Emergence of Party Finance Policy

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Abstract: Political parties are one of the key institutions of the political system, but today the public perceives political parties quite negative; public is bothered with their connections with powerful economic lobbies and their confidence is shaken by numerous money abuses for political purposes. To arrange the relationship between parties and donors, parties and the state as donor, but also to prevent the emergence of political corruption the party finance policy was developed. Although the party finance policy had its roots in 1960s, in the literature party finance is still largely seen as a part of politics rather than as public policy. This paper analyses regulative and distributive elements within party finance policy and its effects on political parties functioning.

Keywords: public policy; party finance policy; political parties; corruption

1. Introduction

An important part of the democracy development process is the organisation of political pluralism (Nassmacher, 2003, 1) so that the multi-party system, a system in which numerous political parties operate and compete, has become a key feature of the modern democratic state. Jelčić briefly explains the relationship between parties and financial resources: “political parties, as voluntary associations of free citizens in a democratic state nominate the candidates for their representatives in parliament and strive to achieve best results in the elections. To be able to participate in the electoral battle and to accomplish tasks for which they are established, political parties must have financial resources which will bear the expenses related to their activities” (Jelčić, 1993, p. 118).

Some authors calls financing of political parties as the “cost of democracy” (Burnell, 1998, p. 4; Nassmacher, 2003, p. 4). The cost of democracy usually involves the functioning of the judiciary, local government and other public goods.

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The indisputable fact is that political parties play a central role in political competition (Burnell, 1998, 4) and that they are "the inevitable and indispensable instrument of democratic government" (Nassmacher, 2000, p. 233); so as developed democracies actually became party democracies, various issues related to party financing have become extremely important for every democratic society. The way in which political finances affect the relationship of political parties and their members, constituents and general public is important for the quality of democracy functioning (Burnell, 1998, pp. 7-8). This importance is particularly obvious in emerging democracies as they do not have their own experience to which they can rely when creating a system of party finances.

Today, the public perceives political parties quite negative and numerous polls, conducted in very different countries, have shown generally very low level of trust in political parties. Average citizens do not see the parties as promoters of democracy, but they are bothered with their connections with powerful economic lobbies and their confidence is shaken by numerous money abuses for political purposes. Corruption scandals which broke out several times, even in well-ordered countries like Germany, have shown that the danger of plutocracy is "very immediate and practical" (Kregar, 2003, p. 13).

With obtaining funding from large donors there is a risk that the parties will forget that "the financing of party activities or the "goal" is one on the ways to secure and maintain relationship between leaders and supporters" (Nassmacher, 2003, p. 7) and they will no longer feel the need to work in the ground and to intensively collect membership fees and "small" donations from party members and supporters. It certainly contributes to the decline of public confidence in the party democracy, already shaken by numerous corruption scandals and clientelist relations, which discourage citizens to strongly identify with political parties (Milardović, 2007, p. 18). Except to its relationship with the voters, big donors can also affect relationships within the political parties so that the party donors, who continually donate large sums of money, begin to interfere with the intra-party issues, particularly in the appointment of candidates on elections (Greven, 1977, p. 278).

Although modern political parties were formed in the 19th century, the issue of financing political parties became a matter of intense debate and scientific research in the last third of the 20th century. The rise of interest in party finance has multiple causes, but the most important is the growing awareness of political corruption, which can threaten fundamental democratic institutions (Casas-Zamora, 2005, p. 1). To arrange the relationship between parties and donors, parties and the state as donor, but also to prevent the emergence of political corruption, the party finance policy was developed. Although the party finance policy has its roots in late 1960s, in the literature party finance is still largely seen as a part of politics rather than as public policy.

2. Public Policy

The study of government policies through results achieved by government actions was not present in traditional political science until the mid-twentieth century, when Harold Laswell established a discipline, by introducing the concept of policy sciences. This term indicates a “multi-disciplinary and rational approach to solving social problems”. With development of the discipline fundamental concepts have been profiled so that the term public policy covers only the area of research, and the term policy analysis describes a methodological approach (Petak, 2002, pp. 51-52).

The very concept and analysis of public policies initially began to be used in the United States in the period following the Second World War (Colebatch, 2005, p. 33). It is indicative assertion of Howlett and Ramesh that policy studies “have a long history but a short past” (Howlett & Ramesh, 1995, p. 18) – large number of various studies have analysed government activity over the past centuries, but systematic research began at 1950s, when public policy arose out as consequence, but also as a need, of management streamlining carried out by the U.S. government after World War II.

The Second World War was a turning point, because after the war the government's role was suddenly increased and thus it also increased the number of people within the public authorities, who otherwise had it not been involved in the whole process that the role of government and the public sector in general spread out (Colebatch, 2005, p. 33). The situation is perhaps best illustrated by the first Laswell sentences which opened “The Policy Sciences”: “we live in a constant crisis of national security and that requires the most efficient use of manpower, equipment and resources of American people. Highly trained talent is always scarce and expensive. Thus, the crisis calls for exploitation of intellectual resources in the most economical way" (Laswell, 1987, p. 58). These reasons encouraged the systematic application of social sciences in the area of governance.

The term policy or public policy is often used, although its meaning is not entirely clear and unambiguous (Colebatch, 2004, p. 10). In literature there are very few explanations about what the policy as a term really means (Colebatch, 2006, p. 8) and among the many different definitions there is not a universally accepted definition for the term policy (Turner, 2002, p. 392).

The very phrase can denote various things. Colebatch illustrates the breadth of the application of the term policy with very different examples of situations in which the term policy can be used: an example of orientation ("we provide policy of government openness"); a description of the common practice ("company policy is to buy from local suppliers"); a special kind of commitment ("there is a policy decision that by the end of 2010 analog transmission will be gradually replaced by digital transmission"); position of the values ("honesty is the best policy") (Colebatch, 2004, p. 11). Dye gives the classic definition of the policy saying that policy describes "what governments do, why they do it, and what a difference it makes" (Dye, in Karagiannis & Radaelli, 2008).

Briefly speaking, public policies are "all that the government intends to, or does not intend to do" (Colebatch, 2006, p. 10). Figuratively speaking, we can imagine the government "sitting in front of a multitude of possibilities and selects the one that brings the most benefit with the smallest costs" (ibid). Public policy can also be seen as a process of making choices based on the government, because the people who are in positions of power choose the way in which public authority will be carried out. By studying public policies we analyse government activities in a particular area, especially choices and options (ibid). It is presumed that in the selection of decisions, evaluation of different alternatives and defining of the basis for political action or inaction, policy makers should be guided by rational arguments rather than by narrow self-interests (Petak, 2002, p. 53).

Public policy represents series of actions whose causes and effects include, more or less, definable period of time, but still these political actions are not *per se* public policy. Despite the fact that public policies are created and implemented by public and private actors, the special role and responsibility is given to the actors from the public sector. Also, the policy can be created or implemented by one or more different actors, but centrally placed actors are seen as those who have more power in decision-making than other actors (Karagiannis & Radaelli, 2008).

3. Party Finance Policy

3.1. Public Policy Classification

The simplest way to understand a certain policy, including the party finance policy, is its placement in certain (policy) category, according to a specific classification. The most famous classification of public policies is the one designed by Theodore Lowi (Lowi, 1964) and which is, according to some opinions, "heuristic plan par excellence" (Anderson, 1997, 266) and which has become a common starting point in analyzing policy process (Heinelt, 2007).

Lowi public policy typology is based on two basic premises: the first is that "policy causes politics", so "from the different types of policies derive different power relations between individuals and groups, and these relations can be described and predicted on the policy type" (Smith, 2002, pp. 379-380). The second is that "the central feature of government is the coercive power, the possibility to compel individuals and groups on certain actions or behaviour" (ibid). In that way Lowi "replaces descriptive political contents with functional categories" (Grdešić, 1995, p. 20) thus explaining the basic government activities. Using the above mentioned premises Lowi creates his typology as a system with two dimensions: the first dimension indicates the likelihood that the government will use its coercive power, and the other indicates the subject to which coercion can be applied. Taking into account these two dimensions, Lowi created four categories of public policy:

1) distributive policy (low likelihood of coercion, coercion is applied to the individual);
2) regulative policy (likelihood of coercion is high, coercion is applied to the individual);
3) redistributive policy (likelihood of coercion is high, coercion is applied through environment), and
4) constituent policy (low likelihood of coercion, coercion is applied through environment) (Smith, 2002, p. 380).

Table 1. Public policy classification[1]

Public policy type	Policy characteristics	Examples	Governance principles
Distributive	Common public provison	- financing of scientific research at universities - tax relief - health insurance	- incentives
Redistributive	Obvious relationship between costs and benefits	- progresive taxation - labour market policy - welfare - pension funds	- imposition by the state
Regulative	General rules for individuals and groups	- consumers protection - safety at work - environment protection - women's rights	- imposition by the state - persuasion - guidance by model/example usage

Distributive policies provide opportunities to increase certain private goods and often rely on various forms of support. “The public see distributive policies as measures which only distribute benefits and do not incur costs for each group” (Windhoff-Héritier, 1987, p. 48) so in this policy is present a low level of coercion and it is itself not viewed as competitive. Conflicts are reduced to minimum since to all participants are guaranteed equal or at least similar amount of goods. Distributive policies are used for the allocation of resources that can be divided on smaller units such as money or certain rights (Grdešić, 1995, p. 21).

Redistributive policies aim at “redistribution of financial assets, rights or other assets between social groups and strata of society” (Lowi, 1964). Coercive techniques, i.e. measures of state coercion, are necessary for the implementation of the policy, and the process of decision making about the allocation is conflicting and polarized (Windhoff-Héritier, 1987, p. 49).

Regulative policies seek to maintain or change the power structure in society. Applying some form of coercion, regulative policies are trying to monitor activities of individuals, groups or businesses in order to allow or prohibit a particular action or behavior (Lowi, 1964). Most of regulative policies do not aim to eliminate coercion but to reduce it, or to restrict it so the implementation of policies will be associated with less damage (Lowi, 1988, XVIII). Partial interests and high levels

[1] Source: Windhoff-Héritier (1987, 52-53).

of conflicts prevail here, with the world of politics being a typical example of place where regulative politics are being conducted (Grdešić, 1995, p. 21).

Lowi classification, which “had more fans that his followers” (Richardson, Gustafsson & Jordan, 1982, 4) is not quite suitable for the application of these categories in practice. Although Lowi was aware of this classification shortcomings and argued that “each categorization scheme (of whatever), sacrifices informative details and nuances to achieve the analytical power” (Lowi, 1988, XI), he does not refer us to clearly distinguish characteristics of its policy classes. It should be considered that the policy is not only one final decision but it covers series of decisions, and since there is a possibility that these decisions are different, they can be classified under different Lowi’s categories. In addition, over time policy changes actors and the degree of conflict, so Lowi’s classification is shown as insufficiently precise and clear to solve problems of policy classification (Grdešić, 1995, pp. 21-22).

3.2 Party Finance Policy – Regulative Elements

Policy choices, i.e. choosing between regulative, distributive and redistributive policies are often very difficult (Heinelt, 2007). Lowi's model proved to be useful in situations where it was applied to specific historical periods or specific institutional frameworks, but when we look at individual policy sectors focusing on three (respectively, four) policy types it does not show up very fruitful, since within one policy sector a distributive, redistributive and regulative policies could be found at the same time (ibid, p. 5). Lowi tried to classify public policies according to their functional goals, but when we try to apply these four classes of public policy to the party finance policy, it is obvious that the formation and implementation of party finance policy is much more difficult to analyze by Lowi four classification parts than is the case with traditional public policies. Therefore, party finance policy will not be analysed as regulative or distributive policy, but as a policy that has regulative and distributive elements.

The impact of regulative elements in the financing of political parties will be determined by the rules and practices of policy implementation. The way in which are regulated, party finances and details of the implementation significantly vary among countries so the regulation is not possible to reduce on “kind of universal rules package" (Petak, 2005, p. 43), but still we can identify the main regulative elements[1]:

1) Disclosure - general purpose of party finances publication is to enable everyone to publicly debate about the political finance, and also to discourage the parties to use controversial transactions (Nassmacher, 2000, p. 258). Reporting is used as a control mechanism because it gives the possibility to other political actors, primarily journalists but also to other political parties, to inform public about possible infringement of legal provisions (Ware, 1998, pp. 235-236). The obligation of disclosure reduces the space for potential abuse because the public has a "unique power" that limits the pressure of donors to political parties, but also limits the possibilities that parties give certain favours to the donors (Alexander, 1976, pp. 171-172). It is questionable what kind of effective sanctions can be taken against the parties when they violate the obligation of reporting. It is impossible to impose the hardest punishment to parties, the prohibition of participation in the elections, because this would undermine the fundamental foundations of democracy. The hardest sanctions could be "contamination" of party reputation, but lot of examples show that the effects of these sanctions are very doubtful. An indicative example is Germany, which was in the last thirty years repeatedly shaken by the corruption scandals: the parties have sacrificed several senior party leaders or officials, most notable was Helmut Kohl, and continued to unhinderedly operate. The three major parties that were involved in the Flick's scandal in the 1980s are still three major parties in Germany (Ware, 1998, p. 237).

2) Limits and prohibitions – financing of parties everyday activities is usually not subject of any restrictions; limits and prohibitions are primarily related to the election campaigns which are the most expensive party activity. These measures should prevent parties in race to raise money and prevent them to fall under the pernicious influence of large donors (ibid, p. 240). One of the leading political finances experts, Herbert E. Alexander, argues that significant reductions in party cost could be achieved in the future, although it is actually very questionable whether parties are really interested in reducing costs. Until now cost reduction has not been possible due to continuous increase in inflation and particulary due to changes in the style of campaigning in the second half of the 20th century which were associated with "significant use of expensive professional communicators and electronic media" (Alexander, 2003, p. 6). Legal prohibitions on donating money

[1] See Johnston, 2005, 9-13.

to political parties from certain sources are introduced in order to protect the autonomy and independence of political parties. This primarily relates to foreign governments and foreign-owned companies as the autonomy of the state can be compromised if the parties, especially those participating in the government, have any obligation to such entities (Ware, 1998, p. 238). The second argument is directed against such donors, notably linked to the financing of election campaigns. The elections in a certain country are a matter of concern only for the citizens of that country, so it is quite reasonable that foreign citizens, who can not participate in elections, can not finance the elections. Companies and unions are available to donate political parties but with certain restrictions, and in a number of countries they are completely exculuded from donating parties. This limitation is explained in a way that "democracy and consequently the elections are a matter of citizens, and it is only them who can fund them" (Petak, 2001, p. 45). Funding from these sources becomes particularly problematic in a situation where the interests of employees and company shareholders or union members differs from decisions of these institutions management about the provision of financial and other support to certain political parties. The ability of companies to provide financial donations to parties is limited in order to preserve parties' independence and prevent large companies or corporations to somehow "buy" political parties. The situation in which the party supports more or less equally sized companies is not considered particularly dangerous, but special attention should be paid to situations where donors are "economic giants whose amount of donated money can not reach other donors, or where the donor has a dominant market position which allows him a special position to influence government" (Ware, 1998, p. 239). Especially problematic are also situations where the donors' business activities are closely associated with government activities.

3) *Laissez faire* – maybe it is not possible to see a direct link between laissez faire and regulation at first glance, but it should be taken into account that decision that something will not be regulated is also a policy decision. In laissez faire, as the name suggests, there is unlimited freedom, so any entity can donate political parties with unlimited high amounts and parties can spend as much money as they want and they can choose themselves ways to spend it. One of the possible forms of laissez faire is "modified laissez faire": regulation on unlimited donation and spending can be applied only to certain actors; for example, on small individual donors, but not on large donors like unions or companies, or to parties but not on the presidential candidates. Application of these various forms is more possible

than the application of “pure” laissez faire since it can lead to corruption, especially in cases where provisions on the publication of data do not exist or are not applied, and therefore this regulatory element should be avoided in countries where democratic institutions are weak or underdeveloped (Johnston, 2005, p. 11).

4) „Blind trusts” are completely different from the systems based on transparency, since the main objective here is that the public does not reveal the identity of the donor. The system is functioning in the following way: private donors do not give money directly to parties, but donations are deposited on special accounts managed by the government, and then government forwards these funds to political parties. The identity of the donor, known to government, is not made public but is strictly kept confidential - this prevents donors to ask favours from parties in exchange for donations, but also it is prevented or at least made difficult for political parties to ask for donations from various entities, especially commercial (ibid, p. 12).

3.3 Party Finance Policy – Distributive Elements

Corruption scandals and donating of money with hidden intentions initiated the adoption of regulation for governing of parties and their donors’ financial operations. On the other hand, lack of funding and the need for equal opportunities of all political parties (Drysch, 2000, p. 158) have initiated emergence and widespread use of distributive elements and measures. Various forms of financial support from public sources were often proved as the only possible solution to financial difficulties and the rising costs of maintaining the political parties, especially in the second half of the 20th century (Nassmacher, 2003, p. 9). Distributive elements (Johnston, 2005, pp. 13-18) are:

1) Tax treatment - the possibility of tax deductions for donations to political parties is almost unknown in western democracies (Drysch, 2000, p. 170), and except in Germany, exists only in the Netherlands and France. If is carefully implemented, this distributive element may encourage party competition and strengthen the party's capacities for mobilization but it should be moderately implemented because too generous tax policy can weaken the interest of the parties to organise themselves in different areas.

2) Subsidies - this distributive element is common in most European countries; giving certain forms of support to political parties helps them to expand their base in society and to develop organizational and mobilization capacities. Subsidies are given in the form of financial assistance to specific activities such as civic

education, strengthening research capacities and political work with women and youth (Johnston, 2005, p. 14).

3) Direct public funding - direct funding of political parties from public sources has become possible only after the parties have become legally and constitutionally accepted. Granting this kind of privilege to parties certainly favoured transfer of new functions from the political system to political parties (Beyme, 2002, p. 117). Besides the indisputable advantages of this method for financing parties, it should be also taken into account that direct public funding, with secure funding from public sources, can weaken interest of parties in making stronger connections with citizens through their mobilization and building relationships with the society in general. With introduction and gradual increase of direct public funding, donating parties as a way of expressing intense political attitudes replaced secure funding from public sources that have little to do with the preferences of members and supporters. This could lead to the creation of a small number of wealthy parties separated from the citizens and society which will, instead working on the ground with members and potential “small” donors, prefer to increase mutual cooperation in order to preserve the financial status quo (Johnston, 2005, p. 16). This, in the most extreme cases, can lead to the development of cartel parties system (Katz & Mair, 1995) where the parties ensure its own existence mainly through secret cooperation between themselves on certain issues and thereby colonizing segments of the state.

4) Free access to the media - free access of political parties to television, radio and other media in some countries is connected with the prohibition of advertising in private and party media. Although free access to the media is a common practice in many countries, Johnston points out that free access to media, as measure that should contribute to the reduction of political corruption, is often overrated but it has certain advantages as a “way to open political debate for more parties and views” (Johnston, 2005, pp. 16-17). The main question here is how to fairly distribute time in the media to different parties. The regulation of this issue should be particularly careful, because if the distribution of media time is based on the results of previous elections, parties whose support has increased since the last election, and new parties that emerged on the political scene will be disadvantaged. If free media time is equally distributed to all parties, smaller parties which are not really interesting to broader public will get importance which is disproportionate to their actual impact and thus can lead to congestion of airtime (Petak, 2001, p. 42).

3.4 Effects of Party Finance Policy

Table 2 shows summarised effects of various regulative and distributive elements on political parties, particularly the effects on four objectives, important for appropriate functioning of political parties. These are: competition, organization, mobilization and accountability. The way in which financing will be arranged and which elements will be given priority depends on the situation in each country: in some countries, the emphasis is on measures which will increase the liability of the parties, while in others the emphasis is on the encouraging party competition and mobilizing citizens. Each of these measures has its positive and negative effects (Johnston, 2005).

Table 2. Links between policy choices and objectives[1]

	Competition	Organization	Mobilization	Accountability
Regulative elements				
Disclosure	-		-	+
Limits and prohibitions	+/-	-	-	
Laissez faire	-	+/-	+/-	-
"Blind trusts"	+			+/-
Distributive elements				
Tax treatment	+	+/-	+	
Subsidies	+	+/-	+	+/-
Direct public funding	+/-	+/-	-	-
Free access to the media	+		+	

+ = positive effects, - = negative effects, +/- = mixed effects

[1] Source: Johnston (2005, 9).

Regulatory strategies emphasize „stick over the carrot". Regulation can be designed in vast details, but it does not guarantee that the implementation will be successful because regulatory strategies require considerable institutional capacity in the administration, law enforcement and the judiciary - if one part of the regulatory regime is not working properly, the whole system can easily lose credibility. In order to make regulation effective, some additional conditions, such as sanctions, must be met. They must also be credible and the minimum of political and social trust must exist. If the problem of regulation is considered in terms of building democracy, it can be concluded that most of the regulatory elements are more focused on the control of corruption than on ensuring the development of party politics since the regulatory elements are more focused on "keeping certain kinds of people, money, and activities out of the political process than on bringing vitality in" (Johnston, 2005, p. 13). The right balance should be found between regulation and the "vitality of politics" because despite the need to define the rules of the political game, it should be taken into account that over-regulation "drive money, social energy, and meaningful choices out of the system" (ibid).

Distributive policies also have clear anti-corruption purposes, but more than regulatory policies tend to encourage and assist the open party competition. Distributive policy will be certainly achieved in situations where the distributive elements are designed and implemented in innovative way, to encourage the parties for stronger activities in all stages of the political process. However, if they are too generous, they will weaken the interest of the political parties to build a strong base in society. Although the distribution approach is relatively expensive, especially when compared to the regulatory elements, this should not prevent its introduction (ibid).

Therefore it is quite certain that party finance has become a very important public policy. However, it was not always so: over time it was changed the way of looking at the party finance. Earlier, the issue of party finance was a part of political science mainstream, and party finance was studied in literature related to political parties, party systems and democratization; funding of parties was a part of politics and it was not seen as a public policy. An interesting parallel can be drawn here with the example of war veterans: since 1919 in Australia has been appointed the minister for war veterans, and a minister for women's affairs has been appointed no sooner than 1980s: "in the 1919 Australia had a large number of war veterans, which was a problem, but it also had a large number of women, as in the 1819, which, at the time was not considered a problematic area" (Colebatch, 2006, p. 13). As for the fact that war veterans always existed, so had political parties (from 19th century hither) and a question of their financing as well.

What has led to the situation that funding of political parties ceases to be viewed as politics and begins to be seen as public policy? A selection of problem areas that which become a policy "is not automated and problems occur by default, they are socially conditioned and occur during the forming process which determines things as normal and others do not" (ibid). With the introduction of the complex regulation of party funding, which began in the 1960s, there was an increase in the complexity of the political parties financing, which resulted in a kind of „new optics" - a new way of considering party finance. It is not any longer only a question of the relationship between the parties and donors – with increasingly complex regulation, more complex relationships are governed, primarily between a party and the state as a donor. This relationship influenced other issues which were unknown until then: the detailed regulation of money and other benefits distribution from the budget to political parties, control measures for financial operations implemented by public bodies and the establishment of sanctions. At the level of relationship between the party and donors unauthorized sources are regulated and at the level of intra-party relationship, relations with third parties are regulated, i. e. party foundations. The financing of parties, which came into existence with the establishment of the first modern parties in the 19th century has changed to such extent and has become so complex that it was absolutely necessary to establish a public policy which would arrange this area of political life. Since the regulation of political finances regulates so many different important relationships, something which had previously been considered in the sphere of politics has been raised to the level, in terms of Lowi's terminology, of the constituent public policy and has thus become an important public policy.

4. Conclusions

A conclusion can be made that public policies are social construct – this particular issue, which had been a part of politics sphere has been given a public policy meaning. With putting a certain question to the agenda, public policies are created, while a probability of a certain question being raised to the agenda depends on problems' capability to attract wider public interest. It is most likely that a certain question would come to the agenda if a potential policy question was simply connected with some general problem or other issues and problems which have already been a part of the agenda. Also, very important is a level of its potential emotional impact on public. After a certain dramatic event, public suddenly becomes aware of the importance of some, until then, silent problem and is euphorically ready to solve it or to conduct something effective (Page, 2006, p. 216).

After an event or series of events specific question begins to be characterised as a social construct and it becomes a public policy. After becoming a public policy, it is not only an abstruse battle anymore, but a clear policy of rational approach, with a very clear rational dimension. Such a rational action is often accompanied by recommendations, international standards or specific control bodies. In this way party finance policy has become an important aspect of the anti-corruption policy. It is especially evident in the Council of Europe recommendations[1]. Measures have been designed which should, thorough national laws, regulate political parties and election campaigns financing, and which would restrain political corruption connected with gradual loss of political parties' independence and unacceptable influence on political decisions through financial means.

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