Yes	Yes
Spain	Yes	Yes
Sweden	Yes	Yes
USA	No	Yes

NOTE: information is for direct state funding by national governments only.

There also is a distinction between funding given to the national party headquarters and to local party organisations. The level of organisation to which funding is provided potentially affects the internal structure of power within a political party. Sweden, Denmark and Iceland are among the countries in which some direct state funding is provided at the sub-national level.

A further distinction is whether it is political party organisations or individual candidates who benefit from state aid. This depends largely on the electoral system in force in each country. In countries where elections are fought by rival party lists of candidates under a system of proportional representation, it normally is the political party which receives state aid. A study by the author of direct public funding in 60 countries showed that political parties were usually the recipients, while presidential candidates and parliamentary candidates received state aid less often. (See Table 6.)

TABLE 6
Parties and candidates as recipients of direct public funding, 2001

PERCENTAGE OF COUNTRIES SURVEYED	
With any direct state funding	70%
- to political parties	65%
- to presidential candidates	37%
- to parliamentary candidates	16%

SOURCE: Pinto-Duschinsky 2001a, 20. NOTE: statistics are based on a survey of 60 countries.

Other significant variables of subsidy schemes are the minimum requirement of political parties to qualify for taxpayers' money and the method by which aid is allocated between parties. Also relevant is whether money is provided in advance or whether it is subsequently reimbursed. As Casas-Zamora has stressed this technicality may be of considerable importance to parties which find it hard to borrow money.

The conditions required to qualify for direct state funding in different countries is shown in Table 7

TABLE 7
Conditions required by political parties and candidates to qualify for direct state funding in seventeen European countries, 2007-2010

COUNTRY	
Belgium	Representation in the legislature
Cyprus	Registration as a political party
Czech Republic	1.5% of the national vote
Denmark	1,000 votes
Finland	Representation in the legislature
France	1% of the vote in at least 50 constituencies
Germany	- For parties, either 0.5% of the national vote in Bundestag elections or 1% in state assembly (Landtag) elections -For independent candidates, 10% of the constituency vote
Greece	1.5% of the national vote
Iceland	2.5% of the national vote
Ireland	2% of first preference votes
Luxembourg	5% of the national vote
Netherlands	1,000 party members paying at least GBP 11 each
Norway	2.5% of the national vote or 4% of the vote in county elections
Poland	Representation in the legislature or 3% of the national vote
Portugal	- For presidential elections, 5% of the vote - Other: representation in the legislature or 2% of the national vote
Spain	- Representation in the national or local legislatures
Sweden	-Representation in the legislature or 2.5% of the vote in two successive elections

SOURCE: GRECO 2007-2011.

Table 8 shows the various formulae used in different countries to allocate direct state aid. There are three main methods: one is to give the same basic amount to each qualifying party and then to supplement it according to each party's share of votes in the most recent parliamentary election. The other is to base the allocation entirely on votes gained. A third method is to base allocations on the proportion of seats won by each party in the legislature.

TABLE 8
Methods of allocating direct state funding in twelve European countries, 2007-2010 (in Pounds Sterling)

COUNTRY	
Belgium	Basic allocation of 109,475 per qualifying party plus additional money based on votes obtained
Cyprus	Basic allocation of 82,325 per qualifying party plus additional money based on proportion of votes obtained
Czech Republic	Per vote obtained
Denmark	Per vote obtained
Finland	Basic allocation of 109,475 per qualifying party plus additional money based on votes obtained
France	In proportion to votes in the last National Assembly elections and in proportion to number of seats in each chamber of the legislature.
Germany	Per vote obtained (with extra financial weighting for the first 4 million votes)
Greece	One-tenth of total shared equally between parties and party coalitions represented in the European Parliament. One tenth shared between parties and party coalitions which contested at least 70% of constituencies and received at least 1.5% of the national vote. Eight-tens based of votes gained.
Ireland	- Basic allocation of 109,475 per qualifying party plus additional money based on votes obtained - Reimbursement up to set limits for candidates for Dail, European Parliament and presidential elections

Netherlands	Basic allocation of 154.649 per qualifying party plus additional money based on number of seats in legislature and number of party members.
Norway	One-tenth of total given equally to parties as basic support and nine-tenth based on votes obtained.
Spain	Allocation based on seats and on votes in the last legislative elections

SOURCE: GRECO 2007-2011.

(C) What are the amounts of direct state funding?

The reality that direct state funding is provided in different countries in a variety of forms hampers meaningful comparisons. Information for some countries is not easily available about direct state funding to political parties provided by regional and local authorities as distinct from national governments. Moreover, the form in which data has been collected by organisations such as GRECO differs between reports on each country. For some countries, the information is given per capita and for others as a nation wide total. Since grants to parties in some countries are greater in years when there is a parliamentary, presidential or European Parliament election, the choice of year or years affects the statistics.

Despite the risk of complicating the presentation, statistics about the amounts of direct state funding will be presented in four tables. Table 9 cites a recent major work of the leading German scholar Karl-Heinz Nassmacher (Nassmacher 2009, 28). This has the disadvantages that the dates of the data for each country are not cited and appear to be for years around 2000. Table 10 reproduces statistics for an overlapping but slightly different group of countries research by Casas-Zamora for his prize-winning doctoral dissertation. Again, the statistics are for the same time period as those of Nassmacher. Table 11 is based mainly on the country reports of the GRECO evaluation teams. The information for each country is set out more fully but in a manner that is not necessarily comparable.

TABLE 9

National cash subsidy per annum per registered elector to political parties in selected countries (Nassmacher's research, in Pounds Sterling)

COUNTRY	GBP
Israel	9.19
Norway	3.85
France	3.67
Ireland	3.33
Austria	2.89

Japan	2.63
Sweden	2.10
Mexico	1.66
Germany	1.58
Spain	1.31
Italy	1.05
Canada	1.05
Poland	0.66
Australia	0.53
Denmark	0.35
Netherlands	0.35
USA	0.16

SOURCE: Nassmacher 2009, Table 8.3. NOTE: applicable dates and details are not supplied but they are for the period around 2000. Currency conversation rate from Euros as of 30 July 2011.

TABLE 10
Direct state funding per annum and per registered elector (Casas-Zamora's research in Pounds Sterling)

COUNTRY	GBP	Period
Austria	10.05	1995-1998
France	9.07	1995-1996
Sweden	7.37	1999
Israel	6.82	1996-1998
Mexico	2.01	1997-1999
Dominican Republic	1.95	2000
Japan	1.70	1995-1999
Germany	1.22	1995-1998
Australia	1.16	1996-1998
Panama	1.10	1999-2004
Uruguay	1.04	1999-2004
Costa Rica	0.97	2002-2006
Spain	0.97	1998-2000
Italy	0.85	1999-2001
Nicaragua	0.73	2001-2006
Portugal	0.61	1995-1996
Bolivia	0.36	1997-2002
El Salvador	0.30	1999-2004
Netherlands	0.24	1999
Honduras	0.12	2001-2005
USA	0.12	1992-1996

Canada	0.12	1993-1997
Denmark	0.12	1988-1990
Ecuador	0.12	1995-1997
Guatemala	0.01	1999-2003

SOURCE: Casas-Zamora 2009, Table 1. Currency exchange rate as of 30 July 2011.

Some of the most recent comparative information about the amounts of public money disbursed are given in the GRECO country evaluations of 2007-11. Some of these evaluations present the data in a form that is not consistent and does not make it safe to derive estimates of public funding per registered voter similar to those of Nassmacher and Casas-Zamora. However, the GRECO study has the advantage of being more recent and, for some countries, more detailed. The raw data are thus summarised in Table 11.

TABLE 11
Amount of public funding per registered elector in twelve European countries, 2006-2010
(GRECO evaluations in Pounds Sterling)

COUNTRY	Direct state funding per registered elector (Pounds Sterling)
Iceland (2007)	Over 13.37
Norway (2008)	9.92
Cyprus (2010)	7.37
Greece (2009)	6.01
Luxembourg (2007)	5.14
Czech Republic (2010)	Over 3.61
Finland (2007)	3.25
Denmark (2008)	2.72
Spain (2008)	2.12
Germany (2009)	Up to 1.87
Poland (2007-2008)	1.51
Netherlands (2006)	Over 1.13
Poland	46.2 million in 2007-2008 (1.51 per registered elector) (includes routine grants for 2008 and election payments for 2007)

SOURCE: GRECO 2007-2010.

NOTES: 1. In Belgium (2008), there was a basic allocation of 109,475 per qualifying party plus 1.09 per vote cast. This excluded additional funding from regional and county

governments. 2. Iceland = 3.0 million including funding from the Reykjavik municipality. The total excludes funding from other municipalities. 3. Norway = 35.0 million. 4. Cyprus = 3.9 million. 5. Greece = 59.7 million. 6. Luxembourg = 1.3 million (plus press subsidies of 6.7 million). 7. Czech Republic: excludes grants to parties not represented in the Chamber of Deputies. Total grants to parties represented in the Chamber of Deputies = 30.4 million. 8. Finland : routine and election grants = 14.0 million. Per elector statistic in the table excludes press subsidy of 12.3 million. 9. Denmark = 10.9 million. 10. Spain = 71.9 million. 11. Germany: Per elector statistic in the table is for maximum amount permitted under the public funding scheme. Total allowable = 116.5 million. 12. Poland: per voter statistic is based on routine grants in 2008 and election grants in 2007. Total = 46.2 million. 13. Netherlands: per voter statistic excludes additional grants from provincial and municipal authorities. Grants from national authorities = 13.9 million. 14. Ireland = 4.3 million. Statistics are for routine grants only and excludes election campaign reimbursements.

Some of the GRECO country evaluations include estimates of the percentage of revenue derived by political parties qualifying for direct state funding. Though they are very rough and derive from interviews, they indicate a high level of dependence upon direct state funding in the countries for which the information is given. The spread in figures for a single country given in Table 12 reflect either differences between political parties within the country, uncertainties about accuracy or differences between election and non-election years. Once again, it must be stressed that the statistics cover only one form of public funding and exclude the estimated value of free broadcasting and other subsidies-in-kind, contributions to parties by public office-holders from their officials salaries ("party taxes"), proceeds from tax relief to donors and payments to parliamentary party groups.

TABLE 12
Proportion of party revenues derived from direct state funding in twelve countries in Europe and North America, 2007-2010

COUNTRY	ESTIMATED PERCENTAGE OF REVENUES OF ELIGIBLE PARTIES DERIVED FROM DIRECT STATE FUNDING
Germany (2009)	30-40%
Netherlands (2008)	30-60%
Poland (2008)	54-90%
Iceland (2008)	60-90%
Norway (2009)	67-88%
Finland (2007)	70-80%
Sweden (2009)	70-80%
Portugal (2010)	70-90%

Denmark (2009)	75%
Canada (2009)	79%
Spain (2009)	80-95%
Belgium (2009)	85%

SOURCES: For Canada, Elections Canada database. For other countries, GRECO 2007-2011. NOTES: For Canada, the percentage includes tax credits for political donations as well as state aid to the political parties. For countries other than Canada, the dates denote the year in which the report was adopted by the Council of Europe. Normally, the fieldwork was carried out several months earlier. The percentages are for extra-parliamentary revenues of parties eligible for public funding. It is unclear from some of the GRECO evaluation reports whether or not the percentage includes or excludes (where applicable) public funding in the form of tax relief. For Germany, the percentage falls within the law according to which parties may derive no more than a half of their money from the public purse. However, this excludes large-scale public funding via contributions from elected office-holders from their official salaries as well as state funding for party foundations. (See Pinto-Duschinsky 1991.) For Norway, the four largest political parties derived 67% of their revenues in 2006 from the state and three smaller parties eligible for public funding derived 88% of their revenues from the state.

What are the implications of these statistics for policy-makers in the United Kingdom? They may be used by people with different ideological preferences and political views to draw varying conclusions, which is as it should be.

The first and most important lesson probably is the danger of drawing any firm conclusions at all. Statistics on direct state funding present only one part of a much larger picture. High as they are, the percentages of total revenue derived by parties in some European countries exclude other forms of public funding and thus under-estimate reliance on the public purse. In Germany, for example, the official statistics show that parties receive less than half of their money from the state because this is what the law lays down. Once state grants to the party foundations are taken into account and once payments ("party taxes") to parties by elected legislators and members of state assemblies drawn from their public salaries also are included, the percentage of party revenue from taxpayer money shoots up. Then again, parties may benefit from private donations - legal or illegal - which are not recorded in party accounts either or which are given to lobby groups which act as party surrogates. Were these payments known and taken into account, the percentage of revenue from the state would drop.

Second, differing conclusions may be derived from the fact that there is direct public funding in most European countries. For those who support the extension of direct state funding of parties in the United Kingdom, this shows that the UK somehow is out of step with what is a trend and thus an emerging norm. Another interpretation is that the Westminster Model is in many respects distinct from that of political life in Continental Europe and all the better for it. It would be a retrograde step - according to this view - to mimic the statist, top-down characteristics of Continental politics. These interpretations

are considered in section 6b.

Third, though the countries included in Tables 9, 10 and 11 only partly overlap and though there are probable variations in the methods used to draw up the statistics, a general impression is that the amount of state funding has shown a moderate tendency to grow. However, the analysis of trends depends to a considerable degree on which measure of inflation is used. (This matter is discussed further in section 6b.)

Fourth, it may be helpful to set out approximately how much money the UK treasury would need to find were subsidy schemes were to be introduced similar to those in some other countries. The subsidy per voter in the median country listed in Table 11 is GBP 3.25 per voter per annum. Over a parliamentary cycle of five years, a similar subsidy in the UK would require some GBP 600 million - over GBP 100 million a year.

(D) Tax relief, tax credits and matching grants.

The extent and forms of tax relief and incentive grants to parties and candidates was analysed in 2001 by the author based on research information from 60 countries. According to this study, there was income relief for political contributions in 23% of the countries and tax relief on party operation in 27% of them. Also found in a very small number of countries were matching grants, tax credits and inheritance tax relief on political donations (Pinto-Duschinsky 2001a, 20).

By way of simplification, it makes sense to summarise three types of tax benefit or incentive grant, though there are many variations.

First, there is tax relief. This usually takes the form of relief on donations to parties or relief for parties from corporation tax. Over three-quarters (13 out of 17) of the GRECO evaluation reports on European countries carried out from 2006 onwards and examined for this study revealed some form of tax benefit for political funds. In Spain, donations to parties attract income tax relief up to GBP 525 per annum. In Germany, money remitted from the income taxes of donors to political parties accrues to the recipient parties. In Finland, donations to candidates but not to political parties attract tax relief. In Portugal, parties benefit from relief from corporation tax.

It is unclear whether these tax measures encourage significant numbers of contributors who would not otherwise have made donations. An academic study of partisan donations in Europe by Aldo F. Ponce and Susan E. Scarrow in the journal *West European Politics* concludes that:

"European political parties may have some scope to increase the financial support they receive from individuals should the parties be motivated to try." (Ponce and Scarrow 2011, 1015.)

This coincides with research on Canada's tax incentives. This concluded that "these benefits helped to foster individual giving to political parties, not least because it

encouraged the parties to actively solicit donations." (Ponce and Scarrow 2011, 1004.)

The Canadian system is the prime example of a second form of tax incentive: the tax credit. This provides greater benefits to the recipient party than the proceeds of income tax relief. Canada's tax credits were analysed and recommended by the author of this study in a memorandum submitted to the Fifth Inquiry of the Committee on Standards in Public Life. (See Pinto-Duschinsky 1998.)

This personal income tax credit provides a public subsidy (tax credit) of 75% of the first CAD400 contributed (GBP257), 50% of the amount between CAD400 and CAD750 (GBP257-481), and 33.33% of the amount between CAD750 and CAD1,250 (GBP481-802). Since the limit on individual donations has been lowered to CAD1,100 (GBP706), the tax credit on the maximum permitted donation is CAD592 (GBP380). This constitutes a public subsidy for the maximum permitted donation to a party of nearly 54%. Apart from the generosity of the tax incentive, it does not discriminate against lowly-paid donors who do not pay income tax and it is of the greatest benefit to donors of small amounts.

In the United States, matching grants are a popular method of encouraging small donations. The amount of public funding given for each private donation may be even more generous than the tax credit in Canada. There has been strong, bipartisan support for matching grants from leading US scholars of political finance. A report in 2010 by Anthony J. Corrado, Michael J. Malbin, Thomas E. Mann and Norman J. Ornstein carried the imprimatur of one of Washington's leading pro-Republican think tanks and one of the leading pro-Democrat ones. The authors recommended as a model an existing scheme in New York City:

"The New York City public funding program offers candidates in city elections a six-to-one match on the first \$175 [GBP107] received from an individual donor. A donation of \$175 [GBP107] provides a candidate with \$1,225 [GBP746]." (Corrado et. al. 2010, 40.)

Matching grants are not without administrative risks, especially if they are over-generous. If a political candidate stands to receive several dollars in public money for each dollar donated to his or her campaign, it becomes rational to give a gift to the supposed donor, to request the "donor" to return the money declaring it as a political contribution, thereby permitting the candidate to claim several dollars of state aid. (For further possible administrative problems, see Corrado et. al. 2010, 41.)

Perhaps the most telling point about these various incentive schemes - in particular, tax credits and matching funds - is that they not only provide incentives for contributors but may be an encouragement to candidates and party organisers to adopt new fundraising strategies and to solicit small donations more actively. There is persuasive anecdotal

evidence¹ about political fundraising in the United Kingdom that one powerful reason why political parties sometimes approach a few donors for very large sums is no more than laziness.

3. CONTRIBUTION LIMITS

Since the introduction of a contribution cap is one of the matters under debate in the United Kingdom, it is relevant to look at foreign experience.

When the author surveyed regulations about political financing in 104 countries in 2002, there were contribution caps in 28% of the countries and spending limits in 41% of them (Pinto-Duschinsky 2002). Contribution caps were particularly common in the post-Soviet countries of Eastern Europe (Ikstens et. al. 2002) but also were a feature of the regulatory regime in such countries as the USA, Canada, Israel and Japan.

While the level at which contributions are capped varies greatly between the countries with such limits, it is important to be aware that the headline amount of the limit may be fairly meaningless for eight reasons:

First, a donor may be able to give a number of below-limit donations (for example, to different candidates).

Second, it is possible for several members of the same family or for a number of partners of the same law firm to contribute separately. (Israeli law attempts to prevent this by imposing the same limit on an entire "household".)

Third, it often is possible to donate to "off-shore islands" of parties and candidates - that is, organisations which are legally independent but actually function as surrogates.

Fourth, the regulations are hard to enforce.

Fifth, if the regulations are extended to include all types of spending which may impact on election campaigns and political opinion (including lobby groups and newspapers), they may be found invalid by constitutional courts on the ground that they limit free speech.

Sixth, in many jurisdictions, the contribution cap applies narrowly to election campaign funding, thus exempting expenditure on routine political activity.

Seventh, in-kind donations may either escape the cap altogether or may be declared at below market prices.

¹ Personal information given to the author by a Party Treasurer and a senior Party Official.

Eighth, donations may be dressed up as loans.

The net effect of limits - whether on contributions or on spending - may be to drive political financing underground and thus to harm disclosure. A further effect may be to encourage spending on political lobbying rather than on electioneering. Whether the risks outweigh the benefits is a matter of judgment and political or ideological prejudice.

The complexity of a system of contribution caps is illustrated by the position in the USA shown in Table 13. While the cap on the amount an individual is allowed to give to a candidate in a federal election is as small as USD 2,500 (GBP 1,522), it is possible greatly to increase giving by a set of strategies listed in part in the table. Moreover, donations to campaigning organisations formally independent from parties provide yet further opportunities for spending money for political purposes.

TABLE 13
Contribution limits in the United States, 2011-2012 (in US Dollars)

	To each candidate or candidate committee per election	To national party committee per calendar year	To state, district & local party committee per calendar year	To any other political committee per calendar year ^[1]	Special Limits
Individual may give	\$2,500*	\$30,800*	\$10,000 (combined limit)	\$5,000	\$117,000* overall biennial limit: • \$46,200* to all candidates • \$70,800* to all PACs and parties ^[2]
National Party Committee may give	\$5,000	No limit	No limit	\$5,000	\$43,100* to Senate candidate per campaign ^[3]
State, District & Local Party Committee may give	\$5,000 (combined limit)	No limit	No limit	\$5,000 (combined limit)	No limit
	\$5,000	\$15,000	\$5,000 (combined)	\$5,000	No limit

			limit)		
PAC (not multi candidate) may give	\$2,500*	\$30,800*	\$10,000 (combined limit)	\$5,000	No limit
Authorised Campaign Committee may give	\$2,000*	No limit	No limit	\$5,000	No limit

SOURCE: US Federal Election Commission, [www.fec.gov/pages/brochures/contribution limits](http://www.fec.gov/pages/brochures/contribution_limits). NOTES: 1 A contribution earmarked for a candidate through a political committee counts against the original contributor's limit for that candidate. In certain circumstances, the contribution may also count against the contributor's limit to the PAC. [11 CFR 110.6](#). See also [11 CFR 110.1\(h\)](#). 2 No more than \$46,200 of this amount may be contributed to state and local party committees and PACs. 3 This limit is shared by the national committee and the Senate campaign committee. 4 A multi candidate committee is a political committee with more than 50 contributors which has been registered for at least 6 months and, with the exception of state party committees, has made contributions to 5 or more candidates for federal office. [11 CFR 100.5\(e\)\(3\)](#). 5 A federal candidate's authorised committee(s) may contribute no more than \$2,000 per election to another federal candidate's authorised committee(s). [2 U.S.C. 432\(e\)\(3\)\(B\)](#). 6. Contribution limits marked with an asterisk are increased for inflation in odd-numbered years. 7. PACs are Political Action Committees. 2. As of July 30 2011 GBP 1 was equivalent to USD 1.6423

The effort to contain donations has been especially concerted in Canada. The system there includes strict limits on multiple donations. Following court decisions, there also are strict limits on campaign spending by lobby groups ("Third Parties"). The Elections Canada Act (S. 351) includes the following provision designed to foil schemes by lobby groups to side-step the limits by splitting their contributions:

“A third party shall not circumvent, or attempt to circumvent, a limit ... in any manner, including by splitting itself into two or more third parties for the purpose of circumventing the limit or acting in collusion with another third party so that their combined election advertising expenses exceed the limit.”

It is worth noting that the tightening of contribution limits in Canada has become a matter of fierce political controversy and that there have been reports of evasion. Since single contributions of less than GBP128 are exempted from reporting restrictions, there reportedly is a hole in the regulatory regime on the basis that it is possible to give multiple gifts of below this level. It is hard to judge how significant this is.

The levels at which contributions have been capped in a number of countries are given in Table 13. For the reasons given, the practical implications of the figures are unclear.

Three simple conclusions are that the formal levels at which contributions are capped varies greatly; that some countries apply different limits to "legal persons" (companies and unions, etc.) than to individuals; and that the UK proposal of a cap at the level of GBP50,000 is higher than that in most other countries but arguably is within the normal range given the fact that this range is very broad. The level at which a contribution limit is imposed in the countries covered by Table 14 range from under GBP200 for donations to a party in a non-election year in Israel, to more than a half million GBP for some donations in Japan.

TABLE 14
Contribution limits in fourteen countries (in Pounds Sterling)

COUNTRY	LIMITS
Israel (2009)	<ul style="list-style-type: none"> - 178 per household to a party (non election year) - 356 per household to a party (election year) - 1,780 from a household to a primary election candidate (up to 5,340 in total to different candidates) - 7,120 to a candidate in a prime ministerial primary or primary for party chair. - 8,900 from foreign donors to primary election candidates
Belgium (2009)	- 438 each to parties and candidates up to a total of 21,014 per annum
Canada (2011)	<ul style="list-style-type: none"> - Up to 706 to a particular registered party - Up to 706 to the registered association, nomination contestants and candidates of a particular registered party - Up to 706 to an independent candidate - Up to 706 to contestants in a particular leadership contest - Third party election advertising: up to 1,925
USA (2011)	<ul style="list-style-type: none"> - An individual may give up to 1,522 to each candidate or candidate committee per election. <p style="text-align: center;">See also Table 13</p>
Iceland (2008)	- 2,178 (plus membership subscription of up to 727)
Ireland (2009)	- 2,223 to an elected representative or candidate

	- 5,559 to a party
Greece (2010)	- 2,627 to a candidate - 13,134 to a party (plus donations in kind plus membership subscriptions)
France (2009)	- 4,028 (or 20% of the permitted campaign spending limit) to a candidate - 6,567 per annum to agents of the same party or group or organisations dependent on it (plus membership subscriptions)
Poland (2008)	- To a presidential candidate from an individual 4,295 - To a presidential candidate from a "legal person" (company or union) 28,631 - To a party from an individual 4,581
Spain (2009)	- To an election campaign 5,250 - To a party 87,558 per annum - To a party foundation 131,337 per annum
Cyprus (2011)	- 7,005 from an individual to a party -17,510 from a limited liability company - 26,267 from a company listed on the stock exchange
Portugal (2010)	- To a party: 9,325 -To an election campaign 22,380
Latvia (2008)	- 19,963
Japan (2004)	- Individuals: up to 110,709 to parties and political fund organisations - Companies and unions: up to 554,046 to political parties and political fund organisations - Companies and unions: up to 276,719 to fund raising organisations

SOURCES: GRECO, except for Canada: Elections Canada, Israel: Levush 2009; Japan: Ejima 2006, 138-139; USA: as for Table 13, NOTE: currency conversion rates as of 30 July 2011.

How does the introduction of legal restrictions on donations affect party budgets? The director of the US Campaign Finance Institute, Michael Malbin, has argued that US experience indicates that they do not necessarily lead to a fall in party incomes. For example, when the McCain-Feingold Act of 2002 (the Bipartisan Campaign reform Act) stopped national parties from collecting "soft money", they were able to recoup the shortfall:

When the McCain-Feingold law banned unlimited soft money to the national

parties, everyone predicted the parties would end up with less money. But then the parties turned their attention to small donors and replaced all of the money they had lost." [Evidence to the Illinois Reform commission, 2009, http://www.cfinst.org/Press/PReleases/09-0317/Malbin_Testifies_In_Illinois_on_Contribution_Limits.aspx.]

In a report jointly published in 2010 by the Campaign Finance Institute, the American Enterprise Institute and The Brookings Institution, the authors presented the same case:

“[P]rior to the adoption of the Bipartisan Campaign Reform Act (BCRA) in 2002, national party committees could accept unlimited soft money contributions, which were the source of about half of the national committee's [sic.] funding (\$496 million) [GBP] in the 2002 election cycle. In response to BCRA's ban on soft-money contributions, the parties had to focus on limited hard money contributions and especially emphasized the solicitation of small contributions as a means of replacing the sums formerly received in soft money sources. As a result, the parties added hundreds of thousands of new small donors to their rolls, and raised as much money through limited contributions in 2004 and 2006 as they had raised in hard and soft money combined in 2002 and 2002.” (Corrado et. al. 2010, 35.)

These findings from the USA are relevant to the United Kingdom. A central argument of the review of party funding conducted in 2006-2007 by Sir Hayden Phillips was that the introduction of a donation cap would produce such a large shortfall in party incomes in Britain that it would need to be accompanied by a considerable amount of state aid if the parties were to be able to carry out their functions. Phillips' assumptions seem to have been unduly pessimistic and may have reflected a desire to justify the case for state aid. (See Phillips 2006, 5 and 46-48.) Modelling exercises such as those which appeared in Phillips' report are worth no more than the assumptions on which they are based and all too easily may be expressions of bias.

4. ARE THERE COUNTRIES WITH A LEGAL LIMIT ON OVERALL PARTY SPENDING DURING AN ENTIRE PARLIAMENTARY CYCLE?

As set out in the final section of this study (6A), academic observers have stressed the problems involved in the enforcement of spending limits by national party organisations. The problems are bad enough when the spending cap applies to election campaign spending. The difficulties that would be involved in an overall cap on party spending - national and local, routine and election spending would be far worse.

Were there to be a limit on total party expenditure during an entire five-year parliamentary cycle in the United Kingdom, as suggested on behalf of the recent Labour government, national party headquarters would need to exercise complete financial control over local party organisations to ensure that they did not stray beyond previously agreed spending levels (see Ministry of Justice 2008: chapter 3).

In order to ensure that definitions of "spending" were uniform, accounting standards

would need to be set out in the legislation, local party treasurers would need to be made acquainted with the niceties of the accounting rules and would need to be persuaded to agree to accept the responsibility and penalties for infringements. For example, if a local party branch held a dinner at which the Member of Parliament was a speaker and for which those attending made payments which covered the costs, would the costs of room hire and food need to be declared as party spending? Or would that fact that the event made no profit or loss mean that it need not be accounted for in the budget of the branch party organisation? The imposition of a regulatory regime sufficient to assure that spending over a five-year period by hundreds of national and local organisations kept within one overall limit would require such an extensive regulatory regime as to affect the voluntary nature of local political activity in the United Kingdom.

In view of the probable impracticality of a total cap on spending (as distinct from a cap on campaign spending - something hard enough in itself to enforce), it is not surprising that it is hard to find international examples.

The only country for which relevant information has been found is Israel. Apart from limits on campaign spending, there are limits for parties ("party groups") in the amounts they are permitted to spend between elections. According to the leading Israeli academic specialist on political finance, Menachem Hofnung, the ceiling is generous and political parties choose in practice to save money from the sums permitted for electoral peacetime for subsequent electoral use.

In reply to a query about how it is possible for central party headquarters to control local party spending to ensure that the limit is not breached, Hofnung kindly provided the following explanation:

“The way it works is that [local party organisations] are given a budget to work with, and they do have to submit every expense online, so the central party is having a daily monitoring on how dozens of lists are doing all over the country. Once a local office is coming to close to the limit, it gets a warning and the budget may be stopped by the central office. It is complicated but doable.” (Personal communication, 26 July 2011).

5. THE REGULATION OF POLITICAL DONATIONS BY COMPANIES AND UNIONS: THE INTERNATIONAL EXPERIENCE

The role of corporations, trade unions and other institutions in funding election campaigns, political parties and political in general is an extensive topic on which there has been a useful descriptive survey by Nassmacher in his publication of 2009 titled *The Funding of Party Competition* (especially 246-254). He does not, however, detail the precise rules whereby members or leaders of trade unions make political contributions in different countries.

It is worth noting the following general points:

(A) Trade unions or federations of unions have played significant roles in financing politics in a number of countries, including Australia, Canada, Denmark and Ireland. However, the UK Labour Party is exceptional in the proportion of its funds received from unions and in the closeness of its institutional bonds with them.

(B) In a minority of countries, "legal persons" - institutions including unions and corporations - are banned from acting as donors to parties or elections. According to a view which is common in some countries, since it is individuals who are entitled to vote, it should be individuals alone who fund parties and candidates. On the same basis, foreign donations are sometimes banned. A list of some countries which allow or ban institutional donations is given in Table 15.

(C) In some countries with contribution limits where certain political donations from institutions are permitted, such as Cyprus, Japan and Poland, institutions may give larger payments than individuals (see Table 14).

TABLE 15

Some countries in which political donations from companies and trade unions are allowed or banned 2007-2011

ALLOWED

Australia
Czech Republic
Denmark
Germany
Iceland
Ireland
Japan (subject to restrictions)
Malta
New Zealand
Norway
Spain
Sweden
USA (following 2010 Supreme Court ruling)

BANNED

Belgium
Canada
France
Greece
Latvia
Luxembourg
Poland
Portugal

SOURCE: For Australia, Australian Electoral Commission. For Canada, Elections

Canada Act 404.1. For Japan, Ejima 2006:138-139. For New Zealand, New Zealand Election Commission. For the US, verdict of Supreme Court case *Citizens United v. Federal Elections Commission* 558 US 08-205 (2010). For other countries, GRECO evaluation reports.

6. ACADEMIC DISCUSSIONS

This final section has two possibly over-ambitious aims: to survey some of the main findings of the recent academic literature on political financing (especially about the effects of public funding) and to provide some personal conclusions.

The topic of political financing has attracted the increasing attention of international organisations and NGOs (such as the Council of Europe, the Office of Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe, the OECD, Inter-American Development Bank, the World Bank, International Foundation for Electoral Systems, National Democratic Institute for International Affairs, the Carter Center, International IDEA, and Transparency International) as well as a variety of academics. Among British scholars who have published recently on the topic are Keith Ewing, Justin Fisher, Navraj Singh Ghaleigh, Jacob Rowbottom and the author of this study. In other countries, it is no longer possible to draw up a short list of the most prominent contributors to the field.

At risk of gross over-simplification, three strands of current debate may be identified: the practicality of regulations concerning political financing, the issue of public funding, and the scope of the topic of money in politics.

(A) The inherent problems of regulating political finance.

The practicality - or, rather, the lack thereof - of regulations concerning political finance (including spending and contribution limits) is the subject on which there probably is the greatest agreement. Admittedly, there are differences in approach between those who are more or less keen on regulation. Advocates argue that regulations may be helpful and justified even if they are not completely effective. A limit on spending by political parties or candidates or a limit on contributions may be seen as a measure akin to a speeding limit for motorists. A speeding limit of 30 miles per hour may not prevent drivers from reaching 40 or 50 miles per hour but speeds of 100 miles per hour will become almost unknown. Also, new laws can always be enacted to deal with loopholes.

The opposite view, which appears to predominate among academic observers, is that regulations may be so difficult to enforce and are likely to be so comprehensively ignored as to be counter-productive and may simply bring the law into disrepute.

Colin Hughes, a political scientist who later headed the Australian Electoral Commission expressed his frustrations in an article titled "Election finance controls: is there an end game?"

“... Equally serious is the ease with which almost all prohibitions may be evaded. If corporations cannot make donations at all or beyond a certain size, their officers and employees will be utilised to achieve the same end. If a person cannot, then their family and friends help. If parties are constrained by prohibitions, the PACS and their equivalents are brought into existence to carry out party functions like advertising about issues and funding candidates' campaigns. ... The hidden risks and unintended consequences that so often accompany prohibition should be mentioned. With hindsight, prohibition may have been the Northwest Passage of election finance, promising so much but producing little but disappointment.”
(Hughes 2001, 217.)

Hughes concluded that rules about disclosure of political funds are important but other forms of regulation are no more than "bells and whistles". Casas-Zamora, another political scientist who has benefited from his practical experience as Vice-President of Costa Rica, has written in similar vein:

"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 ceilings is mixed at best. ... 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."
(Casas-Zamora 2009, 6.)

In the words of the author of this study, "There is too much law, too little enforcement."
(Pinto-Duschinsky 2001a, 16.)

Problems of enforcement feature prominently in the GRECO evaluation reports of member countries of the Council of Europe. According to its chief official,

"... infringements of political finance rules are rarely brought to light and, if they are brought to light, they often do not lead to any meaningful reaction by the supervisory authorities." (Rau 2011, 33.)

It is realistic to point out that recent British experience has shown that these warnings have been insufficiently heeded. The legislation enacted in 2000 (PPERA) in response to the Fifth Report of the Committee on Standards in Public Life created loopholes that were to lead to political crises and reforms of reforms. The current inquiry of the Committee must decide whether to recommend reforms of the reforms of the reforms recommended by its predecessor in 1998. The works of a number of academics suggests that, at the very least, caution is required.

(B) Academic debates about public funding.

Whether or not there should be public funding of political parties or candidates is a topic which continues to give rise to controversy. However, the terms of the debate have

altered in the light of empirical analyses which have undermined previous arguments on both sides.

There is now widespread agreement among academic specialists on political finance that two arguments previously regarded as crucial pillars of the case for public funding are largely or completely unjustified.

Previously, state aid was justified as a necessary means to cope with an explosion in the costs of electioneering and of party politics more generally. Rising expenses, according to a common view, were the inevitable consequence of modern, media-intensive methods of electioneering and, in particular, the costs of television advertising. In his edition of essays about political finance published in 2001, Nassmacher encapsulated the orthodoxy of the time in the title of a chapter of which he was a co-author: "Mission impossible: can anyone control the unlimited increase in political spending?" (Nassmacher 2001, 267 ff.)

By the time the same scholar published his next major work on the topic in 2009, he titled the chapter on trends in the costs of politics "Cost explosion: fact or fantasy?" and veered to the latter calling the cost-explosion thesis "alarmist noise" (Nassmacher 2009, 183). In Canada, for example, "party spending hit its high in 1984 and has declined ever since" (p. 169). There were falling political costs in Japan (p. 187) and, compared with a century ago, in the USA (p. 186). Nassmacher's recent interpretation is in line with that of the author's analysis of spending trends in UK party politics (Pinto-Duschinsky 2008) and with those of scholars at the Massachusetts Institute of Technology who in 2003 went as far as to write an article titled "Why Is There So Little Money in U.S. Politics?"

The debate about trends rests partly on the methods of measurement used. Since much political spending involves the use of staff, rises over time in wage rates rather than in retail prices arguably provide a more realistic measure of inflation. To some extent, the previously popular assumption of a cost explosion in electioneering and in party politics may have been due to ignoring this fact.

A second argument for state aid also has fallen by the wayside. There is no longer an illusion in the academic literature that public funding has the effect of eliminating or significantly reducing political corruption. Here too Nassmacher, Casas-Zamora and the author of this study are in agreement. The evidence is overwhelming and keeps pouring out (see, for example, Pinto-Duschinsky 2002:73; Walecki 2005:244-255; Pinto-Duschinsky 2006; Nassmacher 2009:281-283; GRECO evaluation reports on Spain and Czech Republic). The existence of state funding for politics does not satisfy the appetites of the greedy and of politicians who wish to out-spend their rivals. Thus, some of the most serious recent corruption scandals in Europe have involved politicians in countries with considerable direct state funding such as Belgium, Germany, Spain and the Czech Republic.

A further academic observation suggesting the need for caution about direct state funding is that it usually is unpopular with the taxpayers. Marcin Walecki has collected evidence to this effect involving opinion studies over decades (Walecki 2005, 253-259).

In contrast to these points, some scholarly findings about the effects of public funding have been more favourable. In particular, two earlier arguments against state aid have been disputed. First, studies of party membership statistics in different countries have been cited to show that public funding cannot reasonably be seen as a cause of declining numbers of members. The proportion of party voters who are party members is higher in some countries with public funding than in countries where parties have to rely on private sources of money.

Second, prognostications that state funding would lead existing parties to reserve state largesse for themselves and would use the power of the purse to block the emergence of new parties have proved unfounded. Thresholds for eligibility for direct state funding have been set in most countries at a relatively low level. In Germany, for example, a new political party requires only 0.5% of the national vote to qualify for a share of direct state funding. In several countries, every eligible party receives the same basic allocation of money regardless of its voting strength, a measure which gives a relative advantage to small parties. Nassmacher and Mendilow are among the political finance analysts who have stressed this aspect of direct public funding schemes.

The net effect of these findings is to lead a number of scholars (including Mendilow and Casas-Zamora) to conclude that the effects of schemes of direct public funding may be less profound than claimed by their proponents or feared by their critics.

According to Casas-Zamora,

"[direct state funding] hardly changes 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." (Casas-Zamora p 53 2005).

Nevertheless, this is by no means the end of the academic discussion about public funding. Rather, it moves focus of the debate.

One current argument resulting from earlier research is that it is necessary to consider specific forms of public funding and particular situations in which it is likely to be needed. Some of the most prominent of the younger generation of students of political finance have come from outside the North Atlantic axis. Walecki (from Poland), Casas-Zamora (Costa Rica), Daniel Smilov (Bulgaria), Yuri Toplak (Slovenia) and Janis Ikstens (Latvia) all have experience of regions in which democratic politics is still relatively under-developed. Some of them have worked with development agencies and the Middle East. A significant strand of argument is that public funding plays a special role in countries in which politics otherwise would be dominated by financial oligarchs, charismatic personalities or religious fundamentalists and where political party organisations are rudimentary.

A parallel argument, especially prominent among some US scholars, does not recommend public funding in particular geographical settings. Instead it favours a particular type of public funding - namely that which provides incentives for small individual donations.

At the same time there is a very different dimension of debate which concentrates on underlying political values and philosophies. It is important to conclude this review of current academic discourse with a description of this aspect. For despite the increasingly detailed collection of data and arguments based on empirical findings, discussions about state aid to political parties are rooted in alternative political philosophies and in rival political interests. That is why decisions about public policy relating to political finance need ultimately to be decided by elected officials.

There is one type of public philosophy which values fairness and favours detailed intervention on the part of the state to produce a framework of political competition which actively promotes it. (Nassmacher, Mendilow and a considerable number of other scholars as well as international organisations subscribe to this approach.)

Opponents of this approach point out that fairness is an extremely imprecise, contested concept. Measures advocated on the ground that they are fair actually may be partisan. In any case, individual freedom is an equally important objective. (Scholars such as Hans Herbert Von Arnim in Germany and US writers such as Bradley Smith and John Samples have argued along these lines.)

Irrespective of one's stance in this essentially ideological discussion, it may reasonably be pointed out that a decision about whether political parties should or should not be funded by the state may have far-reaching consequences. These go far beyond changes (or lack of them) in the level of party membership or in the relative financial advantages enjoyed by established or new political parties. They are likely to affect the character of democratic life. This deeper aspect has been the subject of several recent articles (and a major ongoing research study) by the Dutch scholar Ingrid Van Biezen. In an article co-authored with Petr Kopecky, she linked the spread of direct public funding of parties in European countries with the increasing number of laws governing internal party affairs. This has produced

"a near universal trend in the process of party transformation, by which parties in contemporary democracies have become best understood as part of the state rather than the representative agents of civil society ... parties are to a considerable degree in control of the state and state resources." Van Biezen and Kopecky 2007, 250.)

(C) Wide versus narrow definitions of political finance: academic and policy implications

There is a further aspect of academic debate which, in the opinion of the author, is distinct but crucial. This concerns the scope of terms such as "political finance" and "public funding". The debate has profound implications for students of the topic and for

policy-makers.

It is tempting to define the subject narrowly. The fact that parties and candidates in an increasing number of countries have come under the legal obligation to publish their accounts provides a treasure trove for the researcher. Party and candidate accounts which previously were secret or, if publicly available, required visits to various government offices - often hundreds of municipal offices - to view now are available on the internet.

This fund of financial data is not an unmixed blessing. In many countries, parties and candidates simply fail to carry out their legal obligations to file financial accounts. Some of GRECO's country evaluations include figures about numbers of miscreant parties and candidates in particular countries. Even when accounts are filed, they may be wildly inaccurate. Especially in countries where legal limits on spending are unrealistically low and where transactions characteristically are conducted in cash, some of the main activities are not recorded.

Inaccuracy of official party and candidate accounts are not the only problem. Often more important is the reality that some of the most costly political activities are not defined as "party" or candidate expenditures at all. In some countries, large sums of public money are placed at the disposal of sitting members of the legislature in order to enable them to carry out their duties to their constituents. In practice, this money may be used to all intents and purposes as electioneering cash dressed up as money for politically-neutral research and public service.

No serious analysis of direct state funding in any country can afford to ignore an investigation into how far legislators use money for their staff and related costs for party political purposes. In countries such as India and New Zealand, public money allocated to parliamentarians and to parliamentary party groups serves in practice as the main form of state funding of parties. In Great Britain too, the analysis of existing public funding is unreliable and misleading if it fails to include research into how MPs, MEPs, members of the devolved assemblies and party groups on local councils use the money they receive from the public purse. The failure both of the UK Electoral Commission in 2004 and of the Phillips review of the funding of political parties in 2006-2007 even to consider the question seriously distorted their findings and arguably exaggerated the case for further state aid by ignoring some of the extensive forms of state aid already in existence in the United Kingdom. (See Pinto-Duschinsky 2008.)

It is not only via parliamentary groups that public money filters into party politics. In many countries public resources are used to affect public opinion and to benefit those in office either at the national or local level. In the former Soviet countries, the ability of elected office-holders to use public premises, cars, telephone and staff for electioneering and for other partisan purposes is called "administrative resource". Studies by the George Soros-funded Open Society Justice Initiative have described the extent to which the resources of the Russian state have been deployed for party political ends. The anti-corruption lobby group Transparency International has found detailed evidence of the use of state vehicles to ferry supporters of the ruling party to election rallies.

A particularly significant "administrative resource" of the party-in-government is the national television and radio network. There are few countries in which it is free from political influence and manipulation.

The abuse of state resources for party purposes is being recognised by scholars and international organisations as a key topic. It is the subject of a major ongoing project spearheaded by the International Foundation for Electoral Systems and by the Office of Democratic Institutions and Human Rights of the OSCE.

It is not only public authorities which use their resources for activities which are in reality party political, there are extensive ways in which private money flows into political life but escapes disclosure and regulation. Indeed, the consequence of legislation regulating or subsidising party and candidate funds is to give incentives for political actors to create new, unregulated (or less regulated) ways of influencing politics. In 1993, the author of this study gave evidence to the Home Affairs Committee of the House of Commons that money was like water flowing into the political sea. When legislation blocked one channel through which money flowed into political life, it would find a new channel. The same observation has been named by US scholars the "hydraulic" interpretation in money in politics.

When wealthy individuals, corporations, trade unions and interest groups are limited in their ability to donate directly to political parties and when parties are restricted in the money they may receive, the predictable result is a redirection of political giving and the creation of off-shore islands of political parties. In the United States, there has been extensive discussion of the role of the so-called 527 organisations and in a number of countries about "party foundations". Scholars have reached a number of common conclusions from these discussions. First, that disclosure is a more realistic goal than regulation; second, that regulation of party funds tends to divert political funding into new channels and may this require attention to the issue of funding of third parties; third, that laws about the regulation of political funding, especially by partisan lobby groups (i.e. third parties) have been challenged in constitutional courts including courts in the US, Canada and the European Court of Human Rights.

Once again, no analysis of trends in British political finance since the enactment of the legal reforms of 2000 (PPERA) can afford to ignore the development of offshore islands - think tanks and lobby groups on the fringes of political parties. Whether or not some campaigning organisations may justifiably be considered as partisan itself is a matter of debate. (See, for example, Pinto-Duschinsky 2011a. The evidence to the Committee given by Jacob Rowbottom also bears on the important issue of Third Party funding.)

One way in which private money affects political opinion is via ownership of the press. As the historian Stephen Koss and the constitutional lawyer Ewing have suggested, the proprietorship of major newspapers constitutes one of the most important forms of money in politics. Recent parliamentary debates concerning News International and the political influence of its proprietor Rupert Murdoch give force to this insight.

What this means for the scholar is that research into political finance requires not only the skills of the statistician in examining official party and candidate accounts. Also needed are those of the investigator. For the policy-maker, the implication is that there should be no illusion about the efficacy and role of reforms that address only limited aspects of political finance. The US journalist Elizabeth Drew summed up her book on political finance in the United States when she quoted a Democratic Party practitioner as saying "They are over-regulating the penguins on the tip of the iceberg."

The tip of the iceberg is declared party and candidate funding. The iceberg is composed of various forms of state funding which are used in practice for partisan purposes (including a proportion of the money given to parliamentarians) and private money which flows into lobbies and into channel of communication. This reality does not necessarily mean that controls should spread ever wider. However, it does mean that policy-makers should be careful about proposing measures which relate to political parties without taking full account of the broader context.

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