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The Legal Regulation of Political Parties in Post-War Europe

# The World Upside Down: De-Legitimizing Political Finance Regulation

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by

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## Abstract

Political finance regulation is often praised in terms of its ability to introduce equality among political parties, to create more transparent political parties and to lower the influence of affluent donors on the political decision-making process. Little examination exists, however, of the effectiveness of this type of regulation. This paper aims to fill this gap by addressing whether and to what extent different types of public funding regulations have improved the legitimacy of political parties by improving their image in terms of corruption. Towards this end, and focusing on both European and Latin American democracies, this paper investigates whether a relationship indeed exists between the perceived corruption of political parties and the regulation of political finance. It finds such a relationship does exist, although not in the direction commonly stipulated by the advocates of party finance regulation.


*Keywords:* party corruption, public subsidies, state dependency, funding control, sanctions

## Introduction[1]

Concerns about political corruption and increasing regulation of political finance are two crucial inter-related features, whose evolution and consequences have characterized democratic politics in all European and Latin American countries over the last decades. Acknowledging such developments, scholars have been increasingly attentive to the role of money in politics, underlining the importance of political finance for political competition, political parties and party systems, and their legitimacy more broadly. Unanimous consensus exists on the fact that without money political parties cannot function, not even as electoral machineries. Democracy cannot exist without elections and there cannot be elections without electoral campaigns which, in turn, cannot exist without a significant amount of funding (Nassmacher, 2001). Paraphrasing Haughton (2012: 16), money is the fuel of party politics. As fuel it does not determine which parties win the race, but it definitely helps them to keep constantly running. However, and especially because parties not only cannot compete for political power but also cannot even survive without a minimal amount of financial resources, they (and their leaders) will do anything to re-fuel, even if this means to fall into illegal financing and corruption. Indeed, not differently from any other organization, parties will tend to do everything they can in order to self-maintain and guarantee their organizational survival.

[1] We would like to gratefully acknowledge the support of the European Research Council (ERC starting grant 205660) in the preparation of this paper.

It was precisely in order to avoid the temptations of illegal funding and corrupted practices that states have started to contribute to the parties' finances, providing them with public funding and introducing a broader system of party finance regulation (Koβ, 2011; Scarrow, 2007; Pinto-Dushinsky, 2002). On turn, the introduction of party finance rules on political parties has often been portrayed by both national legislators and supra-national policy advisors[2] as a way to restore public confidence in political parties and re-establish their legitimacy within the political system. Is it really the case, however, that public funding to political parties, and party finance regulations correlate with lower perceptions of party corruption?

The scholarly attention on the linkages existing between political finance and corruption goes back almost fifty years to Heidenheimer's works on *Comparative Political Finance* (1970a) and *Political Corruption* (1970b) and has been linked to party activity in the various political arenas. As such, political corruption in the electoral arena is related to the need for party financing in the current age of declining party membership and growing costs of political campaigns (Della Porta, 2004; Weyland, 1998). In the governmental arena, the access to state resources available to the ruling party may create incentives for party corruption. Similarly, access to the policy-making process may be conducive to party corruption in the legislative arena (Della Porta & Vanucci, 1999). Although several scholars use institutional explanations to explain variance in political corruption (e.g. Della Porta, 2004; Gerring and Thacker, 2004; Johnston, 2002; Kunicková and Rose-Ackermann, 2005; Lederman et al., 2005; Persson et al., 2003; Pujas and Rhodes, 1999: Pinto-Dushinsky, 2002; Rose-Ackerman, 2001, Smilov and Toplak, 2007), to date the influence of the *regulation of party finance* on political corruption has received little or no attention.

Following the popularity of the 'cartel party thesis' (Katz and Mair, 1995), scholars have rather looked at the effects of party finance regulations on party systems (Pierre *et al*., 2000; Scarrow, 2006; Spirova, 2007; Booth and Robbins, 2010), electoral volatility and membership (Casas-Zamora, 2005; Whiteley, 2011), as well as on the organizational development of individual parties (van Biezen, 2003; Nassmacher, 2009; Tavits, 2007; Casal Bértoa and Spirova, 2013). Yet, the validity of

[2] See for instance the 'Guidelines on Party Regulation' drafted by the Venice Commission (2010), or the 'Recommendation on common rules against corruption in the funding of political parties and electoral campaigns' issued by the Council of Europe (2003).

the most fundamental assumption justifying state intervention in the parties' financial matters, i.e.: that state regulation of party finance limits the possibility of party corruption, has been investigated too little. This study constitutes an attempt to fill a gap in the literature by bringing the debate on the relationship between political finance and party corruption back in by analyzing some of the most important assumptions linking both variables. The paper makes use of an original dataset examining the most important aspects of political finance in both Europe and Latin America: namely, payout thresholds, private funding limitations, oversight organs and sanctions (Karvonen, 2007). Employing a quantitative approach, the present work tries to give an answer to the normative question on the positive effects of political finance regulation on party corruption through a comparison of thirty-six countries (29 in Europe and 18 in Latin America).

With such a goal in mind, the paper proceeds as follows. Section one looks at the relationship between party regulation and corruption with a special focus on the reasons for the introduction of public subsidies (when appropriate) and the whole financial regulatory regime. It also presents a brief history of political finance regulation in both Europe and Latin America while, at the same time, describing the degree to which political parties in those regions are considered to be corrupt. Section two reviews the literature on the positive effects of political finance regulation on party corruption, stating six different 'working' hypotheses which are tested in the following section. The final section concludes the paper by summarizing the main findings and its implications in terms of institutional engineering, recommending some possible changes in terms of regulation.

## Political Finance[3] and Party Corruption

The debate around political finance has focused on the following three points:

a) how political parties should be funded: either privately, publicly or both;

b) which kind of limitations (if any) should be introduced;

c) how the financial activities of political parties should be controlled (and by whom): permissively (internally), restrictively (externally), or not at all.

In an environment characterized by an extremely difficult global economic

[3] In order to integrate both party and campaign finance we use here the term 'political finance' (Nassmacher, 2001:10). As Pinto-Duschinsky put it more than ten years ago, "since it is hard to draw a distinct line between the campaign costs of party organization and their routine expenses, party funds may reasonably be considered 'political finance'" (2002:70).

crisis, and bearing in mind the important economic aspects of political finance, the currency of the debate on political funding is undeniable. Embedded in the more general philosophical debate between libertarians and egalitarians, both academics and politicians have opposed or favoured the introduction of state aid to political parties depending on the role attributed to political parties (Nassmacher, 2001: 14-17; Smilov, 2007:4-6). Thus, for all those considering parties as an essential component of democracy, converting them in "public utilities" (Biezen, 2004), it is essential that they are granted access to public subsidies. Public funding, in this perspective, is necessary for parties (and for democracy) in order for them to function. Paltiel speaks for a long line of scholars when he states that establishing a regime of finance of political parties that does not guarantee public subsidies "is a formula for failure" (1976: 109; see also Panebianco, 1998: 58-59). The main reasons behind this current of thought are that public finance not only guarantees party stability through the fostering of organizational continuity, but also equal opportunities for the competing parties in a given system. By providing political parties with financial opportunities to compete is a way in which states manage to level the playing field of electoral competition. Moreover, both a system of public funding and the regulation of party finance remove, or at least limit, the possibility of influence by private donors, and will therefore enable parties to become independent from private interests. As a result, and building on the idea that state subsidies will decrease the need (and temptation) of parties for illegal funds, it is assumed that public funding will also decrease the level of corruption of political parties (Nassmacher 2001:16; Roper, 2008:3-6). Finally, the introduction of public funding entails the establishment of a system of public accountability and control over the political parties' financial activities, which, in turn, is beneficial for increasing parties' legitimacy in the public eye.

However, for all those scholars defining parties as private, voluntary associations, and that consider them as only one of the various institutions linking civil society with the state, the existence of public finance is seen as more harmful than beneficial. First, and due to the continuous need of parties to reinforce their position at the electoral level, the link between the introduction of public subsidies and the disappearance of illegal funding is not seen as straightforward (Heywood, 1997). In fact, some scholars argue that if either a restrictive regime of party funding is adopted or the latter is not adequately overseen by competent and responsible authorities, the level of corruption may actually increase (Rose-Ackerman, 1999;

Smilov and Toplak, 2007).

Moreover, scholars have questioned the benefits of public funding to political parties with respect to democracy more broadly. Indeed, public subsidies are considered to "petrify" party competition by impeding the creation and/or success of new political forces (Katz and Mair, 1995). Indeed, and because public finance is seen to favour mainly bigger parties, such financial state aid is considered to damage democracy by increasing the differences among competitors. Furthermore, because public funding is said to favor a reduced number of partisan elites (Katz and Mair, 1995), while increasing state dependency at the same time (Biezen, 2003; Biezen and Kopecky, 2007), public finance is considered to be detrimental for democracy as it not only increases party centralization, and therefore diminishes the level of internal party democracy, but also contributes to decrease the number of party members (Biezen and Mair, 2001; Pinto-Duschinsky, 1981; Whiteley, 2011). The introduction of public funding and of party finance regulation, in this light, may be harmful rather than beneficial: not only may it not determine the lowering of party corruption, but it also may increase, due to the parties' heightened dependency on the state, anti-party sentiment, the alleged gap between the citizenry and political institutions, and hamper the legitimacy of political parties. Whether the introduction of public funding and the increasing regulation over parties' internal matters has determined lower degrees of party corruption, and therefore has helped the legitimacy of political parties and of the political systems in which they operate is hence the central question that this paper focuses upon.

All in all, the linkage existing between political finance and party corruption is worth to be examined further, more in depth, and in the light of more recent comparative data. While political parties have emerged at the turn of the XIX and XX centuries, their regulation, and the regulation of the parties' finances in particular, has taken place only very recently (Biezen, 2011; Biezen and Molenaar, 2012; Biezen and Rashkova, 2012; Biezen and Piccio, 2013; Casal Bértoa *et al*, 2013). With the notable exception of Uruguay where public funding to political parties was introduced in 1928, public subsidies to parties for organizational or electoral campaigns' purposes, together with a set of legal rules establishing the contours of party finance regulation, have been introduced at the end of the 1950s only. Figure 1 provides an overview of the introduction of public funding and of the establishment of political finance regulations in both European and Latin American democracies, listing for each country the year in which the latter were first approved.

**Table 1. Adoption of political finance regulations and public funding in Europe and Latin America***

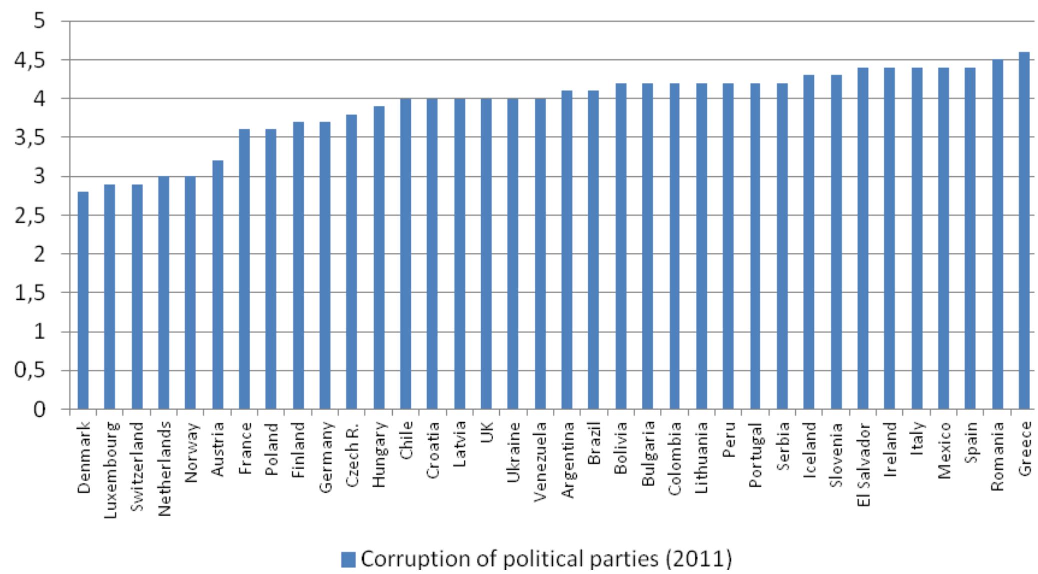
| Europe | | | Latin America | | |
|---|---|---|---|---|---|
| Country | Political finance regulation | Direct Public Funding | Country | Political finance regulation | Direct Public Funding |
| Germany | 1959 | Yes | Chile | 2003 | Yes |
| Finland | 1969 | Yes | Venezuela | 1973 | No |
| Norway | 1973 | Yes | Argentina | 2002 | Yes |
| Italy | 1974 | yes | Brazil | 1995 | Yes |
| Austria | 1975 | yes | Bolivia | 1999 | No |
| Portugal | 1977 | yes | Colombia | 1985 | Yes |
| Spain | 1977 | yes | Peru | 2003 | No |
| Greece | 1984 | yes | El Salvador | non-existent | Yes |
| Denmark | 1986 | yes | Mexico | 1996 | Yes |
| France | 1988 | yes | | | |
| Hungary | 1989 | yes | | | |
| Bulgaria | 1990 | yes | | | |
| Romania | 1990 | yes | | | |
| Czech Republic | 1992 | yes | | | |
| Serbia | 1991 | yes | | | |
| Poland | 1993 | yes | | | |
| Croatia | 1993 | yes | | | |
| Slovenia | 1994 | yes | | | |
| Ireland | 1997 | yes | | | |
| Luxembourg | 1999 | yes | | | |
| Netherlands | 1999 | yes | | | |
| Lithuania | 1999 | yes | | | |
| UK | 2000 | no[a] | | | |
| Ukraine | 2001 | no | | | |
| Iceland | 2006 | yes | | | |
| Latvia | 1995 | no[b] | | | |
| Switzerland | No regulation | no | | | |

*Sources*: For Europe, Piccio (2012:92); for Latin America, Molenaar (2012:13).
* Provisional sample of countries.
[a] Direct form of party funding in the UK are present in the form of subsidies to opposition parties in both Houses (Short and Cranborne Money), and of Policy Development Grants (since 2000). Their amount is however negligible.
[b] Latvia introduced public funding of political parties in 2011, which became effective as of January 2012.

As can be seen in the table above, nearly all European and Latin American countries have introduced direct subsidies for political finance and have adopted political finance regulations (El Salvador being an exception in that it has introduced direct subsidies for political parties without the accompanying regulation of private party funding). Although most Latin American and European countries have adopted a mixed model of party funding (i.e. guaranteeing access to both public and private resources), there are some important exceptions namely, Switzerland and Ukraine in Europe,[4] and Bolivia, Peru and Venezuela in Latin America.[5] In most of these countries, where parties exclusively rely on private resources (mainly membership fees and donations), political finance control is certainly conspicuous by its absence.

According to the above-cited debate, the level of party corruption in those five countries (Bolivia does have private finance regulation) should be higher. However, when looking at figure 1 which displays the degree to which "political parties are perceived to be corrupted"[6] this does not seem to be the case. Interestingly enough, in none of the five above-cited countries political parties are to be considered among the most corrupted, neither in Europe nor in Latin America.

**Figure 1. Perceptions of corruption of political parties in 36 countries**




*Source:* Global Corruption Barometer, 2011 (Transparency International).

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[4] It is important to note here the introduction, recently (effective from January 2012), of public subsidies in Latvia (Piccio, 2012: 42).

[5] In both Bolivia and Venezuela, public funding was abrogated in 2008 and 1999, respectively. In Peru, public funding for parties was introduced in 2003 but a transitional clause in the law has allowed governments to refrain from the actual payment of public funding to political parties.

[6] Following Biezen and Kopecky (2007: 247), we use cross-national survey data on the extent to which parties (as institutions) are perceived to be affected by corruption in order to assess the degree of party corruption.

Indeed, a simple look at figure 1 seems to suggest a lack of an (at least direct) relationship between political finance and party corruption. Thus, and as mentioned above, not only countries lacking both state subsidies and party finance regulation are not to be found among the most 'corrupt', but countries (e.g. Portugal, Spain, Romania, in Europe, or Mexico in Latin America) with a significant level of both public funding and finance regulation (Casal Bértoa, 2013; Gherghina et al., 2011; Cordova, 2011) are to be found at the top of the Transparency International party corruption ranking. In clear contrast, countries (e.g. Denmark, the Netherlands, Switzerland, etc.) in which both the parties' state dependency and finance regulation is limited or nearly absent (Piccio, 2012) are perceived as less "corrupt". Does it mean that all the trumpeted positive effects of public funding and state dependency are nothing but a "bluff"? It is possible that, contrary to conventional wisdom, party corruption can mushroom despite the existence of a strict party finance regime (e.g. more limitations, control and sanctions)? It is to answer these questions that we dedicate the rest of this paper.

## Hypotheses and Measurements

Building on comparative political theory and taking into consideration the arguments in favor of political finance that are brought forward in the academic and the political discourse, up to six different explanations linking "political finance" and "party corruption" in both new and old democracies can be distinguished. Based on Karvonen (2007:445-477), we have grouped them in four different clusters, depending on their focus: (1) public funding, (2) private funding, (3) financial control and (4) sanctions. For each cluster of explanations, we will present the relevant hypotheses and the way in which we have operationalized them.[7]

As Koβ (2011) has recently maintained, one of the main reasons why public subsidies were first introduced in Western Europe was the necessity to fight the frequent corruption scandals involving political parties (or their leaders) in terms of managements of their finances. Zovatto (2007) makes a similar observation for Latin America, where finance legislation rose due to a number of corruption scandals that erupted over the course of the 1990s. In the literature there is an assumption that the private funding of political parties leads to corruptive practices in two ways (Sousa,

[7] Data are available from authors.

2001, 2004). On the one hand, and because no one gives nothing for free, private funding put those political parties receiving relevant amounts of money from private interests (e.g. big enterprises, nobility, organized crime, etc.) in a dependent position as they had to somehow re-pay such financial help with specific concessions in terms of policy changes, favourable decisions (e.g. construction licenses, etc.) or state jobs (Blechinger, 2002). On the other, and because such practices totally against the "representative principle"[8] could lead to an important electoral backlash, parties tended to hide or artificially reduce (in their financial declarations) the total amount received as "private donations" leading to all kind of corruptive practices: for instance, tax-evasion, excessive expenditures, etc.

On the contrary, it was assumed that, by reducing the financial dependency of political parties from private interests, the introduction of significant amounts of public subsidies would decrease or even bring to an end with such corruptive practices. In this context, it was expected that state funding would reduce the degree of corruption of political parties (Scarrow, 2007: 203). However, by simply looking at figure 2, this seems not to be the case as, for example, most "Third Wave" democracies continue to present extremely high levels of party corruption despite guaranteeing (all but two) the access to public subsidies of political parties.

A good way to examine the validity of the abovementioned negative relationship is to see if the percentage to which political parties are perceived to be affected by corruption has significantly declined after the introduction of public funding. Unfortunately, like other scholars previously, we are not in a position to statistically test this hypothesis due to data limitations: namely, the Transparency International Global Corruption Barometer scores only run until 2003, well after the right to benefit from public subsidies was introduced in most of the cases here examined. What, however, can be tested, is the relationship between the specific type of public party funding regime introduced and the level of corruption displayed by the parties operating in a specific country. Because the more restrictive a regime is, the higher the number of parties which, deprived of state support, have to rely exclusively on private funding (i.e. either membership fees or donations), we expect higher levels of party corruption in those countries where the 'payout threshold' is high.

[8] We refer here to fact that rather than representing the interests of the electorate that voted for them, parties may try to benefit the interests of those groups (financial, lobbys, etc.) donating important amounts of money to the party.

In this context, we consider 'payout threshold' to be the minimum percentage of electoral votes a party needs to obtain in order to gain access to state funding (Scarrow, 2006).[9] The data for Europe is borrowed from Biezen and Rashkova (2012) as well as Casal Bértoa and Spirova (2013) whereas the data on Latin America were collected from the relevant instruments of party law. Considering that states differ in the easiness with which political parties have access to public subsidies, from a simple 1 percent of the votes in Hungary, Bulgaria or Slovenia to a rather high 5 percent in Croatia, Serbia or Guatemala,[10] we can formulate the following hypothesis:

*H1: The higher the payout thresholds, the higher party corruption*

In a similar vein, our second hypothesis also departs from the assumption that private funding increases the temptation of parties to fall into corruptive practices. However, it differs in the sense that, while H1 looks at the easiness with which parties receive money from the state, the hypothesis formulated below focuses on its (approximate) amount. In particular, the idea here is that parties relying on public subsidies will have less need for private funding – hence being less open to corrupt practices.

*H2: The higher financial dependency on the state, the lower party corruption*

In other words, while mostly-privately financed parties will do what it takes to secure their survival, put in peril due to the shortage of a safety net provided by the state, mostly-publicly funded parties will avoid illegal situations leading to a loss of public subsidies, either due to legal sanctions provided by the country's legislation or because of a loss in public support derived from the public scandal any case of corruption or illegal financing always conveys [will have little need to obtain private funding through intricate corrupt constructions].

We measure H2 by calculating that the percentage public funding (either electoral or organizational, or both) represents in the total amount of funding (including donations, membership fees, etc.) political parties enjoy in a country. The data on state dependency in Europe are elaborated from the Group of States against

[9] Because the logic party politics is totally different in Latin America than in Europe, more electorally based in the former, more organizationally based in the latter (Nassmacher, 2001: 11), our data for each of the two different regions is gathered accordingly: namely, with a focus on electoral reimbursement in Latin America, and with an eye on subsidies to party organizations in Europe.

[10] It is important to note here that we just take into consideration payout threshold for single/individual parties and not for "electoral coalitions/cartels". In some countries (e.g. Poland, Slovakia, etc.) this are not only different, but higher (Casal Bértoa and Spirova, 2013). Moreover, to be noted that countries which do not provide public funding naturally lack payout threshold. Hence, we are forced to leave them out of our analysis (Birnir, 2005).

Corruption (Greco) country evaluation reports,[11] whereas data on Latin America was collected from the specialized literature on the topic.

The introduction of public funding has been generally accompanied by the establishment of specific party finance regulation, prescribing in most cases important restrictions in the field of private funding. Legislators have introduced different types of limitations, the most relevant ones being prescriptions on maximum ceilings for private donations, and bans on corporate or anonymous donations. The idea behind the introduction of such limitations is to avoid excessive influence of private donors (the so-called 'fat cats') in the political parties' pockets (Koole, 2008). It is in order to avoid this kind of influence, i.e.: substantial private donations in return for contracts or other kinds of benefits, that the introduction of significant limits to citizens' donations and the prohibition of anonymous donations is perceived as a means to increase the level of transparency of party funding, so that the degree of corruption at partisan level will tend to decrease exponentially. In this context, and departing from the commonly assumed idea that private funding and party corruption are both positively and significantly related (Casal Bértoa, 2013), we can hypothesize that

*H3: The higher the limitations on private funding, the lower party corruption*

In terms of operationalization we have built a composite index measuring the level of private funding limitations in a country. In particular we code the existence (or not) of donation limits, prohibition of corporate donations and/or banning of anonymous donations in a dichotomous way: namely, 1 in case such limitations exist, and 0 in case they do not. The data were collected from the relevant instruments of party law.

Scholars have traditionally pointed out the positive impact a tight financial control of political parties has in terms of the reduction of corruption (Nassmacher, 2001:16, Sousa, 2001). The idea is that the stricter the control on party finances is, the more corruptive practices will be discovered. This will work as a deterrent for party corruption because knowing they are closely monitored, parties will avoid undertaking actions that may contribute to their collapse in terms of public support and/or entail an important sanction (see also H6).

[11] Greco's country reports on transparency of party funding are available at http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/ReportsRound3_en.asp (last viewed on January 7th, 2013), see Piccio, forthcoming.

Building on O'Donnell's (1996) distinction between "vertical" and "horizontal accountability,[12] and taking into consideration the type of authority in charge on the financial control of political parties, we are able to distinguish two different hypotheses.

Departing from the assumption that "horizontal accountability" is essential for the control of corruption in general (Diamond, 2009; Diamond and Morlino, 2005; O'Donnell, 1998) and, therefore, focusing on the organ responsible for controlling the finances of party organizations in a country it is possible to distinguish two types of control: namely, internal and external. The former includes all those State institutions controlled or appointed by the parties themselves: for instances, the National Electoral Commission, parliamentary committees, Ministries (mainly Interior or Finance), etc. Meanwhile, the latter refers to all those organs which (belonging or not to the State) are independent (i.e. outside party control) and have a membership based on merit rather than on political affinities: for example, the Court of Auditors, Supreme Court, audit outsourcing firms, etc. Because internal control leaves in the hands of one/various parties the control of their own finances, leading to an important conflict of interest in which the main outcome will be either the loosening of the formal and/or material requirements provided in the law or the total absence of their application, we have formulated the following hypothesis:

*H4: The less strict the financial control of parties, the higher party corruption.*

On the contrary, because the external financial control of party organizations, based on the pure application of the law rather than on partisan or political considerations, is more accurate and effective, requiring that parties strictly comply with all the legal requirements, parties will have more incentives to avoid breaking the law as any misdoing will be easily noticed and…punished.

In terms of operationalization, and taking into consideration the fact that there are still countries (El Salvador, in Latin America, and Sweden, in Europe) where parties still roam free of any kind of financial control, we use an ordinal indicator to measure H4. Thus, no control is coded with a 0, (direct or indirect) control by parliament or government with a 1, and control by an independent organ/agency with a 2. The reason for this ordering is that parliament and/or the government is managed

[12] While "vertical accountability" means that elected officials are always periodically "answerable to the ballot box", "horizontal accountablity" refers to the control "autonomous powers" (mainly State institutions, but not only) exert over the above-cited officials, making the responsable and punishable for their eventual misconduct (Kenney, 2003: 56-57).

by those actors that finance regulation seeks to control, namely the political parties themselves. The underlying assumption is that an independent organ/agency will provide for more effective control of party finances. Data on this indicator were gathered from the relevant instruments of party law.

Another face of financial control of political parties is "vertical accountability" and points to the citizens as holding party organizations and their leaders answerable for their financial activities through making them public. Building on the studies maintaining that vertical accountability is a necessary, but not sufficient, condition for the control of political corruption in general (Diamond and Morlino, 2005; O'Donnell, 1996; Relly, 2012), we consider here that public access to information on the financial activities of parties will discourage political forces and their leaders from undertaking any misconduct, as it may be accompanied by an important decrease in terms of electoral support. It clearly follows from this that,

*H5: The lower the public access, the higher party corruption*

As in the case of horizontal accountability, and bearing in mind that some countries do not oblige parties to make their financial information public (e.g. Belgium, Greece, Hungary, in Europe; Bolivia, Dominican Republic, Honduras, in Latin America), we use an ordinal measure. In particular, the total absence of public access is coded as 0, public access – where financial information on donations is available to the public above a specific ceiling only – as 1, and freedom of public access – where all financial information on donations is publicly available – as 2. Data on this indicator were gathered from the relevant instruments of party law.

*Explanations focused on consequences of illegal funding*

Building on legal scholarship (Duff, 2008), and taking into consideration that one of four purposes of a penalty is deterrence, we have formulated the following hypothesis

*H6: The higher the sanctions, the lower party corruption.*

The main idea here is that parties will tend to undertake corruptive practices less often if the "price" for them is too high. Hence, when the Law imposes harsh sanctions either to parties themselves as legal persons or to their leaders (or ordinary members) for their wrongdoings, we expect party corruption to diminish significantly.

With very few exceptions (Dominican Republic, El Salvador and Uruguay), Latin American and European States foresee some type of sanctions either to the citizens or to party organizations in case of financial misdemeanors. Interestingly, adopted sanctions are as diverse as: (1) simple pecuniary fines (including the total or partial loss of public subsidies), (2) imprisonment and/or loss of public office, or (3) (party) de-registration or activity suspension. For that reason, we have built an ordinal indicator following the previous grading, with no-sanctions coded as 0. Data on this indicator were gathered from the relevant instruments of party law.

Although we are interested in the relationship between political finance and party corruption, and building on the literature on the determinants of political corruption in general (Fan *et al*., 2008; La Porta *et al*., 1999; Treisman, 2000), political party corruption is not a subject only to party regulation. Thus, it is necessary to introduce some additional variables which we used in order to control for potentially confounding effects. Empirical research shows political corruption to be affected by factors ranging from societal and historical configurations, public policies, international actors and the organization and management of the public sector, and political institutions (Gerring and Thacker, 2004). Due to the naturally small size of our sample, we limit ourselves to including two controls: namely, economic development and democratic experience. We implement the standard operationalization for economic development adopted in the literature by collecting data on the GDP per capita in current US dollars and using its natural log. The data is for the most recent available year, 2011, and comes from the World Bank.[13] Democratic development was coded as the number of years in a democracy a country has had in 2011 according to the Polity IV individual country regime trends database.[14]

## Models and Results

Based on the theoretical conceptualization of what may affect the perceived level of political party corruption, we construct three models to explain the latter – a benefit model, a cost model, and a donations model. The idea behind dividing the models is to group party regulation factors according to their specific target when looking at their effect on party corruption. Thus, the benefit model looks at the effect of

[13] Data on GDP per capita can be obtained here: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD.

[14] Years of democracy were counted for state's coded as 6 on more in the State Fragility Index. Original data can be obtained here: http://www.systemicpeace.org/polity/polity4.htm.

regulations on monetary benefits which parties may receive from the state on their perceived level of corruption. Conversely, the cost model inspects the effect of regulations that incur costs to political parties on how corrupt they are. Finally, as a significant amount of rules are devoted to the regulation of donations which do not easily fall into the cost-benefit dichotomy, these are grouped into a third, separate model, which tests the effect of all donation regulations on the corruption of political parties. The dependent variable in all three models is the perceived level of political party corruption as coded in the Global Corruption Barometer 2010/2011 of Transparency International. Thus, the perception of the level of corruption of political parties equals 1 when the latter are perceived as 'not corrupt' and 5 when they are perceived as 'extremely corrupt'. The measure is an aggregate for each of the countries that we study and was originally created by TI as a result of the responses to the following question: 'To what extend do you perceive the following institutions in this country to be affected by corruption,' where political parties are one of the institutional categories mentioned.[15] The model specifications that we use are:

*Benefit model*

$$\text{Corruption of Parties}_i = \beta_0 + \beta_1\text{*Pay Threshold}_i + \beta_2\text{*State Dependency}_i + \text{controls} + \varepsilon_i$$

*Cost model*

$$\text{Corruption of Parties}_i = \beta_0 + \beta_1\text{* External Control}_i + \beta_2\text{* Public Access}_i + \beta_3\text{*Party Sanctions}_i + \text{controls} + \varepsilon_i$$

*Donation model*

$$\text{Corruption of Parties}_i = \beta_0 + \beta_1\text{*Donation Limits}_i + \beta_2\text{* Corporate Donations}_i + \beta_3\text{* Anonymous Donations}_i + \text{controls} + \varepsilon_i,$$

where the subscript $i$ denotes the different countries (i= 1..I). In these regression equations, $\beta 0$ provides the intercept for each particular model, $\beta 1$- $\beta n$ the slope for the examined independent variables, and $\varepsilon i$ denotes the residual error term. In addition to these three models, we also fit several 'mixed' models which examine the effect of a

[15] Original data can be obtained from here: http://gcb.transparency.org/gcb201011/results/.

mix of the three types of factors on the perceived level of corruption of political parties. We use ordinary least squares (OLS) to estimate the results. The results are summarized in tables 2 & 3 below.

**Table 2. Party regulation and corruption of political parties**

| | Benefit model | Cost model | Donations model |
|---|---|---|---|
| Payout threshold | 0.017 (0.014) | -- | -- |
| State dependency | 0.006 (0.004) | -- | -- |
| External control | -- | 0.039 (0.161) | -- |
| Public access | -- | -0.065 (0.118) | -- |
| Party sanctions | -- | 0.099 (0.155) | -- |
| Donation limits | -- | -- | 0.337 (0.170)* |
| Corporate donations ban | -- | -- | -0.117 (0.183) |
| Anonymous donations ban | -- | -- | 0.115 (0.174) |
| GDP per capita | -0.410 (0.102)*** | -0.299 (0.085)*** | -0.226 (0.085)** |
| Intercept | 7.587 (1.035)*** | 6.780 (0.901)*** | 5.938 (0.888)*** |
| | | | |
| Adjusted R² | 0.363 | 0.272 | 0.383 |
| | | | |
| N of observations | 27 | 30 | 31 |

*Note*: Dependent variable: perception of the level of corruption of political parties. Linear regression.
Standard errors in parentheses. *p<0.1, p**<0.05, p***<0.01
*Source:* Global Corruption Barometer 2010/2011. Authors' own coding and calculations.

**Table 3. Party regulation and corruption of political parties – mixed models**

| | Model 1 | Model 2 | Model 3 |
|---|---|---|---|
| Payout threshold | -- | -- | -- |
| State dependency | 0.006 (0.003)* | 0.005 (0.003)* | 0.006 (0.003)** |
| External control | -- | -- | -- |
| Public access | -0.088 (0.109) | -0.163 (0.102) | -- |
| Party sanctions | -- | -- | 0.426 (0.149)*** |
| Donation limits | -- | 0.0465 (0.176)** | 0.575 (0.168)*** |
| Corporate donations ban | -- | -- | -- |
| Anonymous donations ban | -- | -- | -- |
| GDP per capita | -0.379 (0.092)*** | -0.232 (0.099)** | -0.166 (0.095)* |
| Intercept | 7.489 (0.869)*** | 5.855 (0.993)*** | 4.297 (1.075)*** |
| | | | |
| Adjusted R² | 0.344 | 0.470 | 0.562 |
| | | | |
| N of observations | 29 | 29 | 29 |

*Note*: Dependent variable: perception of the level of corruption of political parties. Linear regression.
Standard errors in parentheses. *p<0.1, p**<0.05, p***<0.01
*Source:* Global Corruption Barometer 2010/2011. Authors' own coding and calculations.

The results in table 2 illustrate that out of all the hypothesized relationships between party regulation and corruption of political parties, the only one which shows to have a significance effect is the donation limits. However, the result is opposite to the direction expected by the majority of the literature effect. The coefficient for donation limits carries a positive and statistically significant sign, signifying that when donation limits do exist, rather than serving as a stimulus for fewer corruptive practices, its effect on the level of perceived corruption of political parties is an increase of 0.337. Not much to our surprise, the rest of the results show that party regulation may indeed not have the desired effect with which it was constructed. As we see, no other variable reaches statistical significance thus showing that no specific relationship between the independent variables and party corruption can be detected. In all models, however, the control GDP per capita appears to have a significant relationship with the perceived corruption of political parties in the expected direction – the higher the GDP per capita, the lower the level of corruption. In order not to additionally burden the models, the control for democratic experience was dropped from the final estimations as it was not showing to have a significant relationship with the perceived level of political party corruption.

The non-significant results could potentially be also affected by the small sample size, which calls for further testing with broader country coverage in the future. Due to the lack of collected data on many European and Latin American countries on the perceived corruption of political parties and our desire to 'control' for the small N as best as we can, we also ran the models with the general corruption perception index (CPI) provided by the Global Corruption Barometer.[16] This increased the N to 45 in some models, but the estimations didn't show anything different. Again, most variables showed insignificant, while donation limits and economic development carried the same signs and statistical significance. An interesting additional finding in these models was that the existence of a ban on anonymous donations shows to have a negative significant relationship with CPI, and given that the operationalization of CPI lower values stand for higher perception of the level of corruption of public institutions, this signifies that the effect of these bans runs opposite to the conventional expectation and is associated with the existence of more corruptive practices. While surprising on one hand, such a result is also plausible in that one can think that in states with high corruption, the introduction of measures against such practices may indeed have a counter effect and stimulate the circumvention of the rules even more.

To test the relationship between regulation of political finance and party corruption further and to account for the fact that maybe no one of these groups of

[16] Models not presented, but available from authors.

factors has a special effect on corruption when singled out, we also fit several 'mixed' models. These include variable from two or all groups and the controls. The results in table 3 reveal several additional relationships. Besides the donation limits and the GDP variables which continually carry the same signs and are again statistically significant, the mixed models disclose significant relationships between state dependency and party corruption and between party sanctions and party corruption. Yet, both of them turn out to have an opposite to the expected effect, i.e. instead of decreasing corruption, they actually relate with more corruptive behaviours. The data analyses consistently show that 'state dependency' is positively related to 'corruption of political parties', thus implying that the more political parties depend on the state for funding, the more corrupt they are, or rather the more they are perceived as corrupt by the public. This may very well be due to people's perception that the more dependent parties are on the state, the more they are involved with the state, thus with procurement tenders and other types of pork barrel, which many believe, leads to clientelism, patronage, and thus corruption.

Similar is the result for party sanctions. In several model specifications we get a positive, statistically significant relationship, which means that the higher the sanctions, the more corruptive political parties are. This not only says that rules on party funding do not reach their intended goal, but even the opposite – they have the potential to incentivize, according to our data, the opposite behavior. This could potentially be explained by the fact that either the sanctions are not perceived by the political parties as costly, or that however costly they are the 'piece of the pie' that they may get if they engage in corruptive practices which are not detected is much larger, and therefore worth the risk. We are aware that the results could also be driven by the possibility that high levels of corruption led to the introduction of various public funding regulations. In order to then test the effect of specific regulatory mechanisms, future research would need to look at the perception of party corruption for at least two points in time and examine whether the level of corruption has changed as a result of the introduction of anti-corruptive measures such as the adoption of sanctions and the provision of state subsidy for political parties.

## Conclusions

Party finance regulation appears to be adopted increasingly as a tool for the strengthening of democratic legitimacy of political systems. The question is if, and to what extent, it has the capacity to promote greater public trust in political parties. Indeed, as it is society at large that legitimizes parties through its expressed consent, it remains unclear how effective unilateral and top-down measures to increase the legitimacy of parties can be. While conventional wisdom expressed by the political actors' debate and by international governmental and non-governmental organizations tend to depict the introduction of public funding to political parties and the adoption of party finance regulations as beneficial for the lowering of political corruption and for increasing political legitimacy of political parties in the public eye, in this paper we have claimed the existence of a more nuanced picture.

Although the findings presented in this paper should be interpreted with care due to the limited number of cases available for analysis, the most remarkable discovery of our analysis is that political finance regulation does not produce any of the (positive) relationships both academics and political elites have promised. In particular, (1) the introduction of a rather restrictive regime of public finance, in which the state constitutes the most important financial contributor to party organizations, (2) the provision of a more independent system of control of party finance, and (3) the stricter penalization of illegal funding activities, are related to high perceptions of party corruption rather than low ones. More importantly, and contrary to what has been traditionally argued, the inclusion of important caps to the amount political parties can receive through private donations seem to be related to the propensity of party organizations to exploit illegal funding resources. As pointed in various recent case-studies (Casal Bértoa, 2013; Rashkova, 2013), habituated to receive important amounts of money from various private sources, political parties seem to have difficulties to adapt to the new regulatory regime requiring a reduction in their collections system. This constitutes as essential finding as it clearly contradicts the famous "stick and carrot" discourse according to which sufficiently publicly funded parties will renounce to other (mainly private) types of resources, more prone to constitute outlawed (i.e. corruptive) practices.

In summary, the relation between political finance regulation and party corruption seems to be more complex than the one suggested by the literature. The presence of party finance regulation does not relate to lower perceptions of party corruption, and the presence of limitations to private donations is related to higher party corruption perceptions. State funding, it seems, has not brought the panacea it promised. What this paper seems to suggest is that while money will always be "the mother's milk of politics" (Stanbury, 1986: 795), the state should not be the only cow (in the whole "political farm").

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