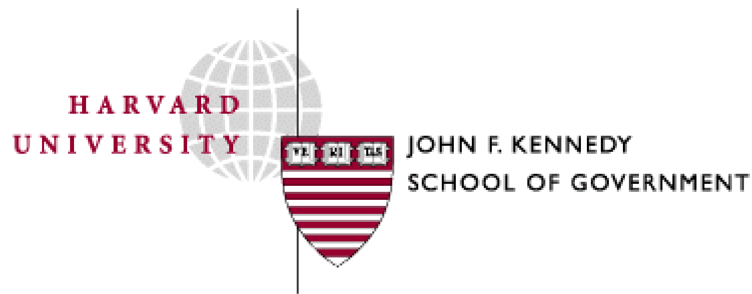

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Elements for a Theory of Political Finance

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Elements for a theory of political finance

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Abstract

This paper studies campaign and party finance from the perspective of political ambition. It defines the market for political finance as the set of transactions through which politicians fund the non-governmental activities conducive to the satisfaction of their career ambitions. The market for political funds is characterized by three central postulates: 1. Political finance is motivated primarily by politicians' need to support the necessary activities to effectively compete for office in democratic elections; 2. The demand for political finance is dynamic, in the sense that it is partly dependent on politicians' perception of a given contest's electoral competitiveness; 3. Contributions to parties and candidates are made by citizens who donate their money or other assets out of a combination of 'consumption' or 'expressive' motives, as well as 'investment' or 'self-interested' ones. Based on this characterization of the political finance market, I discuss some of the extant comparative literature on political finance markets, and present an agenda for research.

Introduction and organization of the paper

This paper studies campaign and party finance from the perspective of political ambition. By building a bridge between the literature on political ambition (Aldrich 1995; Schlesinger 1994) and the finance of politics, it attempts to address repeated scholarly calls for more theoretical work on the subject (Fisher and Eisenstadt 2004).

The paper puts forth a definition of the market for political finance based on this theoretical understanding of party politics, and offers a characterization of the transactions that take place in such market. It also presents some of the normatively worrisome outcomes of campaign finance as special cases of a phenomenon that is inherent to democratic politics—the funding of its activities—but not inherently corrupting. The theory attempts to be general enough to include all types of party finance systems currently known in the world. From this perspective, for example, completely publicly funded campaigns do not eliminate the existence of a market for political finance, they simply attempt to replace it.[1] Should it be persuasive, the model advanced here might serve as a building block for a more comprehensive understanding of the effects of alternative regulatory approaches to the role of money in electoral politics.

The central argument of the paper is as follows. Political finance is defined as the set of transactions through which politicians fund the non-governmental activities necessary to satisfy their career ambitions. Politicians, and the money they need to run for election, are the key drivers of a market for political finance. Such funds (or in-kind support) are essential for them in a way in which they are not for any other actor in the public arena, including voters, lobbyists, interest groups, electioneering service providers, government contractors, bureaucrats, etc. Donations to parties and candidates are made by citizens who, much as when they participate politically, donate their money or other assets out of a combination of sense of duty, consumption and self-interested motives. Also, politicians' demand for finance is dynamic, in the sense that it is partly determined by electoral competitiveness, which itself is a function of other actors' resources and strategies.

Contrary to what most of the literature assumes, party finance is not inherently corrupt. Rather, certain configurations of this market allow for more or less normatively worrisome outcomes on different dimensions. This is especially

[1] An complementary theoretical strategy has been advanced in several formal models of electoral competition, as is the case of Coate, Stephen. 2004. Pareto-improving Campaign Finance Policy. *The American Economic Review* 94 (3):628-655, Epstein, David, and Peter Zemsky. 1995. Money Talks: Deterring Quality Challengers in Congressional Elections. *American Political Science Review* 89 (2):295-308, Snyder, James M. 1991. On Buying Legislatures. *Economics and Politics* 3:93-109. and Grossman, Gene M., and Elhanan Helpman. 2001. *Special Interest Politics*. Cambridge, MA: MIT Press. However, the goal of these models is less broadly comparative in its perspective, since they are mostly only concerned with the case of the US.

clear once we realize that the market for political finance is dependent, as every other market, both on factors exogenous to itself (such as wealth inequality, the structure of media ownership, the level of literacy – and thus the effectiveness of alternative campaign strategies, the strength of law enforcement institutions, etc.) and on elements more proximate to it (such as the specific regulation dealing with the financing of politics, plus the constitutional framework of the party system). A key goal of this theory is to derive such unwanted configurations from general principles rather than assume them as necessary evils of an otherwise highly valued phenomenon, namely democratic representation.[2]

This is not to say that corruption, graft, vote-buying, rent-seeking, influence-peddling, non-responsiveness, lack of accountability, diminished competitiveness, the buying of office, the loss of public trust related to regulatory failures, and the infiltration of politics by criminals (to name a few) are not feasible (or maybe even common (Pinto-Duschinsky 2002)) outcomes and by-products of what happens in this market. These problems are bound to exist, but the basic theoretical goal, both for scientific and for prescriptive reasons, is for these pathologies to be explained within a body of knowledge that also allows to evaluate the potential trade-offs implied by alternative policy instruments. The empirical evaluation of these pathologies, which sometimes turn out to be less widespread or 'vicious' than otherwise thought (Ansolabehere, de Figueiredo, and Snyder 2003; Ansolabehere, Snowberg, and Snyder 2005; Milyo, Primo, and Groseclose 2000), is likely to be more rewarding if based on coherent theoretical tools.

In the next section, I develop a definition of political finance, and elaborate on three central propositions to characterize the market for political finance. I illustrate how these provide better accounts of political finance in three countries which have been studied in other papers, and conclude with some provocative implications and a call for further research.

[2] Most accounts of money and politics begin with somewhat grim approaches to the topic, see Ferguson, Thomas. 1995. *Golden Rule: the Investment Theory of Party Competition and the Logic of Money-driven Political Systems*. Chicago: University of Chicago Press, Gunlicks, Arthur B. 1993. Introduction. In *Campaign and Party Finance in North America and Western Europe*, edited by A. B. Gunlicks: Westview Press, Whitehead, Lawrence. 2005. Money and Party Politics in Modern Market Democracies. In *The Financing of Politics: Latin American and European Perspectives*, edited by E. Posada-Carbó and C. Malamud: University of London. One particularly telling example is a Pitkin's review essay on representation and democracy Pitkin, Hannah Fenichel. 2004. Representation and Democracy: Uneasy Alliance. *Scandinavian Political Studies* 27 (3):335-342.

A political theory of party finance

Political finance defined

According to a recent review of the subject, political finance broadly defined must incorporate not only the money and in-kind support used in campaigns and for permanent party organizations, but many more activities connected to politics:

> "*A full account would require us to study a) political "foundations" and other organizations which, though legally distinct from parties, are allied to them and advance their interests; b) the costs of political lobbying; c) expenses associated with newspapers and media that are created and paid to promote a partisan line; and d) the costs of litigation in politically relevant cases. Clearly, the number of channels through which money may be poured into politics not only leads to problems of definition and research, but makes political financing difficult to control as a practical matter as well. As soon as one channel of political money is blocked, other channels will be used to take its place*" (Pinto-Duschinsky 2002: 70).

The extensive cite is useful because it illustrates that a focus on 'channels' through which money flows into political activity, while essential from a practical policy perspective, is less useful from a theoretical perspective: are certain lobbies in K-street in Washington DC in the same category as the German party foundations or as Mexican parties' 'adhering organizations'?[3] Built around such strategy, it might be hard for a body of knowledge to learn from comparative experiences.

It is also useful, because it illustrates that any definition of political finance must be based on a conceptualization of the activities considered to be 'political.' Thus, it must be embedded in some theorization of politics, be it explicitly or implicitly.

Such is the case of Hopkin's portrayal of political finance as a collective action problem resulting from the decay of the mass party as an effective 'purposive' means of supporting political activity (Hopkin 2004). In this author's perspective, there are four alternative ways in which politicians have solved this problem: the 'clientelistic mass party,' characterized by the political use of public works and government expenditures; the 'externally financed elite party,' characterized by the influx of contributions from wealthy citizens or interest groups for which the party performs the service of representation; the 'self-financing elite party,' where some massively wealthy individual undertakes most of the expenses of the party; and the 'cartel party model,' where parties collude to

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[3] According to Mexican electoral code, political parties can present some civil society organizations as 'adherent' to the party, and thus these CSO's are allowed contribution limits larger than those allowed to private citizens 2003. Reglamento que establece los lineamientos, formatos, instructivos, catálogos de cuentas y guía contabilizadora aplicables a los Partidos Políticos en el registro de sus ingresos y egresos y en la presentación de sus informes. Diario Oficial de la Federación: Instituto Federal Electoral.

obtain large subsidies from the state in the form of cash transfers and/or media access (Hopkin 2004: 631-35). These "financial-organizational strategies," the author argues, "constitute significant departures from the mass party model of public-spirited funding of politics by grassroots party activists" (Hopkin 2004: 635-6).

Hopkin's argument builds on an influential article by Katz and Mair (Katz and Mair 1995) that depicts the *cartel party model* as a response by political elites from existing parties in Western Europe to the decline of their mass-based organizations. Their explanation is historical and centered in the evolution of post-World War II democracies.

However, Hopkin's theorization is less useful than desirable for several reasons. Most important is that while it could be very good at describing the main features of Western European party finance systems, such focus makes it unable to explain the effects of specific regulatory initiatives in a particular setting—which is a key analytical as well as prescriptive goal. But it may even be found wanting as a macro-comparative perspective. Just as is the case of Katz and Mair's article, Hopkin's nearly idyllic view of the mass-based party has been convincingly contested on empirical grounds, since the modal type of contribution to these parties seemed to be anything but altruistic and public-spirited, but most likely dependent on the coercion derived from closed-shop unionism, and on the widespread abuse of public expenditures by partisan officials (Kitschelt 2000).

Kitschelt's critique also suggests that the problems of party funding take specific institutional and organizational forms in certain historical contexts, but are in principle common to all types of mass *partisan* democracy. In this sense, these historical conceptualizations of party finance may lack not be useful to travel to *all* types of partisan democracy, beyond the post-WWII Western style, in particular to understand those being developed in Latin America, Africa and Central Europe.

Ambition theory and political finance

If one is to find a common character to contemporary democracies, regardless of its contextual setting, this must be the political ambition as channeled through parties (Sartori 1976; Schattschneider 1942). Defined as such, political finance is the problem of financing the career ambitions of professional politicians, something that is fundamentally, although not exclusively, done through political parties. This should not be confused with a definition of parties as organizations or bureaucracies (Panebianco 1988), but to the ambition-based account of parties as the collective endeavors of rational office-seekers (Aldrich 1995; Schlesinger 1994).[4]

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[4] Certainly, careerism is not the only motive that drives politicians in this theory, nor in Aldrich's or Schlesinger's original formulation Aldrich, John H. 1995. *Why Parties? The Origin and Transformation of Party Politics in America*: The University of Chicago, Schlesinger, Joseph A.

From this perspective, the financing of political activities will refer primarily to political campaigning and electioneering, but will also include all other political activities, as supporting permanent political organizations such as parties or political action committees, conducting research, organizing registration drives, promoting civic education among voters, whose immediate or proximate purpose is the attainment of electoral victory in future elections.

This definition in principle excludes the funding used for governance activities, since these—as election-driven as they might be—are primarily bureaucratic duties financed directly through state coffers. But this distinction will depend on each case's specific legislation, and it may even be a matter of choice for the scholar studying a particular case. For example, in most countries legislators have funds at their disposal to travel through their geographic constituencies in order to do "casework" (Mayhew 1974; Nassmacher 2003). It might be argued that this is a governmental activity, and thus these activities not considered party finance. However, the analyst might choose to categorize this support as a subsidy offered to legislators by the state to increase their chances of reelection—indeed, it often is how they have evolved. More broadly, such is perhaps an adequate schematic history of the bureaucratization of several areas of political activity, since in most countries these 'subsidies' are relatively recent (Duverger 1954; Nassmacher 2003).

The definition advanced here recognizes the myriad ways in which political finance might manifest itself, but does not intend to enumerate and categorize them. Rather, it focuses on the purpose of these activities, and thus on the politicians who get them going. The market for political funds comprises all those resources that politicians might want to use in a way that could conceivably be relevant for their career sustenance.

Also, the common distinction between 'campaign' and 'party' finance is blurred by this conceptualization to the extent that the party, as permanent organization, is considered itself an institutional means to ameliorate their career-advancing problems, among others (Aldrich 1995 : Ch. 2).[5]

This perspective is not oblivious to history. It situates itself in the broad context of mass democracy, but is not deliberately constructed as an explanation of

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1994. *Political Parties and the Winning of Office*. Ann Arbor: University of Michigan Press. But it is the one that defines their livelihood as politicians, and thus it plays a central explanatory power in the theory. Moreover, other goals attainable in the political arena (ideological, egocentric, even rent-seeking ones) depend on electoral victory for their attainment Downs, Anthony. 1957. *An Economic Theory of Democracy*. New York: Harper Collins.

[5] In the policy and legal literature, the distinction is made between 'ordinary' and 'campaign' funds, especially regarding public funding and spending limits Austin, Reginald, and Maja Tjernström, eds. 2003. *Funding of Political Parties and Election Campaigns*, *International IDEA Handbook Series*. Stockholm, Sweden: International IDEA, Griner, Stephen, and Daniel Zovatto, eds. 2004. *De las Normas a las Buenas Prácticas: El desafío del financiamiento político en América Latina*. Costa Rica: OEA - IDEA Internacional.

historical patterns of change in party systems, as those referred to above (Hopkin 2004; Katz and Mair 1995). History and context will play a key role in explaining why we have certain political configurations and not others in terms of political finance regimes.[6] The point is to provide concepts that are not completely determined by historical context, and that may serve both to characterize broad 'regime changes' and especially the effects of more specific regulatory changes in some of the outcomes of interest.

Politicians, contributions and competition

I have defined the market for political finance as the set of activities through which ambitious politicians obtain the funds necessary for the attainment of their career-seeking goals. I will now explain why political ambitions drive this market. Donors play an important, yet secondary role. They may make a lot of money and/or obtain large policy payoffs out of their participation in this market, but that is not why the market exists. The market exists because there is systematic, institutionalized uncertainty in electoral outcomes (Przeworski 1991), and in this sense it is itself a manifestation of democratic competition—even if politicians do their very best to constrain such uncertainty, both in each election and over the long run.[7]

1. Politicians' demand for political finance generates the market

Political finance is much more important for politicians than it is for donors. Politicians need the money to run their campaigns, to study electorates, to get their message across, to drive out the vote, etc. Of course, political funds and support are scarce, and it makes no sense to assume that political finance is made up only of 'charitable' or uninterested contributions. But the market for political funding is created by career-seeking politicians' demand.

Politicians depend entirely on some combination of assets (cash or in-kind, donated or provided by the state) to be effective in their career advancement.

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[6] Elsewhere I have expanded upon the insights of the cartel party model to account for oligopolistic behavior in emerging democracies Poiré, Alejandro. 2006. From the Public Interest to the Poisoned Subsidy: Public funding of political parties in democratizing countries. In *WWICS Post-Doctoral Fellows in the Study of Democracy Competition*. Santiago, Chile: Woodrow Wilson International Center for Scholars.

[7] The point here is that demand for money is determined by short term competitiveness, as Samuels suggests following Jacobson Jacobson, Gary C. 1978. The Effects of Campaign Spending in Congressional Elections. *American Political Science Review* 72:469-491, Samuels, David J. 2001a. Does Money Matter? Campaign Finance in Newly Democratic Countries: Theory and Evidence from Brazil. *Comparative Politics* 34:23-42., but also that politicians may devise fundraising strategies and party finance systems that might attenuate such competitive pressures for several periods to come Soskice, David, Robert H. Bates, and David Epstein. 1992. Ambition and Constraint: The Stabilizing Role of Institutions. *Journal of Law, Economics and Organization* 8 (3):547-560.

In the absence of these resources, their central professional goal is not going to be fulfilled. There is no other activity in society that depends to such extent on the existence of a market for political funds.

This is true regardless of the level of funding necessary to be successful. For some elections, technology, relevance of the office and size of the electorate might make costs of campaigning nearly negligible. But to the extent that the attainment of office is more important to the politician than to anybody else, she will bear primary responsibility for affording them.

In contrast to ambitious office-seekers, most donors can always refrain from politics to attain their defining goals. Even is we go so far as to assume that certain traits of organized crime (from drug dealers to smugglers, to mention a couple) are always entrenched in political systems to a certain degree, these activities can survive without necessarily funding election campaigns or worrying too much about politicians' career advancement, partly because they can always use coercion to impose themselves upon segments of the state.

A similar problem is posed by the government contractor, often assumed to be interested in financing politics for the attainment of future benefits. Certainly, this is a well known pattern of exchange, but it remains true that contractors can still maximize their utility without participating in political finance; both because they can sell their goods and services to other buyers, and also because they can engage in corruption and influence trading without necessarily devoting money to an elected or up-for-election official, but to permanent bureaucrats.[8]

This is not to deny that there exist donations essentially motivated by politics and specifically political benefits, and that many donors—even individual ones—are likely to be driven by such concerns (Verba, Schlozman, and Brady 1995). Indeed, to posit that the market for political finance is not driven by interest group's pressure on the legislative process is perhaps a controversial assertion. But even in cases where one would allegedly expect 'power-money' to be most influential (Whitehead 2005), there is overwhelming empirical evidence against such a characterization.[9]

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[8] This is what Treisman indicates might be going on in part of his analysis of the Russian political market, which I analyze in greater detail below. See Treisman, Daniel. 1998. Dollars and Democratization: The Role and Power of Money in Russia's Transitional Elections. *Comparative Politics* 31 (1):1-21.

[9] This is no place to summarize this literature. Some of the most compelling accounts are Ansolabehere, Stephen, John de Figueiredo, and James M. Snyder. 2003. Why is There so Little Money in U.S. Politics? *Journal of Economic Perspectives* 17 (1):105-130, Milyo, Jeffrey, David Primo, and Timothy Groseclose. 2000. Corporate PAC Campaign Contributions in Perspective. *Business and Politics* 2 (1):75-88. and Bronars, Stephen G., and John R. Lott. 1997. Do Campaign Donations Alter How a Politician Votes? Or, Do Donors Support Candidates Who Value the Same Things That They Do? *Journal of Law and Economics* 40:317-350.; but see Stratmann, Thomas. 2000. Congressional Voting over Legislative Careers: Shifting Positions and Changing

> Beyond the empirical debate of the US case, even if we assume that interest groups expect to make a fortune in eventual policy returns for their contributions, the key thing to keep in mind is that participation in the financing of politics as defined here is hardly the only way for them to either attain such wealth, or even to fulfill their political objectives. In this regard, while they may try to take advantage of the existence of this market, it does not exist because of their supply of funds—or even their interest to 'buy' public policy or public services (Ansolabehere, de Figueiredo, and Snyder 2003; Tullock 1972)
>
> Certainly, the participation of interest groups in the market for political funding can not be simply substituted by alternative arenas of maximization—as is arguably the case of the examples of organized crime or government contractors. They are likely to be a part of the market for political funding as suppliers of contributions, even if it is obvious that there are other political venues for this kind of participation that are not as directly linked—as lobbying, for example—to what has been defined here as political funding. But these interested donations remain secondary to the demand generated by politicians whose livelihood directly depends on the moneys they can gather to win an electoral contest.
>
> To make the same argument from a different perspective, there certainly *can* exist a market for political finance *without* the participation of benefit-seeking donors, but not in the absence of donation-seeking politicians. It is the ambitious office-seeker, and nobody else, who explains the emergence of a market for political finance. It is for him, and for nobody else, that existence is unthinkable save in terms of political finance.
>
> A final point is in order. Politicians themselves create the rules that govern markets for political finance, and it is reasonable to think that they will adapt those rules to their best interest; in fact, such is the assumption behind the notion of the *cartel party* (Katz and Mair 1995). Opportunities for rent-seeking (and other types of abuses) are likely to be exploited. Yet this does not mean that rent-seeking is politicians' main motivation or even the typical mode of behavior. It may be quite an important one, but it is always secondary to the need to maintain elective office. As is the case with donors, rent-seeking may be more likely under certain characteristics of the regulatory environment, but is not assumed as the main mode of behavior: to abuse office you first have to be elected to it.

The market for political funding is thus created by the demand for contributions generated by politicians. On the other side of the market, contributors of all types exist: often organized around group interests and also as individuals; in

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Constraints. *The American Political Science Review* 94 (3):665-676, Stratmann, Thomas. 2002. Can Special Interests Buy Congressional Votes? Evidence from Financial Services Legislation. *Journal of Law and Economics* 45 (2):345-373.

some cases in greater abundance than others, and with more to contribute than others. In some cases, they are allegedly relegated to playing a marginal role because of massive cash and in-kind subsidies.[10] But there they are, always playing an important role, which I will turn to in more detail below.

2. *Politicians' need for campaign finance is dynamic*

An essential task of a theory of political finance that is centered on politician's demand for career-seeking funds is to account for the way in which this money helps them win elections. The literature on this subject (mostly from congressional and senatorial elections in the United States) is too vast to be summarized here, but the contemporary debate revolves around the following issues, most of which are less than settled: what the magnitude of the effect of spending on electoral performance is; whether such electoral returns from spending are linear or there are 'marginal diminishing returns;' whether incumbent and challenger returns from spending are similar; if they are different, whether the difference is owed to a different 'intercept' or starting point, or whether it is owed to a different 'slope' or per-unit of spending effect; and if these differential returns exist, what the underlying reason behind them is. Beyond the most sophisticated analyses available for the US (Erikson and Palfrey 1998; Gerber 1998; Levitt 1994), which touch upon most of the issues detailed above, published accounts from other countries also address similar concerns: Japan (Cox and Thies 1998; Cox and Thies 2000), Brazil (Samuels 2001b; Samuels 2001c), Ireland (Benoit and Marsh 2003), Britain (Pattie, Johnston, and Fieldhouse 1995), Russia (Treisman 1998), and France (Palda and Palda 1998).

A clear lesson from this literature is that demand for funds is dynamic between contenders. In a given electoral contest, unless we assume electoral returns on spending to be negative or strictly equal to zero, the more one contender spends, the more the other one will need to spend to maintain her competitive position. Because of this, for contenders trailing in the polls, the incentive will be, ceteris paribus, to outspend whoever is leading in the polls.

This is not to say that electoral victory solely depends upon campaign spending. The actual level of money spent and raised, as well as the outcome of the election itself will depend on many other things. But it is important to highlight that given non-negative, non-zero returns to spending, contenders will remain interested in funding for their activities when electoral outcomes

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[10] But even in those cases, their alleged marginalization is anything but assured. See Pinto-Duschinsky, Michael. 2002. Financing Politics: A Global View. *Journal of Democracy* 13 (4):69-86., and for a Mexican perspective Poiré, Alejandro. 2006. From the Public Interest to the Poisoned Subsidy: Public funding of political parties in democratizing countries. In *WWICS Post-Doctoral Fellows in the Study of Democracy Competition*. Santiago, Chile: Woodrow Wilson International Center for Scholars. and Córdova Vianello, Lorenzo. 2005. Evolución, alcances y futuro de la fiscalización electoral en México. *Documento de Trabajo 66*.

are uncertain.[11] They may not be able to invest in such fundraising, or their pool of potential donors might have dried up—just as pools of voters are finite as well, or they may even slow down their efforts to obtain such funds if their advantage in the polls is insurmountable. But they will lust for money on the campaign trail just as they lust for votes on election day.

This is true of campaign-related money, strictly speaking, but also valid for all types of political finance, as defined in this paper, including 'party' moneys. Politicians' demand for money for their permanent organizations makes sense to the extent that these institutions will be useful come election time. This applies both to highly centralized party organizations that monopolize access to the ballot (Rahat and Hazan 2001), and to candidate-centric cases, where party organizations are allegedly much weaker (Ansolabehere and Snyder 2000b; Jacobson 1986). Campaign season certainly heightens demand for funds (Brown Jr., Powell, and Wilcox 1995), but long-term investments in a solid party organization (Domínguez and McCann 1995), or even in the 'war chests' of individual incumbents (Ansolabehere and Snyder 2000a), are often considered essential for electoral success.

In short, the amount of money is always important, but it is always more important *relative* to what other contenders may obtain and spend. That is the reason why public funding may not reduce demand for private donations, since contenders assume there is a high level of funds available for others to begin with: "a party or candidate who obtains public monies, knowing full well that such monies are equally available to competitors, will not therefore stop looking for more money with which to outspend and outmaneuver political opponents" (Pinto-Duschinsky 2002: 78).

More generally, this observation explains why formal limits to expenditures and donations may be especially hard to enforce: if the competitive setting makes contenders believe that extra spending will make a significant difference in the electoral outcome, candidates will probably choose to incur in 'off-the-books' political finance if they are near the limits set by the formal

[11] Of all the articles surveyed, only Treisman argues the possibility of negative returns to electoral spending in newly-democratic Russia Treisman, Daniel. 1998. Dollars and Democratization: The Role and Power of Money in Russia's Transitional Elections. *Comparative Politics* 31 (1):1-21. Yet, there is no systematic evidence offered in this regard, and the argument as laid out only applies to *inept private* spending. Certainly, nobody would argue that highly inept investments should expect to see positive returns in *any* activity, let alone the contentious one of winning over voter loyalties. Other authors have encountered evidence (contested on methodological grounds Levitt, Steven D. 1994. Using Repeat Challengers to Estimate the Effect of Campaign Spending on Election Outcomes in the U.S. House. *Journal of Political Economy* 102 (4):777-798.) of some non-positive effects Jacobson, Gary C. 1990. The Effects of Campaign Spending in House Elections: New Evidence for Old Arguments. *American Journal of Political Science* 34 (2):334-362., but even if these results are empirically robust, they constitute 'equilibrium' outcomes, that suggest that incumbents spend a bit more of what they actually needed, given large initial advantages in electoral strength over challengers *and* larger expenditures as well. The bottom line is that spending *does* have positive returns *until* the equilibrium point is reached.

market. Such is likely to be the case with regards to campaign spending limits, as was the Mexican case in 2000 and 2003 (Poiré 2006), but also with donation limits and bans on contributions, as is the current conundrum of US law with issue advocacy and '527 organizations' (Potter 2003). Clearly, regulation and sanctions can be effective instruments at changing the relative payoffs of formal vs. informal funding strategies (Ackerman and Ayres 2002), but the competitive ingredient in demand for political funding makes it impossible to assume that the market for political finance can be simply substituted or nullified.

3. *Political contributions are not inherently corrupt*

A comparative conundrum? Russia and Brazil

In a recent contribution to the comparative debate over campaign finance, competing arguments are summarized as follows:

> "*There are thus two competing hypotheses about campaign funds in transitional democracies. Treisman's argument implies that there ought to be little market exchange in campaign finance in newer democracies. In contrast, I outlined three hypotheses that permit cross-national exploration of the impact of money in elections in new democracies. First, the supply of money in elections is a function of the incentives that potential contributors have to influence the distribution of government services. Second, the demand for campaign funds is a function of the inter- and intra-party competition. Third, market exchange will occur to the degree that politicians seek to establish a reputation and repeat interactions with donors and that politicians and donors have established quasi-institutional sanctioning mechanisms*" (Samuels 2001a: 37).

The reference is made to an article by Daniel Treisman (Treisman 1998) in which the absence of a large market of campaign finance from private sources in Russian elections from 1993 to 1997 is explained as a 'paradox,' namely that because an overall lack of institutionalization of markets, expressed in an inability to see donations effectively translated into vote shares, donors' willingness to buy policy and services from Russian politicians is thwarted. This is paradoxical, because in this setting, of "large new concentrations of wealth, an inexperienced electorate, poor monitoring of campaign finance, and a weak legal environment, private money does not seem to have fundamentally changed the outcome of Russia's early elections" (Treisman 1998: 10).

From the perspective of the theory presented in this paper, these two arguments are less contrasting than they seem. Contrary to what I have posited here, both authors assume that the key element driving the existence

of political funding is donors' attempts to obtain benefits from politicians. In Treisman's Russia, there is a reason why this does not happen, and that is the high transaction costs owed to low market institutionalization. In Samuels' rebuttal, Treisman's evidence is too limited to be taken seriously, and his own reading of the Brazilian experience in the 1990s illustrates that even in such low market institutionalization conditions, there might be informal arrangements that allow for public service exchanges to generate a political funding market.

But in both arguments, political contributions are inevitably bound to be self-interested, instrumental with regards to some specific public decision, and outright corrupt: Samuels' argument is entirely about the exchange of contributions for government services, even if he acknowledges that "[N]ot all campaign finance is service-induced; some may be policy-induced. However, in countries like Russia and Brazil, where parties and party identities are relatively weak, politicians change political allegiances frequently, and pork-barrel politics is very important for political survival, it is more likely that campaign funds will be service-induced." (p. 24). Yet it is clear that in this perspective, even policy-induced contributions are self-interested and instrumental, and that the reason behind their relative insignificance is not in donors' motives, but in politicians' inability to offer the expected policy benefits. Treisman's formulation is even less ambiguous: in new democracies, "an inexperienced electorate is confronted by a field of unfamiliar, cash-rich, and poorly regulated candidates who are eager to invest in consolidating their new property rights through the electoral system" (p. 1).

This perspective on political contributions strikes a familiar chord with a recurrent theme of the financing of politics: that contributions are made to unduly shift public decisions for private gain. The topic probably has an even more researched and hotly contested history in the United States than the one on the electoral returns to campaign spending, but the published record is virtually non-existent for other countries (Milyo 2002; Stratmann 2005). And regardless of the nuances of the specialized literature on the impact of campaign finance on political decision-making, most pundits, politicians and citizens in the United States regard its process pretty much as a prime example of a political system driven by private interests' finance.[12]

Consider what the ambitious office-seeker approach entails for these self-interest driven perspectives of political finance. Samuels' depiction of demand for money is based on electoral competitiveness, an insight consistent with the theory presented in this paper. However, his interpretation ultimately gives too limited a role for the real pressures of

[12] This , however, could partly be determined by widely available and clearly unrepresentative information confirming false beliefs Ansolabehere, Stephen, Erik C. Snowberg, and James M. Snyder, Jr. 2005. Unrepresentative Information: The Case of Newspaper Reporting on Campaign Finance. *Public Opinion Quarterly* 69 (2):213-231.

elections on professionals who make a living out of winning elections, as he readily admits that public funding will eliminate or reduce politicians' need to raise funds.[13]

Given this demand for funds, indeed increasing in relative competitiveness, the market for public decisions depicted by Samuels and Treisman might in theory exist; but for the cases they discuss, with the evidence they present, I remain unconvinced that it does; and even less so that such is the best way to theorize about political finance.

Certainly, the amounts being exchanged in Russian elections make it highly implausible to believe that there existed anything like a market for public favors—paid for with election funding—for the period Treisman studies. For example, he reports that in 1993, despite the fact that there were no formal requirements for public disclosure, that oversight capacity was limited only to indirect instruments, and that enforcement and sanctions were very weak, the closest any one of the thirteen voting blocs got to the 2.4 million US dollar spending limit was Russia's Choice, which reported spending of $1.5 million US (a full 37.5% under the limit), with the runner-up in spending all the way down to 669.4 million (72% under the limit), and the third biggest spender down to 306 million (87% under the limit). Reported expenditures were so small among the other contenders, that the total amount spent by the thirteen blocs, $ 3.7 million US, was less than the cumulative limit allowed to only two of them (4.8 million) (Treisman 1998: 3-4). The question is not how much under-reporting there was, but what could lead us believe that there would be *any* incentive to under-report in this environment?

There is no obvious reason to believe that spending was strategically misreported—despite Treisman's own concerns about the validity of the data. Real spending could be much more than what is reported, but the misreporting is likely to be owed mostly to poor book-keeping and/or campaigns' natural organizational disorder. But assuming limited incentives to under-report, the contributions not properly accounted for are hardly going to be the larger ones, and thus the real totals would most likely remain within a similar order of magnitude of what is actually presented in the paper.

Another piece of evidence in line with this interpretation is the fact that for the 1995 parliamentary election in Russia, the most advertised party in TV was monitored for a total exposure of 441 minutes, and the runner up for 331 minutes (Treisman 1998: 8). This for a country with an approximate electorate of 107.5 million voters in 1995.[14] In comparison to another fairly

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[13] Interestingly, Samuels immediately admits, although in a footnote, that such has not been the case in Germany, see footnote 17, p. 40.
[14] IDEA voter turnout website http://www.idea.int/vt/country_view.cfm?CountryCode=RU, accessed on April 18, 2006.

recent democracy, in Mexico's presidential election of 2006, for only the first half of the campaign, and with an electorate of 70 million voters, a monitoring of the eight most important media markets in the country reflected a total exposure of all political parties and candidates of 300,786 seconds in TV spots, with between 1,300 and 2,200 minutes for each of the top three contenders.[15]

On the other side of the proposed contributions-for benefits equation, Russia's GDP in 1993, crisis and all, was of nearly $173 US billion, and government expenditure over 35 US billion.[16] Should Samuels be right about the key logic of existence of campaign finance markets, and about what politicians are able to do even in places where conditions for institutionalized exchanges are as haphazard as they seem to be in Brazil, then the paradox presented by Treisman is even more incomprehensible: only a few million dollars devoted to such a potentially profitable market for influence? What is keeping Russian politicians and their suppliers of money from creating these simple-enough institutions? Clearly, if Samuels' key argument is right, there is no reason to believe that such was a tenable equilibrium –yet the figures reported by Treisman for the ensuing 1995 and 1997 elections remain within similar, quite modest magnitudes.[17]

Samuels' own evidence from Brazil is also instructive. He reports, for example, that candidates for governor, senators and federal deputies in the 1994 federal elections spent a total of 218.7 million US dlls.[18] This is certainly higher than the meager figures from the Russian case—even in per-voter terms, since registered voters in Brazil in 1994 were 94.8 million[19]—and is intended to back the claim that market exchanges are feasible due to the existence of credible commitments between politicians and their cozy entourage of friends and family gaining access to government benefits.

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[15] Instituto Federal Electoral, *Acumulado de Tiempo Total Transmitido en el Periodo del 19 de enero al 31 de marzo de 2006*. Televisión.
[16] Economist Intelligence Unit country data, annual series, *Nominal GDP (US$)*, and estimated through *Budget expenditure (% of GDP.)*.
[17] According to Samuels, the reason could be that Russia's economy was still mired by the legacies of the communist economy, and an overall underdevelopment of exchanges of money for services Samuels, David J. 2001a. Does Money Matter? Campaign Finance in Newly Democratic Countries: Theory and Evidence from Brazil. *Comparative Politics* 34:23-42. This is not the place to evaluate such hypothesis, but I will attempt to stay within the realm of political funding for an alternative explanation.
[18] Such figures are the result of adding up the totals in Table 1, p. 31, which come from official public records filed by candidates. To this figure one would have to add total presidential campaign spending, for which Samuels only gives the winner's spending share (Fernando Henrique Cardoso, 33 million US, p. 31). Only one paragraph later, Samuels takes as equally valid a newspaper report that "apparently included ripple effect spending, not only direct spending" (fn. 36, p. 41) that argues that total spending in the 1994 Brazilian elections fell between 3.5 and 4.5 billion US. However, Samuels himself assures the reader that his own data has been extensively checked for validity (fn. 33, p. 40), so I here stick to the figures from official reports.
[19] IDEA voter turnout website http://www.idea.int/vt/country_view.cfm?CountryCode=BR, accessed on April 18, 2006.

However, how could it be explained that in this market, losers still get quite sizeable amounts of donations? Upon closer look, it is puzzling to see that in a market in which what is exchanged is influence over the provision of public goods, the average losing candidate for governor gets almost one fourth ($729 thousand US) of the money that a winning one obtains ($2.8 million US). Similar figures are present in the comparison between losing candidates for senator and federal deputy, with the former getting on average 44.7% of what winners do, and the latter 25.8%. This is the average market share of funds obtained by someone who by definition cannot provide the expected benefit. Seems like a pretty poor deal for those investing in losers, right?

The figure is even less reasonable once one considers *total* market share as divided between all winners and losers—which is not directly reported by Samuels, but can be obtained from the information presented.[20] According to his article, in 1994 in Brazil, the total share of the market for "service-induced" contributions that went to politicians who, having lost election, were unable to induce any service whatsoever was 41.8% for gubernatorial elections, 47.8% for senatorial elections, and 41.8% for deputy elections. Is there any other realm of economic activity in which such a large share of the market goes to service providers who just do not provide?

Certainly not. The problem is not that Brazilian benefit-seekers ignore the basic facts of political competition so much as to devote more than 40% of their investments to failed candidates; or that their Russian counterparts are unable to incur in political markets because of their lack of experience with market economics more generally. What seems unreasonable is to characterize these transactions as an exchange of money for some service or policy benefit.

Others have argued along similar lines. Looking at the case of the United States, Ansolabehere, de Figueiredo and Snyder (Ansolabehere, de Figueiredo, and Snyder 2003: 110-112) convincingly demonstrate that given the revenue that could be obtained from government expenditures (about $2 trillion in 2000, of which about $590 billion are devoted to consumption and gross investment), clearly the total size of donations (only$ 3 billion for the 99-00 cycle, of which nearly $2.4 billion came from individual citizens, $235 million came in the form of public subsidies for the presidential campaigns,

[20] The algebraic derivation is simple: total expenditures equals number of winning candidates times the average spent per winner, plus number of losing candidates times the average per loser. Total number of candidates equals winners plus losers. Total expenditures are known, since we have average spending and total candidates reported. Given this, the total number of winners equals the total number of candidates multiplied by the ratio between two differences: the difference between average winning expenditure and the difference between average winner and loser expenditures. Data from Table 1, p. 31 Samuels, David J. 2001a. Does Money Matter? Campaign Finance in Newly Democratic Countries: Theory and Evidence from Brazil. *Comparative Politics* 34:23-42.

and *only* $380 million came directly from corporations in the form of soft money and independent expenditures) is incredibly small. On top of that, too many large firms do not even have PACs, too many of these PACs do not contribute or contribute well below their limits, too many individuals also contribute below their limits, and generally, the market for policy and service-induced benefits clearly seems to be overwhelmingly under-funded. This, according to the authors, is simply because "campaign contributing should not be viewed as an investment, but rather as a form of consumption—or, in the language of politics, participation." (Ansolabehere, de Figueiredo, and Snyder 2003: 117)

This is precisely what can be concluded from evaluating an alternative answer to the question about the share of the market that goes to losing candidates in Brazil. Whitehead assures that given the uncertainties inherent to the exchange of money for political decisions, returns on investment must be pretty large—on the order of ten to one (Whitehead 2005: 26-27), and thus may warrant the losses involved. Still, this could be behind the large ratio of the marginal campaign contribution to some policy benefit, but could certainly not explain the weakness of total contributions. If these were such a profitable even if risky business, many more firms and corporations would be willing to put some money into it, and total contributions would go up. This is clearly a possibility for the case of the US market, where in the absence of campaign spending limits, barriers to entry of new donors are in principle non-existent.

More importantly, even if we were to take Whitehead's proposition as valid, the high risk component attached to investments in political benefits would make these transactions seem much less like *quid pro quos* in which donors invest their monies and which politicians will make an effort to honor, and instead much more like lottery tickets, in which it makes sense for some buyers to throw money away given the high payoffs expected from hitting the jackpot. Yet in lotteries it seems more reasonable to see buyers as price-taking consumers of an entertainment with low probability of success, than as investors of any sort, cutting deals and getting the market going.

Rational contributions: investment, consumption and assets

Given the inherent uncertainties of democratic competition, self-interested political finance is likely to suffer from similar problems than those commonly associated to 'rational' turnout (Aldrich 1993), and are also best interpreted as decisions that have both an expressive, 'consumption' component, and a self-interested, 'investment' component; and that are strongly determined by social and economic background and financial assets (Verba, Schlozman, and Brady 1995).

The problem with strictly instrumental perspectives of turnout is that given any sizeable electorate, the chances that one's vote will change the outcome of the election are so small that participation will not depend on total values of these returns, but either on some underlying taste and resources for it, or at best on marginal changes on the cost of voting, on the chances of influencing the outcome of the election, on the expected benefits, etc.[21]

Directly transplanting the rational turnout framework to the donor's problem of rational political funding, we can define the net expected returns from a contribution as the value of the return times the probability that the contribution will generate the return, minus the cost of the contribution. Just as is the case with turnout, contributions will only be instrumentally rational if their total cost is lower than the benefit times the probability that the contribution will produce electoral victory.[22]

Now, assuming that electoral victory assures that the benefit will be provided,[23] the problem is how to determine the likelihood that one's specific contribution will actually generate electoral victory—because if such probability is small enough, then instrumental motives behind contributions are likely to be very weak.

The problem in the turnout equation is one in which it is simple enough to count the votes, but the probability that the vote itself will make a difference is actually infinitesimal—and there is a strong incentive to let the sum of other voters decide the election themselves, and thus participate—if at all—out of consumption motives.

The problem for the rational contributor is slightly different: instead of just being able to produce one vote, she may be able to give a lot of money, and thus increase the chances that her contribution makes a difference. But one thing is to say that the electoral returns of money spent are different from zero—as argued above, and a very different one is to be able to ascertain, in a specific electoral context, the extent to which some contribution is likely to affect the outcome—especially because, as we have also discussed, demand for money will be dynamic, and one particular contribution to one candidate may be drowned out by outpours of money to other contenders.

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[21] There is evidence from the Mexican case that electoral behavior does respond to marginal changes in probability that the vote will make a difference in the electoral outcome McCann, James A., and Jorge I. Domínguez. 1998. Mexicans react to electoral fraud and political corruption: an assessment of public opinion and voting behavior. *Electoral Studies* 17 (4):483-503, Poiré, Alejandro. 2000. Turnout as a Rationally Careless Investment Decision: an Application to the Mexican Case in 1994. In *ITAM Working Papers in Political Science*. México: Departamento Académico de Ciencia Política.

[22] In this basic formulation, I ignore a potential "duty" term, the inherently expressive or 'taste' component.

[23] Which is an especially contestable proposition in collective bodies, such as legislatures.

More generally, in the context of elections in which it is uncertain who will win—as those defining democracy (Przeworski 1991)—the probability that one political contribution determines the outcome of an election is also determined by what other potential contributors to the same candidate do. In this scenario, potential donors will approach the 'contribution decision' much with the same misgivings as voters approach the 'rational turnout' one: collective action and free-riding incentives are likely to kick in, some collective rewards will seem likely to be realized (or not) regardless of what one does, and while it is true that the size of the individual rewards is likely to be larger than those obtained through turnout—and again, assuming that electoral victory *guarantees* rewards will be obtained—costs are also going to be much larger than the meager ones associated with showing up to a precinct on election day.

To make matters worse, while there is no downside to not voting—or annulling your ballot—in most democracies, in settings in which you invest enough to obtain private benefits from a contender if she wins, there are much higher probabilities of paying some non-negligible costs if she loses, making such strategies even less attractive.

In this environment, it is not surprising that in Russia in the 1990s there were minimal private contributions—given the economic crisis and the ability of politicians to use pork and other public works directly to mobilize electoral support; that in the US these contributions are much larger, but mostly being given by individuals committed to certain policy positions and with higher than average levels of income; and that in Brazil those few who contribute (also modest amounts) are either the friends and families of those who compete—since these will still bear the costs and benefits of victory or defeat, or large corporations who may be able to face no downside and for whom giving to these campaigns is literally like donating to charity.[24] All of these features of the market for political funding are consistent with the theory developed in this paper, as applied to the specific structure on which politicians spend their time looking for contributions.

If the arguments in this section are convincing, the following implication should be the starting point for an ambitious empirical research agenda on comparative political finance regulation: politicians will always seek their needed political money in the cheapest possible way; they may find opportunities to change the rules in order to maximize this setup over the long and short run. The uncertainty inherent in democracy is something that is itself disliked by careerist incumbents, and that is why political finance regulation is often suspect of attempting to reduce competitive margins (Katz and Mair 1995; Milyo 2002; Poiré 2006).

[24] This charity perspective suggests a parallel strategy, to avoid retaliation: you give at least to all candidates with some chance to win. Instances of such behavior have been seen in the case in Mexico for some of the most relevant business owners since disclosure of contributions was implemented in 1997.

> But given competitive pressures, politicians will end up resorting to donors even in the least likely of structural settings. Donors will respond to politicians' prodding with *different types of behavior* owing to a combination of motives: not merely corrupt, mostly but not only expressive. In this sense, different regulatory environments and exogenous, structural conditions, should be able to generate different types of markets for political finance—and certainly, in some instances, corruption might thrive. But also, in others, it will be a minor concern. From this theoretical perspective, the empirical agenda might better illuminate comparative regulatory concerns.

Conclusion: some provocative implications

Several implications follow from the theory developed above. I only present a couple, which must await more rigorous development and testing. To start with a controversial one, disclosure of donations, a favorite proposal of policy think-tanks (Austin and Tjernström 2003; Griner and Zovatto 2004) might be overrated. The argument for disclosure is straightforward: private donations are inherently corrupt. Knowledge of these exchanges might force politicians to renege from the most abject or embarrassing ones—or at least allow voters to judge which are acceptable and which are not. In the absence of disclosure, this self-regulation by politicians and monitoring by donors would be absent, and thus corruption would overflow the system. Thus disclosure does not solve the problem, but clearly attenuates it.

Others have warned about some of the problems related to disclosure in campaign finance. In some cases, transparency might be manipulated to unduly increase incumbent advantage (Epstein and Zemsky 1995), and in others disclosure is the glue that binds politicians with donors of service-induced contributions (Ackerman and Ayres 2002).[25] To the extent that disclosure allows winners to know who contributed to losers, it turns into a device which raises the expected costs of 'wrong' contributions to losing candidates—regardless of donor motivation. Given larger expected costs across the board for all types of contributors, perhaps only those whose expected payoffs are large enough if they win will remain in the market, and those contributing mostly out of non-instrumental motives will leave and discreetly vote for their favored candidate in election day—much as the Brazilian evidence presented by Samuels suggests. From this perspective, disclosure serves as what is often called a 'separating equilibrium,' in this case weeding out the "good" expressive contributions from the political market, and keeping in the "bad" self-interested ones.

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[25] Also see Ackerman and Ayres' Ackerman, Bruce, and Ian Ayres. 2002. *Voting With Dollars: A New Paradigm for Campaign Finance*. New Haven, CT: Yale University Press. discussion of the role of the secret ballot in bringing turnout down, since politicians cannot monitor voter behavior directly, from Cox, Gary W., and J. Morgan Kousser. 1981. Turnout and Rural Corruption: New York as a Test Case. *American Journal of Political Science* 25:646-63.

A second implication of my theory is that real campaign spending limits (CSLs), another workhorse of reformist movements, might increase self-interested contributions. Real CSLs refers to expenditure ceilings that are both effectively enforceable (in the sense that if surpassed through 'black market' spending, there is a high likelihood that the violation will be identified and costly sanctions will be imposed), and that truly represent a limit—namely that they do force competitors to spend less than what they otherwise could. What these limits actually do—beyond their possible effects on equality or competitiveness—is that they allow donors to get a clear sense of the relative worth of their contributions to a candidate's performance—and in principle to increase such worth. An extreme example comes from Mexican law since 1997, where the campaign spending limit for a single-member-district federal deputy is at about the same level than yearly contribution limits set to individual citizens (nearly $100 thousand for the 2006 election). At the aggregate level, contribution limits in Mexico also allow for these detailed strategic calculations: the total amount that a party can fundraise is equal to 200 times what they can obtain from a single individual (2005).[26]

In this scenario, the uncertainty around the relative worth of the self-interested donor's contribution disappears—he knows exactly what proportion of the spending he is making, and how much it may represent relative to other contenders' spending. And it also gives a contribution of the same amount a larger market power by definition, since additional donations cannot be obtained or spent. Under these circumstances, real CSLs should make self-interested contributions more pervasive, since expressive donors are unlikely to engage in such strategic calculations—being motivated mostly by consumption concerns, but 'bad' donor's exchanges might effectively crowd them out, due to their higher market value.[27]

Similar hypotheses can be derived about the impact of these and other regulatory institutions on political finance, such as public funding and other subsidies, campaign length and modes of regulation applied to primaries, etc. More generally, the impact of other exogenous factors can also be addressed from this perspective, as well as explanations for changes in regulatory settings. My contention is that the theory presented here, by tying party politics with political finance, offers a better explanation of political finance than those underlying most of the comparative literature. I have made this argument both on logical grounds, and addressing published evidence and interpretations from the US, Russia and Brazil. A challenging empirical and theoretical agenda lies ahead.

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[26] This calculation only applies to the largest parties. For smaller parties, the ratio is smaller, since the limits on individual contributions are constant, but the limit on the sum of contributions is determined by each parties' total public funding, itself a function of previous electoral success.

[27] This is true unless we assume that office-seekers have a preference for expressive donations that is strong enough as to warrant the extra investment needed to obtain these funds and not the more readily available self-interested ones.

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