The World Upside Down: De-Legitimizing Political Finance Regulation

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Abstract

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

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

Introduction

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

It was precisely in order to avoid the temptations of illegal funding and corrupted practices that states started to contribute to the parties' finances, providing them with public funding and introducing a broader system of party finance regulation (Koβ, 2011; Scarrow, 2007; Pinto-Dushinsky, 2002). The introduction of party finance rules on political parties has often been portrayed by both national legislators and supra-national policy advisors[1] as a way to restore public confidence in political parties and re-establish their legitimacy within the political system. Is it really the case, however, that public funding to political parties and political finance regulations correlate with lower perceptions of party corruption?

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

Following the popularity of the 'cartel party thesis' (Katz and Mair, 1995), scholars have rather looked at the effects of party finance regulations on party systems

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

(Pierre *et al*., 2000; Scarrow, 2006; Spirova, 2007; Booth and Robbins, 2010), electoral volatility and membership (Casas-Zamora, 2005; Whiteley, 2011), as well as on the organizational development of individual parties (van Biezen, 2003; Nassmacher, 2009; Tavits, 2007; Casal Bértoa and Spirova, 2013). Yet, the validity of the most fundamental assumption justifying state intervention in the parties' financial matters, i.e.: that state regulation of party finance limits the possibility of party corruption, has been investigated too little. This study constitutes an attempt to fill a gap in the literature by bringing the debate on the relationship between political finance and party corruption back in by analyzing some of the most important assumptions linking both variables. The article makes use of an original dataset examining the most important aspects of political finance in both Europe and Latin America: namely, payout thresholds, private funding limitations, oversight organs and sanctions (Karvonen, 2007). Employing a quantitative approach, the present work tries to give an answer to the normative question on the positive effects of political finance regulation on party corruption through a comparison of thirty-seven countries (28 in Europe and 9 in Latin America).

With such a goal in mind, the article proceeds as follows. Section one looks at the relationship between party regulation and corruption with a special focus on the reasons for the introduction of public subsidies (when appropriate) and the whole financial regulatory regime. It also presents a brief history of political finance regulation in both Europe and Latin America and introduces our research question. The so-called "chicken-and-egg" paradox is briefly discussed in the second section. Section three reviews the literature on the positive effects of political finance regulation on party corruption, stating six different working hypotheses which are tested in the following section. The final section concludes by summarizing the main findings and its implications in terms of institutional engineering, recommending some possible changes in terms of regulation.

Political Finance[2] and Party Corruption

While political parties emerged at the turn of the XIX and XX centuries, the study of party regulation, and the regulation of their finances in particular, has taken place only very recently (Biezen, 2011; Biezen and Molenaar, 2012; Biezen and Rashkova, 2012; Biezen and Piccio, 2013; Casal Bértoa *et al*, 2013). With the notable exception of Uruguay where public funding to political parties was introduced in 1928, public subsidies to parties for organizational or electoral campaign purposes, together with a set of legal rules establishing the contours of party finance regulation, were introduced at the end of the 1950s only. Figure 1 provides an overview of the years in which public funding to political parties (aiming to contribute either to the parties' ordinary activities or to election expenses) was introduced in European and Latin American democracies.

[Figure 1 around here]

As it follows from the figure above, nearly all European and Latin American countries have introduced direct subsidies to political parties with the exceptions of Switzerland and Ukraine in Europe, and Bolivia, Peru and Venezuela in Latin America.[3]

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

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

In these countries, where parties exclusively rely on private resources (mainly membership fees and donations), political finance control is certainly conspicuous by its absence.

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

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

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

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

In an environment characterized by an extremely difficult global economic crisis, and bearing in mind the important economic aspects of political finance, the timeliness of the debate on political funding is undeniable. Embedded in the more general philosophical debate between libertarians and egalitarians, both academics and politicians have opposed or favored the introduction of state aid to political parties depending on the role attributed to political parties (Nassmacher, 2001: 14-17; Smilov, 2007:4-6). Thus, for all those considering parties as an essential component of democracy, converting them in "public utilities" (Biezen, 2004), it is essential that they are granted access to public subsidies. Public funding, in this perspective, is necessary for parties (and for democracy) in order for them to function. Paltiel speaks for a long line of scholars when he states that establishing a regime of finance of political parties that does not guarantee public subsidies "is a formula for failure" (1976: 109; see also Panebianco, 1998: 58-59). The main reasons behind this current of thought are that public finance not only guarantees

of party funding, although negligible, are present in the form of subsidies to opposition parties in both Houses (Short and Cranborne Money), and of Policy Development Grants (since 2000). In Latvia public party funding was introduced only in 2011 (effective as of January 2012) party stability through the fostering of organizational continuity, but also equal opportunities for the competing parties in a given system. By providing political parties with financial opportunities to compete is a way in which states manage to level the playing field of electoral competition. Moreover, both a system of public funding and the regulation of party finance remove, or at least limit, the possibility of influence by private donors, and will therefore enable parties to become independent from private interests. As a result, and building on the idea that state subsidies will decrease the need (and temptation) of parties for illegal funds, it is assumed that public funding will also decrease the level of corruption of political parties (Nassmacher 2001:16; Roper, 2008:3-6). Finally, the introduction of public funding entails the establishment of a system of public accountability and control over the political parties' financial activities, which, in turn, is beneficial for increasing parties' legitimacy in the public eye.

However, other scholars have questioned the benefits of public funding to political parties. According to Katz and Mair, rather than constituting a tool for enhancing democratic processes, public funding is a mean through which established political parties guarantee their own organizational survival while disadvantaging new potential competitors, with the possible consequence of party system "petrification" (Katz and Mair, 1995). Secondly, public funding increases the centralization of party organizations and diminishes the levels of internal party democracy, which on turn may contribute to the pattern of declining party membership (Biezen and Mair, 2001; Pinto-Duschinsky, 1981; Whiteley, 2011). Third, the dependency of political parties on the state (Biezen and Kopecky, 2007; Piccio, 2013), and the growing amount of public resources that political parties benefit from can increase anti-party sentiment, widen the alleged gap between the citizenry and political institutions, and hamper the legitimacy of political parties as representative agents. All in all, the introduction of public funding and of party finance regulation may be harmful rather than beneficial with respect to the democratic processes.

Most importantly though, concerns have been raised with respect to the extent to which public funding actually reduces the levels of party corruption. Research has emphasized how the link between the introduction of political finance regulation and the disappearance of illegal financial management is not as straightforward as it may seem (Heywood, 1997; Sarakinsky, 2007). If either a restrictive regime of party funding is adopted or the latter is not adequately overseen by competent and responsible authorities, the level of corruption may actually increase (Rose-Ackerman, 1999; Smilov and Toplak, 2007). All in all, it appears that the linkage existing between political finance and party corruption is worth to be examined further, more in depth, and in the light of more recent comparative data. Indeed, and contrarily to conventional wisdom, greater political finance regulation does not correspond to lower party corruption perceptions. This is shown in Figure 2, where we crossed, for exemplification purposes only and hence only for a selected number of countries, Transparency International (TI) data on the perceived corruption of political parties with data on political finance regulation.[4]

[Figure 2 around here]

[4] Following Biezen and Kopecky (2007: 247), we use cross-national survey data on the extent to which parties (as institutions) are perceived to be affected by corruption in order to assess the degree of party corruption. Political finance data as collected by authors (see Appendix 1).

The most likely scenario according to those who consider political finance regulation as a means by which party corruption is reduced can be observed in the upper-right and the lower-left cells: low regulation leading to high party corruption and, vice versa, high regulation to low party corruption. France and El Salvador seem to offer a good example in this respect: while the first country is characterized by a high regulation of party finance and by a comparatively low measure of party corruption perceptions, the second not only regulates very little on political finance but also displays high levels of party corruption. Yet, as shown in the figure above, countries (e.g. Portugal, Spain, or Mexico) with a significant level of both public funding and finance regulation (Casal Bértoa, 2013; Cordova, 2011) are to be found at the top of the TI party corruption ranking. In clear contrast, countries (e.g. Denmark, the Netherlands) in which both the parties' state dependency and finance regulation is limited or nearly absent (Piccio, 2012) are those where party corruption is perceived to be at the lowest levels. Even more interesting is to look at the case of Switzerland, which is among the few countries in our sample not having introduced public funding to political parties, which scores among the countries the lowest in the party corruption scale. All in all, figure 2 seems to suggest that the introduction of public funding and of rules aimed to delimit private influence on the political parties' activities may not have reached the fundamental aim for which it was established. Are the trumpeted positive effects of public funding and state dependency nothing but a "bluff"? It is possible that, contrary to conventional wisdom, party corruption can mushroom despite the existence of private funding limitations and mechanisms of financial control and sanctions? Whether the introduction of public funding and the increasing regulation over parties' internal matters has determined lower degrees of party corruption, and therefore has helped the legitimacy of political parties and of the political systems in which they operate is the central question that this article focuses upon. But before we do so, we need to assess to what extent party finance regulation can be in itself a function of the level of party corruption in a country.

Party Corruption and Party Funding: the "Chicken-and-Egg" paradox

As scholars have traditionally maintained, one of the main reasons why political finance regulations in general, and public funding and restrictions on private funding in particular, were first introduced in most advanced industrial democracies was the necessity to fight the frequent corruption scandals involving political parties (or their leaders) in terms of managements of their finances (Biezen, 2010:69; Piccio, forthcoming; Scarrow, 2004; Weekers et al., 2009). Koβ (2011) and Zovatto (2007) make a similar observation for both Western Europe and Latin America, where finance legislation rose due to the eruption of a number of corruption scandals. Consequently, the idea is that

> no matter which other factors […] are present, state funding will be always introduced in those cases in which parties accept it as a real remedy to corruption (either real or perceived) (Casal Bértoa, 2012:480).

Moreover, plutocratic finance has been also considered to be at the origins of many "regulatory reforms in the U.S. and Canada during the 1970s, in Germany and France during the 1980s, and in Japan and Britain during the 1990s" (Nassmacher, 2009:240; Biezen, 2010:75; Paltiel, 1989).

Notwithstanding the former, and taking into consideration that this might have been the case in some specific countries, none of the bi-variate or multi-variate analysis performed to date have managed to find a link between the enactment of political finance legislation and the amount of prior corruption (Biezen, 2010:70, 83; Scarrow, 2011:12). Moreover, the fact that most of the "Third Wave" democracies introduced state aid and party funding regulations at the time of transition (see figure 1), suggesting that these rules were more a reflection of the necessity to ensure pluralism rather than to deal with corruption problems (Smilov and Toplak, 2007), leads us to try to inverse the direction of the link, focusing our attention on the question regarding the extent to which party corruption is contingent upon various party funding regulatory elements.

Hypotheses and Measurements

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

A. Public funding.

Although it has never been proven, one of the most extended assumptions in the party funding literature is that the private funding of political parties leads to corruptive practices in two ways (Fisher, 2011:32; Nassmacher, 2009:276-288, 365; Sousa, 2001). On the one hand, and because no one gives nothing for free, private funding put those political parties receiving relevant amounts of money from private interests (e.g. big enterprises, nobility, organized crime, etc.) in a dependent position as they had to somehow re-pay such financial help with specific concessions in terms of policy changes, favorable decisions (e.g. construction licenses, etc.) or state jobs (Blechinger, 2002). On the other, and because such practices - totally against the "representative principle"[5] - could lead to an important electoral backlash, parties tended to hide or artificially reduce (in their financial declarations) the total amount received as "private donations" leading to all kind of corruptive practices: for instance, tax-evasion, excessive expenditures, etc.

On the contrary, it was assumed that, by reducing the financial dependency of political parties from private interests, the introduction of significant amounts of public subsidies would decrease or even bring to an end with such corruptive practices (Posada-Carbó, 2008: 24). In this context, it has been expected that state funding would reduce the degree of corruption of political parties (Scarrow, 2007: 203). However, by simply looking at figure 2, this seems not to be the case as, for example, most "Third Wave" democracies continue to present extremely high levels of party corruption despite guaranteeing (all but two) the access to public subsidies of political parties.

A good way to examine the validity of the abovementioned negative relationship is to see if the percentage to which political parties are perceived to be affected by corruption has significantly declined after the introduction of public funding. Unfortunately, like other scholars previously, we are not in a position to statistically test this hypothesis due to data limitations: namely, the Transparency International Global Corruption Barometer scores only runs from 2004, well after the right to benefit from

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

public subsidies was introduced in most of the cases here examined. What, however, can be tested, is the relationship between the specific type of public party funding regime introduced and the level of corruption displayed by the parties operating in a specific country. Because the more restrictive a regime is, the higher the number of parties which, deprived of state support, have to rely exclusively on private funding (i.e. either membership fees or donations), we expect higher levels of party corruption in those countries where the 'payout threshold' is high.

In this context, we consider 'payout threshold' to be the minimum percentage of electoral votes a party needs to obtain in order to gain access to state funding (Scarrow, 2006).[6] The data for Europe is borrowed from Biezen and Rashkova (2012) as well as Casal Bértoa and Spirova (2013) whereas the data on Latin America were collected from the relevant instruments of party law. Considering that states differ in the easiness with which political parties have access to public subsidies, from a simple 1 percent of the votes in Hungary, Bulgaria or Slovenia to a rather high 5 percent in Croatia, Serbia or Guatemala,[7] we can formulate the following hypothesis:

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

In a similar vein, our second hypothesis also departs from the assumption that private funding increases the temptation of parties to fall into corruptive practices. However, it differs in the sense that, while H1 looks at the easiness with which parties

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

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

receive money from the state, the hypothesis formulated below focuses on its (approximate) amount. In particular, the idea here is that parties relying on public subsidies will have less need for private funding – hence being less open to corrupt practices.

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

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

We measure H2 by calculating that the percentage public funding (either electoral or organizational, or both) represents in the total amount of funding (including donations, membership fees, etc.) political parties enjoy in a country. The data on state dependency in Europe are elaborated from the Group of States against Corruption (Greco) country evaluation reports,[8] whereas data on Latin America was collected from the specialized literature on the topic.

B. Financial control.

Scholars have traditionally pointed out the positive impact a tight financial control of political parties has in terms of the reduction of corruption (Nassmacher, 2001:16, Sousa, 2001). The idea is that the stricter the control on party finances is, the more corruptive practices will be discovered. This will work as a deterrent to party corruption

[8] GRECO Third Evaluation Round. Transparency of Party Funding. See Piccio, forthcoming.

because knowing that they are closely monitored, parties will avoid undertaking actions that may contribute to their collapse in terms of public support and/or entail an important sanction (see also H3).

Building on O'Donnell's (1996) distinction between "vertical" and "horizontal accountability,[9] and taking into consideration the type of authority in charge on the financial control of political parties, we are able to distinguish two different hypotheses.

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

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

H3: The less strict the financial control of parties, the higher party corruption.

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

In terms of operationalization, and taking into consideration the fact that there are still countries (El Salvador, in Latin America, and Sweden, in Europe) where parties continue to roam free of any kind of financial control, we use an ordinal indicator to measure H3. Thus, no control is coded with a 0, (direct or indirect) control by parliament or government with a 1, and control by an independent organ/agency with a 2. The reason for this ordering is that parliament and/or the government is managed by those actors that finance regulation seeks to control, namely the political parties themselves. The underlying assumption is that an independent organ/agency will provide for more effective control of party finances. Data on this indicator were gathered from the relevant instruments of party law.

Another face of financial control of political parties is "vertical accountability" and points to the citizens as holding party organizations and their leaders answerable for their financial activities through making them public. Building on the studies maintaining that vertical accountability is a necessary, but not sufficient, condition for the control of political corruption in general (Diamond and Morlino, 2005; O'Donnell, 1996; Relly, 2012), we consider here that public access to information on the financial activities of parties will discourage political forces and their leaders from undertaking any misconduct, as it may be accompanied by an important decrease in terms of electoral support (Biezen, 2010:77). It clearly follows from this that,

H4: The lower the public access, the higher party corruption

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

The latter hypothesis in relation to external financial control focuses on the consequences of illegal funding. Building on legal scholarship (Duff, 2008), and taking into consideration that one of four purposes of a penalty is deterrence, we have formulated the following hypothesis:

H5: The higher the sanctions, the lower party corruption.

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

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

C. Private funding.

The introduction of public funding has been accompanied by the establishment of specific party finance regulation, prescribing in most cases important restrictions in the field of private funding. Legislators have introduced different types of limitations, the most relevant ones being prescriptions on maximum ceilings for private donations, and bans on corporate or anonymous donations. The idea behind the introduction of such limitations is to avoid excessive influence of private donors (the so-called 'fat cats') in the political parties' pockets (Koole, 2008). It is in order to avoid this kind of influence, i.e.: substantial private donations in return for contracts or other kinds of benefits, that the introduction of significant limits to citizens' donations and the prohibition of anonymous donations is perceived as a means to increase the level of transparency of party funding, so that the degree of corruption at partisan level will tend to decrease exponentially (Biezen, 2010: 74). In this context, and departing from the commonly assumed idea that private funding and party corruption are both positively and significantly related, we can hypothesize that

H6: The higher the limitations on private funding, the lower party corruption

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

Although we are interested in the relationship between political finance and party corruption, and building on the literature on the determinants of political corruption in general (Fan *et al*., 2008; La Porta *et al*., 1999; Treisman, 2000), political party corruption is not a subject only to party regulation. Thus, it is necessary to introduce some additional variables to control for potentially confounding effects. Empirical research shows political corruption to be affected by factors ranging from societal and historical configurations, public policies, international actors and the organization and management of the public sector, and political institutions (Gerring and Thacker, 2004). Due to the naturally small size of our sample, we limit ourselves to including two controls: namely, economic development and democratic experience. We implement the standard operationalization for economic development adopted in the literature by collecting data on the GDP per capita in current US dollars and using its natural log. The data is for the most recent available year, 2011, and comes from the World Bank.[10] Democratic development was coded as the number of years in a democracy a country has had in 2011 according to the Polity IV individual country regime trends database.[11]

Models and Results

Based on the theoretical conceptualization of what may affect the perceived level of political party corruption, and following the clustering of hypotheses presented in the

[10] Data on GDP per capita can be obtained here: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD.
[11] Years of democracy were counted for state's coded as 6 on more in the State Fragility Index. Original data can be obtained here: http://www.systemicpeace.org/polity/polity4.htm.

previous section, we construct three explanatory models: namely, a public funding model, a financial control model, and a private funding model. The idea behind dividing the models is to group party regulation factors according to their specific target when looking at their effect on party corruption. The public funding model looks at the effect of regulations on monetary benefits which parties may receive from the state on their perceived level of corruption, while the financial control model inspects the effect of regulations that incur costs to political parties on how corrupt they are. Finally, as a significant amount of rules are devoted to the regulation of donations which have to do with private funding, these are grouped into a third, separate model, which tests the effect of all donation regulations on the corruption of political parties. The dependent variable in all three models is the perceived level of political party corruption as coded in the Global Corruption Barometer 2010/2011 of Transparency International. In this coding, the perception of the level of corruption of political parties equals 1 when the latter are perceived as 'not corrupt' and 5 when they are perceived as 'extremely corrupt'. The measure is an aggregate for each of the countries that we study and was originally created by TI as a result of the responses to the following question: 'To what extent do you perceive the following institutions in this country to be affected by corruption,' where political parties are one of the institutional categories mentioned.[12] The model specifications that we use are:

The public funding model

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

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

The financial control model

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

The private funding model

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

where the subscript *i* denotes an individual country (i= 1..I). In these regression equations, β_0 provides the intercept for the particular model, β_1- βn the slope for the examined independent variables, and ε_i denotes the residual error term. In addition to these three models, we also fit several models which examine the effect of a combination of the three types of factors on the perceived level of corruption of political parties. We use ordinary least squares (OLS) to estimate the results. The results are summarized in tables 1 & 2 below.

[Tables 1 and 2 around here]

The results in table 1 illustrate that out of all the hypothesized relationships between party regulation and corruption of political parties, the only one which shows to have a significant effect is the donation limits. However, the result is opposite to the direction expected by the majority of the literature. The coefficient for donation limits carries a positive and statistically significant sign, signifying that when donation limits do exist, rather than serving as a stimulus for fewer corruptive practices, their effect on the level of perceived corruption of political parties is an increase of 0.308. Not much to our surprise, the rest of the results show that party regulation may indeed not have the desired effect with which it was constructed. As we see, no other variable reaches statistical significance thus suggesting that no specific relationship between the independent variables and party corruption can be detected. In all models, however, the control GDP per capita appears to have a significant relationship with the perceived corruption of political parties in the expected direction – the higher the GDP per capita, the lower the level of corruption. In order not to additionally burden the models, the control for democratic experience was dropped from the final estimations as it was not showing to have a significant relationship with the perceived level of political party corruption.

The non-significant results could potentially be also affected by the small sample size, which calls for further testing with broader country coverage in the future. Due to the lack of collected data on many European and Latin American countries on the perceived corruption of political parties and our desire to 'control' for the small N as best as we can, we also ran the models with the general corruption perception index (CPI) provided by the Global Corruption Barometer.[13] This increased our observations to 45 in some models, but the estimations remain relatively the same. Similarly to the models presented in tables 1 & 2, most variables did not reach significant levels. Donation limits and economic development carried the same signs and statistical significance. An interesting additional finding was the negative and significant relationship between the

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

existence of a ban on anonymous donations and CPI, which given the operationalization of CPI (lower values stand for higher perception of the level of corruption of public institutions) signifies that the effect of such bans runs opposite to the conventional wisdom and is associated with the existence of more corruptive practices. Surprising to an extent, such a result can also be deemed plausible in that one can think that in states with high level of corruption, the introduction of measures against such practices may indeed have a counter effect and further stimulate the circumvention of the rules.

To test the relationship between regulation of political finance and party corruption further and to account for the fact that maybe no one of these groups of factors has a special effect on corruption when singled out, we also fit several combined models. These include variables from all groups and the controls. The results in table 2 reveal several additional relationships. Besides the donation limits and the GDP variables which continually carry the same signs and are again statistically significant, the combined models disclose significant relationships between state dependency and party corruption and between party sanctions and party corruption. Yet, both of them turn out to have an opposite to the expected effect, i.e. instead of decreasing corruption, they actually relate with more corruptive behaviours. Although the relationship between 'state dependency' and 'corruption of political parties' is weak, as it reaches statistical significance only in one model, it could be taken to imply that the more political parties depend on the state for funding, the more corrupt they are, or rather the more they are perceived as corrupt by the public. In this context, and paraphrasing Casas-Zamora, public funding is "not necessarily an antidote to financial dependence on private sources of funding, and, even less, to unsavoury fundraising practices" (2005:39). This may be due to people's perception that the more dependent parties are on the state, the more they are involved with the state, thus with procurement tenders and other types of pork barrel, which many believe, leads to clientelism, patronage, and thus corruption.

The result for party sanctions is similar. In several model specifications we get a positive, statistically significant relationship, which means that the higher the sanctions, the more corruptive political parties are. This not only suggests that rules on party funding may not reach their intended goal, but in certain occasions they may even incentivize the opposite behavior (cf. Gambetta, 2002). This could be potentially explained by the fact that either the sanctions are not perceived by the political parties as costly, or that the reward that parties may get by engaging in corruptive practices which are not detected is much larger than the price, and therefore worth the risk.

Conclusions

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

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

The findings presented in this article should be interpreted with care though. First of all, because - as already stated - the number of cases available for analysis is limited. Secondly because, notwithstanding what has been said in section two, our analysis is not aimed to – neither cannot - solve the so-called "chicken and egg" paradox. For this more research, research that specifically looks at the perception of party corruption for at least two points in time and examining if changes in the level of corruption are determined by the introduction of specific "anti-corruptive" measures, is unavoidable.

Still, this should not undermine one of the main findings of this article: namely, that the relation between political finance regulation and party corruption is much more complex than the one suggested by the literature. In particular, it seems undeniable that, on the one hand, the presence of party finance regulation does not generally relate to lower perceptions of party corruption and, on the other, the presence of limitations to private donations is mostly related to higher party corruption perceptions.

In summary, if one thing is to be deduced from the current study is that state funding has not brought the panacea it had promised. In this context, what this article clearly suggests is that while money will always be "the mother's milk of politics" (Stanbury, 1986: 795), the state should not be the only cow (in the whole "political farm").

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Tables

Table 1. Party regulation and corruption of political parties

	Public funding model	Financial control model	Private funding model
Payout threshold	0.017 (0.014)	--	--
State dependency	0.006 (0.004)	--	--
External control	--	0.0002 (0.128)	--
Public access	--	0.097 (0.101)	--
Party sanctions	--	0.144 (0.116)	--
Donation limits	--	--	0.308 (0.161)*
Corporate donations ban	--	--	-0.056 (0.171)
Anonymous donations ban	--	--	0.015 (0.161)
GDP per capita	-0.409 (0.102)***	-0.313 (0.072)***	-0.229 (0.082)***
Intercept	7.571 (1.035)***	6.673 (0.754)***	6.047 (0.874)***
Adjusted R^2	0.366	0.348	0.343
N of observations	27	37	37

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

Table 2. Party regulation and corruption of political parties – combined models

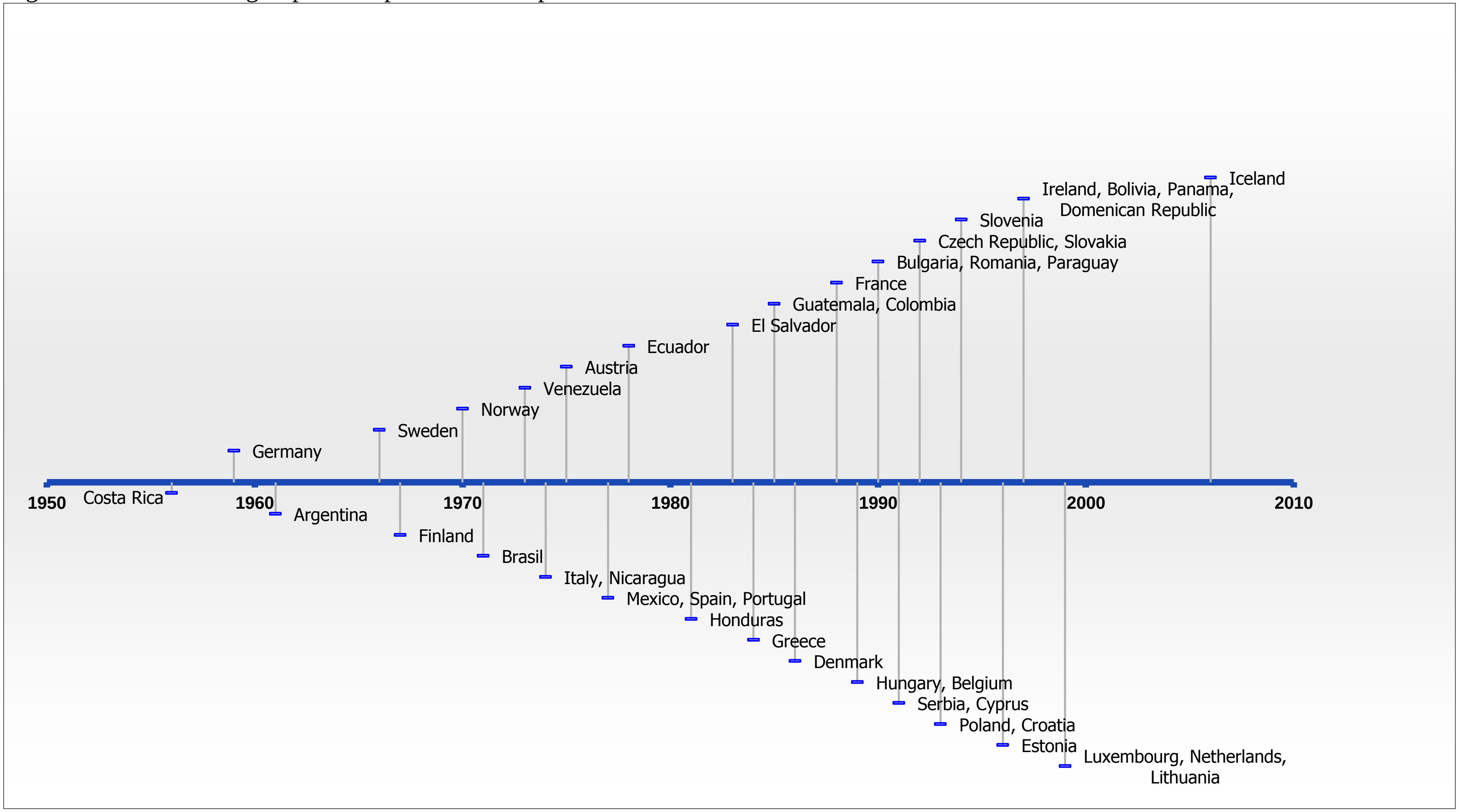
	Model 1	Model 2	Model 3
Payout threshold	--	--	--
State dependency	0.004 (0.003)	0.0035 (0.0028)*	0.003 (0.0025)
External control	--	--	--
Public access	0.159 (0.121)	0.102 (0.121)	--
Party sanctions	--	--	0.339 (0.138)**
Donation limits	--	0.303 (0.175)*	0.303 (0.154)*
Corporate donations ban	--	--	--

Anonymous donations ban	--	--	--
GDP per capita	-0.385 (0.088)***	-0.286 (0.103)**	-0.276 (0.092)***
Intercept	7.284 (0.831)***	6.253 (0.999)***	5.764 (0.922)***
Adjusted R^2	0.370	0.415	0.515
N of observations	30	30	30

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

Figures

Figure 1. Public funding to political parties in Europe and Latin America



Sources: For Europe, Piccio (2012:92); for Latin America, Molenaar (2012:13).

Figure 2: Political Finance Regulation and Political Party Corruption[14]

Political Finance Regulation	Political Party Corruption: Low	Political Party Corruption: High
Low	Denmark Sweden Luxembourg Switzerland	El Salvador
High	France	Spain Mexico Portugal

[14] The data presented in this table refer to the latest round of the Global Corruption Barometer (Transparency International), held in 2010/2011 (for Sweden, data from 2007). Respondents were asked to answer on a five-point scale to the question: "to what extent do you perceive the following sectors [political parties] in this country/territory to be affected by corruption?".