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1

Aspects of Party Finance and Political Corruption

Robert Williams

The concept of party varies widely from north to south, from authoritarian to democratic regimes and from emerging to established democracies. But whatever form political organization takes, there is a common problem: how to find sufficient financial resources to fund the activities the political organizations wish to pursue. Competition between political parties divided on ideological, economic, social, factional or ethnic lines depends on finance, drives up the costs of campaigning and intensifies the search for additional or new income streams.

Money buys the access, favours, skills, goods and services that are essential to effective party activity. As Alexander notes, 'money is instrumental, and its importance lies in the ways it is used by people to try to gain influence, to convert into other resources, or to use in combination with other resources to achieve political power.'¹ Money compensates for a lack of volunteers and serves, in some societies, as a surrogate for individual commitment. In short, money is a transferable and convertible resource which helps mobilize support for, and secures influence with, political parties.

The role of money in politics, especially in funding political parties, has attracted much adverse attention in the past 20 years. Many countries have experienced major scandals involving political parties and the nature, sources and consequences of their financial support. The reform impulse is readily observed around the globe and a wide variety of reforms in political finance have been advocated. Attempts to regulate party finance are not new but the plethora of scandals has focused public and media attention and thereby encouraged political

leaders to reform, or at least to be seen to reform, the ways in which political formations fund their activities. Inevitably, the scope of reform varies according to the type of political party, the nature of the political system, the perceived seriousness of the problem and the availability of alternative funding regimes.

While the contexts vary, the complaints and charges are remarkably similar: a lack of openness and transparency in party finance; ineffective or inadequate government regulation; an undesirable closeness between large financial contributors and the leadership of political parties leading to subversion of democratic processes; and, more simply, straightforward bribery. Such charges open up the debate about what sort of organizations political parties are and what constitutes legitimate and appropriate means of securing the financial resources necessary to their effective operation. At root, there is the underlying concern that, left unregulated, the problems of party finance will intensify and either corrupt the entire political process or, where such corruption is already entrenched, will preclude its control and eradication.

Before examining the particular issues in different systems, a preliminary general sketch of the sources of party finance will identify the key forms and their associated problems. Such a sketch will not do justice to the rich complexity of many contexts but it will serve to illustrate the range of common responses to the universal need to fund movements, formations or organizations which help structure political activity. The world of party finance can be divided up according to a variety of competing criteria. One recent study suggests that funding regimes 'can be classified under a number of bimodal headings'.² Thus, we can discuss party finance in terms of public versus private funding; legal versus illegal; domestic versus foreign; institutional versus individual; overt versus covert; or even large versus small. These are clearly not discrete closed categories and there is considerable overlap but the bimodality does draw attention to some key issues.

A European authority on the problem of party finance suggests there are three methods of party finance in Western democracies which should be seen not as alternatives but as running in parallel: they are internal finance, external finance and state finance.³ But the problem with simple typologies or bimodalities is that what they conceal may be more important than what they reveal. In many

jurisdictions it is, for example, unclear what constitutes a legal contribution and, when private finance can embrace everything from a trivial contribution from an individual to a large 'donation' from an organized crime syndicate, the typology's utility is questionable. It is, of course, possible to produce more elaborate typologies of party finance but the danger here is that we fail to see the wood for the trees. Party finance is a complex issue which is embedded in myriad and disparate political and legal contexts.

What is appropriate, practicable and desirable in a mature democracy and affluent society is not a recipe for all political contexts. Newly democratizing countries in Eastern Europe and East Asia are faced with very different political and economic realities, and their systems of political financing are unlikely to match closely those found in Western Europe or North America. Political parties are often looser, more transient, more personal political formations than their Western counterparts and even the term 'party' may give a spurious sense of their tangibility and durability. Some options, such as state financing, may be economically unrealistic while other options, such as external funding by foreign governments or international organizations, are attractive but raise political concerns. The attempts by advanced democracies, notably the United States, to help fund political parties in other advanced democracies, notably Italy, have not been widely admired or imitated.

If Beyme's suggestion that party financing has three main forms – internal, external and state – is unpacked, it is possible to see where the opportunities and incentives for what is commonly seen as corruption arise. Corruption is, of course, a contested concept but most approaches ultimately rest on a distinction between some formal obligation to pursue the public good, and conduct which is construed as private regarding and which serves to undermine the public good. In this context, it focuses attention on whether, or to what extent, political parties are seen as public rather than private organizations. This may have a legal dimension but it may also depend on popular and media perception. If parties are accorded a preferred legal status, the matter is clearer but where they are treated as if they were mere interest groups, the distinction is hard to make. One authority suggests that 'accusations of corruption do not distinguish between illegality and impropriety'⁴ but, while this charge is obviously true, it is relevant neither to an appreciation of the political, as opposed to

legal, consequences, nor to the impact of such accusations on levels of public trust and confidence in the political process.

Political activity in many countries is conspicuously and frequently interrupted by allegations of corruption, sleaze and scandal. Where corruption ends and where sleaze begins is an interesting question but not one that is central to how the legitimacy of funding political parties is perceived by the public and the media. The press and competing parties love a scandal and are not easily dissuaded by claims that the conduct was not illegal but only gave an appearance of impropriety. Scandals take on lives of their own and their consequences can be disproportionate to the gravity of the original offence. The important point here is that the 'dogs of scandal are always hungry and however many bones are tossed to them, their appetite for their quarry remains undiminished.'⁵

Beyme's first category of party finance, intra-party sources, is deceptively simple and innocuous. In its most rudimentary forms, it seems uncontroversial. Political parties recruit members who pay membership fees which finances the party's activities. But this leaves open the question of what constitutes membership and how much those members contribute. Some parties, notably the Labour Party in the UK, have different categories of membership and the status of affiliated bodies such as the co-operative movement, the trade unions and the Fabian Society is ambiguous. Political opponents tend to see trade unions as separate organizations which act as interest groups exercising their privileged status within the UK Labour Party. For most of its history, the UK Labour Party was heavily dependent on payments from affiliated trade unions and thus what it saw as internal financing was interpreted by its rivals in other parties as external financing. Moreover, the imbalance between members' contributions and the scale of trade union contributions suggested to critics that this financial dependency gave the trade unions disproportionate and improper political influence over the policies of the Labour Party.

If individuals choose to join a political party and thereby agree to pay the prevailing subscription, there seems little cause for concern. But if the level of subscriptions is determined by the individual, then wealthy individuals are always susceptible to the charge that their influence is proportionate to the scale of their contributions. The reality seems to be that a mass subscription base is both an

unrealistic aspiration in developing and transitional countries and inadequate to meet the organizational and campaigning costs in developed countries.

When ordinary membership dues either do not exist or are insufficient to meet costs, political parties sometimes take steps to compel their supporters working in the executive and legislative branches of both national and local government to pay a special charge or even a percentage of their income. Thus, members of assemblies may, as in Germany, be required to contribute a fixed portion of their salaries to their parties. In the United States there was a long-established practice of imposing a levy on employees in local, state and federal government to compensate for the lack of income which parties with a stronger sense of membership are able to derive from subscriptions. In both examples, the justification seems to rest on the identity of the individual with the party. In the European cases, the argument seems to be that the election of a member of parliament has more to do with the appeal of their political party than with their individual qualities. Thus, if the individual benefits by being elected on a party ticket, it is only reasonable that the political party should share in that benefit. In the American case, the distribution of posts was long a matter of party patronage. Some posts, for example, in customs or the post office gave privileged access to opportunities to make additional, illicit income, and therefore appointments to such offices were effectively being sold. Patronage came at a price and, for some posts, there was a clamour to pay.

When party officials are required to pay a tithe to their employers, it might be thought unusual and even undesirable. But when public officials and elected representatives are forced to hand over part of their salaries to their parties, it could be argued that private organizations are effectively securing control of public resources by extortion. The extortion is not based on crude blackmail or the promise of violence but on the party's ability to determine re-selection and re-appointment. While the political levy has been outlawed in the United States, the practice is still well established in some European states.

Some political parties are effectively owned by individuals – Berlusconi and his *Forza Italia* is a leading example – and will also tend to own newspapers and other media outlets. In one sense, this is the purest form of internal financing but it raises questions about how

the proprietor acquired his wealth, how he uses the political party to advance purely personal interests and what forms of accountability are available or appropriate. When the political party is essentially a vehicle for the personal ambitions of the owner, the ability of members and supporters to influence party conduct and party finance is correspondingly reduced.

Other sources of internal finance include income from investments, additional contributions from members and supporters through party rallies and similar events, and the sale of party newspapers and other publications. But the line between internal and external finance is difficult to sustain when parties have developed trading arms which inescapably bring them into contact with the business sector, and their financial success may be linked to a change in the party's public image and identity. However much this may be regretted by 'old guard' party members, all political parties are, in financial terms, hybrids in that they rely on more than one kind of funding.

External funding of political parties attracts the most adverse comment because, as the English saying puts it, 'he who pays the piper calls the tune.' When political parties and their leaders receive money from private organizations and individuals, who is beholden to whom and for what? The English saying and its typically terse American equivalent, 'money talks', express an important political truth. What Americans call influence peddling, what the French call *pantouflage* and what ordinary citizens everywhere call corruption tends to undermine public trust in parties and encourages cynicism about politicians, their motives and loyalties. But some sources invite greater concern than others. When trade unions give their financial support to progressive social democratic or labour parties, this is generally consistent with the declared aims of the parties they support. Where there is a mismatch between the ideological or policy stances of the political party and the known or assumed preferences of contributors, the possibility of the financial relationship having corrupt implications correspondingly increases.

The motives of those who make substantial contributions to political parties are often called into question and, when there are attempts to conceal or disguise donations, suspicions are aroused. While some may legitimately wish to protect their anonymity, others are concerned that the public disclosure of their contributions would excite

public disapproval and even create a scandal. If the donor is a foreign national, their motives might more readily be impugned and the British Conservative Party was for many years keen not to disclose the large contributions it received from Hong Kong, Greece and elsewhere. In extreme cases, the contributions will simply be unlawful, both in the sense they violate regulations on party finance and in the sense that the donors themselves may be representatives of criminal organizations. In Italy and Russia, the interactions between party politics and organized crime are not to be underestimated.

In some contexts, external financing is derived from the close linkages which have developed between parties and large business enterprises. In Japan and Korea such arrangements are long established and raise issues about the preferential treatment such businesses enjoy in matters of trade, taxation and investment. In other countries, the costs of campaigning are so huge that parties and their leaders actively solicit funds from business enterprises. Such conspicuous fund-raising gives rise to concerns about what such business interests expect by way of a return on their political investment. The common fear is that the concerns of voters, or even party members and supporters, will be subordinated to the priorities of the party's financial backers. In the United States there have been demands for investigations of both President Clinton and Vice President Gore and some claim to detect links between the receipt of large donations and changes in the administration's policy. At the congressional level, similar concerns have been voiced and some argue that a primary reason for the failure to deal with the savings and loan scandal in a timely way was the dependence of so many legislators on campaign contributions from savings and loan owners.

State funding is sometimes presented as a way of freeing political parties from the obligations created by their dependence on income from trade unions or business groups. The danger here is that parties exchange one form of dependency for another. One study suggests that German parties have become addicted to public funds and their thirst for state funding is unquenchable. Allowing party politicians to determine levels of state funding for parties is likened to 'an alcoholic entering a self-service liquor store'.⁶ As parties and their office holders become more dependent on the state, they are less beholden to their voters, supporters and members, and this may erode ties of loyalty and weaken accountability.

But those who placed faith in state funding as a means of rescuing political parties from the potentially corrupt influences of external finance both underestimated the escalating costs of modern political and campaign organizations and overestimated the effectiveness of laws regulating donations from external sources. Just as internal finance has generally proved inadequate, so too has state finance. Party funding is therefore dependent on multiple forms of funding and even where state funding of parties is relatively lavish, as in Germany, there is no automatic protection against corruption. All the major parties in Germany have experienced scandals and 'revelations of laundered money for party activities, with most cases involving illegal tax exemptions for political donations'.⁷

Corruption and party finance are inextricably linked. It is obvious that whatever the origins, structure, character and ideology of a political party and irrespective of the prevailing party system, political parties solicit funds over and above those received from their members or, where available, from state subsidies. The sources, scale, forms and distribution of party finance all have profound political implications. Political parties form linkages and conduits between executive, legislative and administrative institutions and between such institutions and the wider political, economic and social environment. In short, they provide a bridge between state and society. They offer the prospect of durable forms of political organization and a means of controlling and directing the power of the state. It is the prospect of the party capturing state power which attracts the attention of financial backers who require some benefit, favour or concession from government.

Where political parties have little prospect of power, the problems of funding are likely to be acute and they are not likely to be able to afford to be too discriminating. Many new democracies carry with them the baggage or legacy of authoritarian or autocratic rule, with their important influences on political attitudes and relationships, and political parties are challenged by and compete with other social forces. Patterns of party development depend on economic and cultural variations, the nature of the pre-democratic polity and the actual process of transition to democratic rule. All these factors will help shape the forms of party finance and political corruption. Not all parties endure and one key reason is a lack of finance. In the United States, it is said that those who run for office most often withdraw

because they run out of money. In newer democracies, one study suggests unsurprisingly that 'there is a high mortality rate among political groupings; some are cannibalised by other parties, but the vast majority are cot deaths. They simply run out of breath.'⁸

The central concern is that financial aid rarely comes without strings attached. Money may create expectations of reciprocity and the result can be a form of dependency. In extreme cases, the party is effectively bought and owned by its financial backers and such dependency is seen as corrupt when it impacts upon the party's declared mission or purpose. The need for money can deflect a party from its stated aims or can constrain it from pursuing policies detrimental to the interests of its most influential financial supporters. Reliance on state funding does not create the same form of obligation but it may provide a means to deny entry to new parties. In some states there is effectively a political cartel, as to an extent there has been in Germany, which discourages 'extreme' or 'fringe' groups from organizing for electoral competition. Political parties can structure political competition and help promote political pluralism but state funding may also encourage the ossification of the party system and the development of the corporate state.

The above discussion underlines the importance of party finance and its associated problems, including corruption. In choosing the contributions to this volume, a number of criteria were used. The first was to present a reasonable cross-section of case studies.

While global coverage is impractical, there is a need to identify and illustrate the diverse forms of party finance and the ways in which corruption manifests itself. Although the party literature for the developed world is extensive, other regions are relatively neglected. This neglect is partly explicable in terms of the poor survival rates of political parties in particularly harsh and violent political environments. But political parties have emerged in difficult circumstances and there are acute problems of party finance and political corruption in developing and transitional countries.

In developed contexts, the key problem is often seen as corruption arising from the financial needs of competitive political parties. In other contexts, for example the countries of the former Soviet Union, the problems arise from the attempt to construct a new political order in the ruins of the old one. The corruption of the former Soviet Union was systemic and institutionalized in the sense

that public trust was destroyed by the subversion of the formal processes and values of government. Sakwa's chapter illuminates the many problems of party finance and corruption which emerged during and following the collapse of communism, the intensifying economic crises and the rise of organized crime. His analysis penetrates the facade of formal structures and processes to reveal the realities of democratic transition in Russia and the consequences for corruption.

While it is obviously important to acknowledge that political parties vary in their form, cohesion and roles in different political contexts, it is also important to understand that the dynamic in generating corruption also varies. In many developed countries, the issue is defined in terms of economic elites buying political power and influence through their support of political parties but, as Callahan convincingly demonstrates, in much of Southeast Asia, the process is effectively reversed. Party leaders bribe the citizens for electoral support. He deals with political contexts far removed from the liberal democratic parties of Western Europe and North America and shows how the prevalence of vote buying, which disappeared from industrial democracies a century ago, is an integral part of party activity in some Asian countries. His analysis shows that simply eliminating such practices does not always result in more open and less corrupt forms of political competition. The electoral process can be corrupted by forces other than money and Callahan's chapter illustrates the different pathologies found in East Asia.

Developing and transitional countries exhibit very different patterns of party finance and corruption but it is equally the case that developed countries display a diversity of practice and varying degrees of corruption. Thus, a second criterion is to consider examples of developed states which reflect different party systems, different approaches to party finance and differing experiences of corruption. The selection of case studies, the United States, the United Kingdom, Germany and Italy, are major Western liberal democracies but their problems of party finance and political corruption are very different.

Party finance in Britain has recently been the subject of an extensive inquiry which has recommended radical reform. For many years, there seemed to be a degree of complacency about the integrity of British public life. Corruption was a problem for other countries which did not enjoy the benefits of the uniquely British way of regu-

lating parties and elections. Such complacency has disappeared in the 1990s and the report on party finance of the Committee on Standards in Public Life⁹ emphasized the urgent need for wholesale reform. Fisher's chapter examines how the British system evolved, the factors that encouraged the quest for reform and the shape of the new system to come.

The United States has long experienced problems with political finance. Its highly decentralized parties and the relative autonomy of party candidates has helped produce unusually expensive electoral campaigns and heightened concern about the corruption of the electoral process. Campaign finance reform is a perennial feature on most political agendas but effective reform remains elusive. Allegations of financial contributions playing an undue and improper influence have plagued presidential and congressional elections for over one hundred years. McSweeney explains how the unique features of the American system interact and how concerns about the current system are generated without serious prospect of reform.

The appeal of Germany as a case study arises both from its distinctiveness as a leading example of state funding for political parties and, as Saalfeld shows, as an example of judicial regulation of party finance. The resort to state finance can be seen as a possible defence against the corrupting influence of private funding but Saalfeld suggests that state funding has not prevented German political parties from being enmeshed in a number of scandals. He also demonstrates that the financial pressures on German political parties are more acute than elsewhere because the range of activities they engage in, especially through the party foundations, is much wider than in many other countries. Where state funding is lavish and party functions varied, the judiciary may offer the most likely source of protection against abuse.

Any modern study of party finance and political corruption which did not include a chapter on Italy would risk being characterized as eccentric or even perverse. The exposure of the corrupt nature of the Italian party system led to an implosion of the political system. Italy demonstrates the problems of party finance and corruption in their most acute and dramatic forms. Newell analyses the crisis of the Italian political system and traces it to the nature and operation of the party system and the funding arrangements that underpinned it. The Italian collapse has no modern precedent and Newell underlines

the difficulties inherent in the task of building a new system which commands public and political confidence.

The aim of this volume is to explore different dimensions of the complex interrelationship of party finance and political corruption. The term party finance is used despite the objection that many countries do not have entities that closely resemble the party models familiar to western liberal democracy. The major alternative is the term political finance but if party finance is perhaps too narrow a term, political finance is, for present purposes, far too broad and inclusive. Party finance is intended simply to denote the funds received and expended by political parties. Political corruption is understood as conduct which subverts the declared purposes, principles and policies of political bodies in exchange for personal, private or particularistic advantage.

Parties vary considerably in terms of membership, organization, funding, activity, and electoral salience. Parties may be vehicles for personal ambition or expressions of communal sentiment. They may be strong or 'hollowed out', disciplined or anarchic but, in different degrees, they serve as bridges between society and the political system, between the electorate and the government. The contributors to this volume seek to address three major issues: the current problems of party finance and political corruption in a specific country or region; the nature and impact of previous reform efforts; and the prospects for and obstacles to future reform. Their diagnoses and prognoses vary but they agree on the importance of the issues, and the chapters which follow are intended to illuminate and advance the increasingly important debates about party finance and political corruption.

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