

| introduction

Campaign finance is the great reenactment of the dancing images on the walls of Plato's cave. We political scientists think we see the reality, the dancers themselves, and we think the public watches the heightened, exaggerated, even grotesque images of contemporary campaign finance projected on the distant walls of the cave. (...) In a perverse way, it may even be because the facts and realities of campaign finance are so hard to grasp that the pseudo-fact and codified explanations are so gripping and so convincing.

Frank Sorauf¹

COMPARATIVE POLITICAL FINANCE: WHY DOES IT MATTER?

'The relation between money and politics has come to be one of the great problems of democratic government.' Thus James Kerr Pollock opened his pioneering study of political finance practices in Britain, Germany and France, published in 1932. His dictum, as well as his call for public opinion to realise 'that healthy political life is not possible as long as the use of money is unrestrained', ring truer today than in Pollock's time.² Successive waves of democratisation, an increased complexity in electoral processes, and the growing awareness of the risks posed by corruption to the viability of democratic institutions have moved the funding of political activity to the centre of public debates all over the world. The issue has become both global and pressing.

The signs of its prominence are unmistakable. In October 2000, a public statement by the anti-corruption organisation Transparency International (TI) singled out questionable political finance practices as a growing threat to democracy. TI's Chairman, Peter Eigen, noted that 'the current wave of corruption scandals we are witnessing across Europe is not about personal enrichment – it's about the purchase of access to policy-makers, and political parties are the prime target in this game'.³ In a similar vein, the Inter-American Democratic Charter, adopted by the Organisation of American States (OAS) in 2001, pledged that 'special attention will be paid to the problems associated with the high cost of election campaigns

2 | paying for democracy

and the establishment of a balanced and transparent system for their financing'.⁴ Analogous pronouncements have been forthcoming from organisations as diverse as the Inter-Parliamentary Union (IPU), the International Organisation of the Francophonie (OIF), the Council of Europe (COE), and the European Union (EU).⁵ The pace and depth of political finance legislation has markedly increased at the national level as well. In March 2002, US lawmakers approved the most comprehensive package of political finance regulation in a generation, claiming that it would 'help untangle the web of money and influence that has made the Congress and the White House so vulnerable to the appearance of corruption'.⁶ In the course of the past decade, far-reaching political finance reforms have also been enacted in Canada, Colombia, Costa Rica, Mexico, Panama, France, Germany, Japan and the United Kingdom, to name but a few cases.

While the profusion of regulatory efforts may be new, the anxieties that surround money's role in politics are old and entrenched. Pollock's words and the early passage of comprehensive pieces of regulation in the UK (1883 Corrupt and Illegal Practices [Prevention] Act) and the US (1907 Tillman Act), already betray the notion that as much as money is indispensable for political activity – and precisely *because* it is indispensable – it can endanger democracy in fundamental ways. Three are of particular consequence:

a) The flow and distribution of political funds impinge directly on electoral equality, on the actual possibilities enjoyed by candidates and parties to put their message across to the voters. A lopsided distribution of electoral funds erodes – although not necessarily impedes – the uncertainty of electoral results, a fundamental prerequisite for their legitimacy.

b) Money bestows on individuals and groups an unevenly distributed opportunity to directly participate in elections and/or exert political influence through their contributions to candidates and parties. This is of critical importance for democracy. When political power merely reflects economic power, the principle of 'one man, one vote' loses its significance and democracy ceases to be, in Schattschneider's words, an 'alternative power system, which can be used to counterbalance the economic power'.⁷

c) Fundraising processes offer obvious opportunities for the articulation of *quid pro quos* between private donors and policy makers, or, at a minimum, for the emergence of continuous conflicts of interest for the latter. At best, political fundraising processes can jeopardise the public interest; at worst, they destroy the integrity and autonomy of policy makers and privatise their decisions.

For all its relevance for key democratic values, the funding of political activities remains an under-researched and under-theorised topic. A systematic corpus of knowledge on political finance, able to illuminate the numerous regulatory efforts that continue to emerge all over the world, is still a long way away. Despite a growing industry of national case studies, truly comparative works are scarce.⁸ The weak development of comparative political finance as a field of study is hardly mystifying. First and foremost, the field remains crippled by the dearth of reliable data in most countries. Not surprisingly, academic production has generally

focused on the legal contours of political finance systems, their changes and the menu of regulatory instruments found in comparative practice. Less attention has been devoted to the rules' impact and implementation problems, and hence to *actual* political finance practices. The field faces the same conundrum identified by Duverger in his seminal study of political parties: how do we uncover the facts in the absence of a general theory to suggest relevant hypotheses? How do we generate a general theory without a pool of reliable information?⁹

Moreover, the field is yet to come to grips with the remarkable heterogeneity of political finance regulations and their complex linkages to their surrounding political and institutional framework, which frequently conditions heavily their features and effects. Somewhat paradoxically, despite the crucial role ascribed to political finance processes in the fate of elections, parties and democratic regimes, the study of political finance has remained largely isolated from the literature on electoral systems, party systems and political regimes, three of the areas that have best shown the promise of a comparative science of politics. The results of this unfortunate dissociation have been, on the one hand, a general overestimation of the effects of political finance rules and, on the other, the appearance of sweeping claims about those effects, which, on close inspection, travel badly across political systems. In many cases these generalisations appear more like the product of normative preconceptions – which the topic clearly invites – than of empirical rigour.

GAPS IN OUR KNOWLEDGE: POLITICAL FINANCE IN LATIN AMERICA AND DIRECT STATE FUNDING

The gaps in our knowledge of political finance are especially glaring in some geographic areas. Indeed, while political finance issues have been extensively explored in the US – thanks, in large part, to the wealth of information made available by the Federal Electoral Commission (FEC) after 1976 – they have received far less systematic treatment in Western Europe, and next to no academic consideration in the rest of the world. In Latin America, where a turbulent political history has spawned a rich literature on parties, regimes and democratisation processes, the topic is still shrouded in secrecy and on the margins of academic discussion. To this day, only a handful of academic works on political finance exist in Latin America, nearly all of them reflecting the long fascination of the region's social scientists with legal frameworks and normative prescriptions, even when the latter show a poor grounding in reality.¹⁰ The generation of an empirically grounded picture of political finance remains a pending assignment in Latin America.

The weakness of political finance research in Latin America is hardly testimony to the topic's irrelevance for the region. In fact, as democratic elections have expanded in the continent, *all* Latin American democracies have introduced some kind of political finance legislation, often quite extensive. Moreover, political

4 | paying for democracy

finance practices have become a recurrent threat to the already frail credibility of politicians and governments in the region. The profound political crises unleashed in Colombia and Panama in the mid-1990s by the evidence of the participation of drug cartels in the funding of presidential campaigns stand as reminders of the destabilising effects of political finance corruption on Latin America's frail democratic institutions.¹¹ Rather than the topic's lack of salience, the dearth of empirical political finance works in Latin America reflects the formidable obstacles faced by researchers in a region historically marred by corrupt, opaque and authoritarian political mores. In a way, the same reasons that render important the systematic inquiry of political finance practices in the region – namely the pervasive lack of transparency, the endemic corruption and, increasingly, the threat posed by drug trafficking to political institutions in some countries – make such a probe very difficult.

What has been said about Latin America also applies to most political finance topics, even crucial ones. Conspicuous amongst the unexplored themes within the field is the effect of Direct State Funding (DSF), i.e., the cash grants allocated by the state to parties and candidates with the aim of supporting their political activities, according to a procedure laid out in the law.¹² The spread of DSF is, arguably, the most important trend in contemporary political finance and one whose consequences have come to dominate academic and political debates in the field, notably in Western Europe. Following its early introduction in Uruguay in 1928, and during the last four decades in particular, DSF has been adopted in nearly fifty countries. No other regulatory instrument – from restrictions on private political contributions to electoral spending ceilings and financial disclosure rules – is so widely diffused around the world. Moreover, no other instrument has been so laden with expectations and criticisms.

The adoption and consolidation of DSF as a political finance regulation device has been marked by acute controversies ranging from its fiscal cost for taxpayers to the legitimacy of exacting resources from the public in order to sustain political parties. More importantly for political science, disputes have also touched upon the *practical* consequences of DSF for democratic systems in three areas: (a) autonomy of political actors and prevention of corruption; (b) political equality and electoral competition; (c) organisation and institutionalisation of political parties.

The standard case in favour of DSF, often articulated by the same politicians that enact it, may be summarised as follows:

a) *DSF strengthens the autonomy of politicians, prevents political-finance-related corruption and enhances financial transparency.* By providing a source of income with no strings attached, subsidies protect parties and elected officials from economic dependence on large private donors and reduce the likelihood of corrupt exchanges between contributors and politicians. By virtue of being public, DSF is an entirely transparent source of political money.

b) *DSF protects political equality of opportunity and electoral competition.* Subsidies prevent the political dominance of groups with vast economic resources

to put their message across and mobilise voters. They allow parties and candidates to compete fairly in elections regardless of the socio-economic condition of their supporters, and thus reduce entry barriers to political competition.

c) *DSF provides political actors with adequate resources for essential democratic activities, increasing the institutionalisation and stability of parties.* Traditional sources of funding are unable to sustain an adequate level of democratic activity. DSF helps political actors cover the cost of increasingly sophisticated campaigns and provides parties with steady income. It does so in an optimal way, minimising fundraising costs and dependence on large private contributors.

In recent years, these claims have come under attack. Critics have charged DSF with negative consequences that, in most cases, are the mirror image of the lofty claims put forward by supporters of public subventions. The typical indictment of DSF includes one or more of the following arguments:

a) *DSF does not replace private political donations and has a limited effectiveness against corruption.* Subsidies become an addition rather than a substitute for private contributions. If they replace anything it is ‘healthy’ money from membership dues and small donations, rather than large private contributions, which require less effort and organisation to collect. The effectiveness of DSF against corruption is, at best, severely limited.

b) *DSF stifles electoral competition and ossifies the party system.* Since incumbents enact DSF, subsidies create a bias in favour of the status quo. They raise entry barriers for newcomers and help to freeze the party system.

c) *DSF provides parties with resources that jeopardise their social embeddedness, internal democracy and autonomy.* By reducing the financial relevance of members, DSF diminishes the parties’ incentives to reach out for new recruits, leading to falling rates of party membership. Subsidies also alter the parties’ internal distribution of power, curbing the power of the rank-and-file and enhancing that of party bureaucracy. Finally, DSF becomes addictive for parties, leading to their loss of autonomy vis-à-vis the state.

In reviewing a very similar list of arguments in favour and against the introduction of general state subventions for British parties, the Committee on Standards in Public Life concluded that ‘many of these arguments have merit and, taken together, they are finely balanced’.¹³ In fact, despite the intensity of the debate, its most remarkable trait has been its limited empirical content and, if anything, the suspect scientific merits of the arguments put forward by both sides. Empirical works on the effects of public funding are scarce and even rarer are those that offer a comparative assessment of any kind.¹⁴ The political finance literature lacks even a comprehensive survey of DSF arrangements and a typology of their striking, and generally unnoted, diversity. Discussions on the effects of DSF have usually failed to account for the heterogeneity of subsidy rules and, more importantly, for the mediating impact that other institutional and political factors – from the configuration of the electoral and party systems to the presence of other political finance regulations – may have on subsidy arrangements. Often impelled by normative preconceptions or by a positivistic urge to find covering

6 | paying for democracy

laws, the discussion has proceeded, in many ways, as if in an institutional and political void. Any sweeping claim about the effects of DSF rests on distinctly shaky foundations.

OBJECTIVES AND PROPOSITIONS

Whatever their shortcomings, the general assertions made by supporters and critics of DSF are very useful heuristic devices. At a minimum, they constitute a set of working hypotheses deserving systematic and comparative examination. This book will thus offer, first, a comparative appraisal of state funding systems and their effects on parties, party systems and political finance practices. Second, through an in-depth exploration of the effects of DSF in Costa Rica and Uruguay, it will construct a detailed empirical account of political finance practices in two Latin American democracies. The latter task is, in some ways, the more important of the two. Uncovering and systematising *empirical* political finance information is the prerequisite for an informed discussion on the issue in Latin America, as much as for the advancement of comparative political finance research as an academic field. However difficult the probe, probe we must.

Within the framework of both objectives, this book will advance the following propositions:

a) That state funding systems are extraordinarily heterogeneous and their effects contingent on the subsidy's own design and the political and institutional environment in which they are introduced. It will argue that electoral systems, party system formats, regime structures and the parties' historical evolution and organisational culture impinge on the features and effects of state funding schemes, and, ultimately, mould political finance practices as much as the subsidy's own presence.

b) That to the extent that the effects of state funding can be ascertained, they point towards a mixed picture that offers very partial vindication of the claims made by the subsidies' staunchest advocates and critics. Thus, while more often than not subsidies protect electoral equality and competition, they appear to offer a rather modest protection against questionable political finance practices. The case in favour of DSF seems to rest more comfortably on its importance for the value of political equality, than on its relevance for political integrity.

c) That DSF is a far less powerful instrument for shaping parties, party systems and even political finance practices than envisaged by both sides of the debate. By showing that the consequences of political finance rules, and of state funding systems in particular, can be understood or predicted only within a certain institutional and political context, this work will advocate a more restrained view of political finance regulation than that which has come to dominate discussions on the issue in most democracies.

METHODOLOGICAL UNDERPINNINGS

In placing political finance rules within a broader network of incentives and constraints, and emphasising the contingency of political outcomes, the book expresses a preference for a particular approach to comparative political science. It is infused, on the one hand, with the belief in the pivotal role of institutions in explaining political behaviour. As noted by Thelen and Steinmo, 'by shaping not just actors' strategies (as in rational choice), but their goals as well, and by mediating their relations of cooperation and conflict, institutions structure political situations and leave their own imprint on political outcomes'.¹⁵ On the other hand, the monograph embraces the notion of a political science that is less oriented towards the formulation of covering laws with strong predictive power than towards the explanation and interpretation of political behaviour in specific contexts. This methodological stand implies:

a) *A profound scepticism with respect to universal, one-dimensional, a priori explanations of political behaviour, typically exemplified by rational choice approaches.* This book embraces a more complex view of politics, in which permanent and conjunctural, normative and instrumental, social and individual factors shape political outcomes. In this sense, it advocates for comparative political science a procedure that is more inductive than deductive, aptly described, once again, by Thelen and Steinmo:

Rather than deducing hypotheses on the basis of global assumptions and prior to the analysis, historical institutionalists generally develop their hypotheses more inductively, in the course of interpreting the empirical material itself... (I)nstitutional analyses focus on illuminating how different variables are linked. None... proposes a simple, single-variable explanation. All demonstrate the relationships and interactions among a variety of variables in a way that reflects the complexity of real political situations.¹⁶

b) *A pluralistic view of comparative methods.* Clearly, the generation of law-like generalisations requires the stringent methodological conditions eloquently laid out by Przeworski and Teune (1970) and King et al. (1994), to name two canonical texts in the field. These conditions include, first and foremost, a careful selection of cases according to their fit for 'most-similar systems' or 'most-different systems' research designs. However, even the strictest practitioners are keen to recognise that valuable insights about political behaviour may be obtained from comparative research that falls well short of such methodological strictures.¹⁷ A single-minded quest for empirical regularities downplays, and probably misses altogether, the cultural and normative understandings that shape political behaviour in specific contexts, which often provide as good a guide for political practice as the most sophisticated generalisation. As we will see in these pages, the subtle social codes that rule interaction within small business elites, which are essentially un-modellable, are an indispensable element in any explanation of

8 | paying for democracy

political finance practices in Costa Rica and Uruguay. In many ways, political science is at its best and most useful when solidly grounded on political history, sociology and anthropology, even if that reduces significantly the parsimony and leverage of its conclusions.¹⁸ While *desirable*, covering laws – and the strict methods that may generate them – are not *essential* for the understanding of political behaviour.

Such an approach underpins one of the growing trends in comparative political science, i.e. the use of studies in which a small number of cases are explored in great depth, emphasising the role of context in the production of political outcomes. Generally speaking, such works are geared more towards *descriptive* than *causal* inference, are more reliant on qualitative evidence than on sophisticated quantitative techniques, and more oriented towards the generation of new hypotheses than towards the conclusive validation of old ones.¹⁹ Aware of its merits and limitations, this work partakes of this tendency, embracing it as the best way forward for the development of a discipline of comparative political finance. The bulk of this volume thus comprises a comparative study of state funding systems and political finance practices in Costa Rica and Uruguay.

THE CASES: WHY COSTA RICA AND URUGUAY?

Amongst Latin American countries, Costa Rica and Uruguay are uniquely suited to this research. They have long been recognised as two of the most stable democracies in the region and indeed in the entire developing world. While Costa Rica has enjoyed a spell of more than fifty years of unbroken democratic rule, a sequence unparalleled in the developing world, democratic institutions, notably elections and political parties, had a precocious development in Uruguay since the mid-nineteenth century, making the country one of the world's oldest polyarchies. Today, both countries boast some of the highest levels of democratic legitimacy, electoral participation, and party system institutionalisation in Latin America.²⁰

The solidity of their democratic institutions hardly exhausts the list of similarities between these two countries. They indeed share central features in their political and institutional configuration, from the nature of the political regime – presidential in both cases – to the historically dominant presence of the state in society. More importantly for this work, both countries exhibit a similar long-term approach to political finance, defined by a lengthy tradition of direct state support to parties and a liberal attitude towards private contributions, only recently and ambiguously altered in Costa Rica. In fact, their state funding schemes are the two oldest in the world, preceding – in the Uruguayan case by several decades – the West European systems that have attracted much of the discussion on the topic. Their public funding schemes share important features, including their electoral orientation, and the proportional allocation and generosity of the disbursed funds.²¹

Beyond political and institutional realities, Costa Rica and Uruguay display a

Table A.1: *Costa Rica and Uruguay, selected socio-economic indicators, c.2000*

	Costa Rica	Ranking in Latin America	Uruguay	Ranking in Latin America
A Population (millions)	3.9	18th	3.2	19th
B Population in capital city (millions)	1.2 (1)	---	1.4 (2)	---
C GNP per capita (US\$) (3)	7,980	5th	8,800	3rd
D Literacy (% age 15 and above)	95.5	4th	97.7	1st
E Human Development Index (4)	0.821	4th	0.828	2nd
F Income distribution (top quintile/ bottom quintile) (5)	6.9	2nd	4.5	1st
G Poor households (%)	21.1	---	15.5 (6)	---

Notes: (1) 1994, Metropolitan Area of San José. (2) 1991, city of Montevideo. (3) Adjusted for PPP. (4) Index of per capita income and selected health and education indicators, elaborated by the UNDP. (5) 1997. Lower figures are ranked higher. (6) Urban households only.

Sources: See Appendix.

striking resemblance in their social structure and socio-economic development. Table A.1 shows that Costa Rica and Uruguay are very small societies, with significant spatial-demographic concentration and a relatively egalitarian socio-economic structure, where some of the worst inequalities and social tensions that characterise Latin America have been considerably tempered.

This long catalogue of shared features does not obscure, however, the existence of many political and historical differences between Costa Rica and Uruguay. The recent authoritarian experience undergone by Uruguay (1973–85) merely points towards more profound and permanent contrasts in the evolution of political actors and cleavages in both countries. Even in purely institutional terms, critical differences remain in the format of the party system and the workings of electoral rules in each case. As we will see below, the long-term use of Double Simultaneous Voting (DSV) – a peculiar system of preferential voting – has long conferred on Uruguayan electoral rules a clearly distinctive identity, not bereft of financial consequences.

Such a complex blend of systemic similarities and differences makes the selection of Costa Rica and Uruguay problematic from the standpoint of a ‘most-similar’ or ‘most-different systems’ comparative inquiry. Clearly, this paired comparison does not fall in either category. It is, however, a highly appropriate pairing for a project purporting to show that the historical, political, social and institutional context – which includes both shared and divergent traits – is essential to understand political finance practices. In a way, the politico-institutional context in Costa Rica and Uruguay is similar enough to make the comparison intelligible, but not so similar as to render it pointless. It is, moreover, a fortunate selection for a research that aims to show how contextual peculiarities and relatively minor differences in the subsidy’s design may lead rather similar party funding schemes to

10 | paying for democracy

affect political finance practices in quite distinct ways.

Above and beyond methodological suitability, however, strong practical motives underpin the choice of Costa Rica and Uruguay. As noted above, empirical information on political finance is a most scarce commodity in Latin America. In a topic riddled with secrecy and weak reporting practices, the construction of a pool of empirical data involves a painstaking investigative effort in the course of which a wide range of qualitative and quantitative sources must be probed and cross-checked. Clearly, such an endeavour stands a far better chance of succeeding in very small countries, with solidly established institutions – notably political parties – and age-old traditions of political openness. This is a rare combination of traits in Latin America. Indeed, with the partial exception of Chile, it may be found in Costa Rica and Uruguay alone. Moreover, they are the region's only cases that allow for a long-term examination of the role and effects of state funding systems. Quite simply, if any kind of comparative research on the effects of party subsidies and political finance practices is to be carried out in Latin America, all the roads lead to Costa Rica and Uruguay.

LIMITS AND CAVEATS

Far from making it easy, such a choice makes this project feasible. Indeed, the feasibility of this research imposes, in many ways, strict limits to it. Four considerations about what this book is *not* and does *not* seek to achieve must be explicitly stated:

a) A first limit should be evident by now: this book will not offer conclusive validation or refutation of any hypothesis regarding the effects of state funding systems. Its theoretical aims are more modest: to offer an empirical critique of the available hypotheses, suggest that a view emphasising the contingency rather than the regularity of political outcomes is a valid standpoint to analyse those effects, and draw attention to phenomena and relations largely neglected in available political finance analyses. In that sense, it aims at attaining *heuristic* rather than *theoretical* value.

b) The reconstruction of political finance practices in Costa Rica and Uruguay deals, indeed, with *general practices* and how they relate to state funding systems and their context. The book does not seek to identify *specific* sources of political funding and *specific* political pay-offs eventually derived from their presence. If at all possible, the identification of conclusive empirical links between contributions and political decisions poses almost insurmountable methodological obstacles. What will be attempted here is an admittedly oblique way of dealing with the consequences of state funding systems on the autonomy and integrity of politicians and parties, i.e., by studying the subsidies' effects on fundraising practices. Such an indirect approach is based on the following premise: if DSF is to protect the integrity of political actors and enhance their autonomy from moneyed interests, then it should at least have a moderating impact on the fundraising practices

of parties and candidates and, ultimately, on the financial influence of private donors. If DSF fails to achieve this, then its relevance as a protector of political integrity must be seriously questioned.

c) The book deals with political finance, i.e., the funding of political activities in general. However, it will privilege the analysis of *campaign* finance issues over *party* finance ones. This implies a limited consideration of the funding of the parties' permanent (i.e. non-electoral) activities as well as of the long-term organisational effects of DSF (for instance on the parties' incentives to attract members, their institutionalisation and autonomy from the state). Though these issues will feature, in some length, in the review of the hypotheses on the effects of state funding, they will be almost completely absent from the book's case studies, due to reasons of space. The reduced focus on party finance is a far less serious shortcoming for this particular comparison than it would otherwise be. With very few exceptions – Uruguay's Broad Front (FA) the most important one – parties in both countries remain largely dormant between electoral tournaments. Their financial turnover, membership levels and permanent activities remain pitifully weak.²² That parties in Costa Rica and Uruguay are considered amongst the most institutionalised in Latin America is more a commentary on the extraordinary feebleness of party organisations elsewhere in the region than a reflection of their peculiar solidity in both countries. To put it shortly: in Costa Rica and Uruguay political finance is campaign finance.

d) Even in Costa Rica and Uruguay, the study of campaign finance remains beset by the secular weakness of transparency rules and the corresponding scarcity of reliable information, particularly with regard to private sources of funding. Thus, while an effort has been made to provide the analysis of campaign finance practices with a historical perspective, a comprehensive quality, and a reasonable balance between both countries, the book's focus will be on the recent rather than the distant past (i.e. the 1990, 1994 and 1998 elections in Costa Rica, and the 1994 and 1999 elections in Uruguay), on presidential rather than congressional contests, and on Costa Rica more than on Uruguay. The latter emphasis owes more to the acute dearth of political finance information and the topic's long-standing neglect in Uruguay, than to the author's inevitable proclivities.

THE CHAPTERS THAT FOLLOW

The book is divided into five chapters. Chapter one is a comparative survey of political finance regulations and state funding schemes. The chapter seeks to emphasise the extraordinary diversity of political finance regulations, the complexity of their components, and the frequently contradictory and unexpected consequences of their combination. The chapter also dissects DSF systems, offers a typology of them and engages in an appraisal of their political effects. Making use of sources of primary information (notably Katz and Mair's [1992] comprehensive handbook on party organisations in twelve developed democracies) as well as

12 | paying for democracy

the scattered evidence collected in the available literature, the chapter scrutinises the empirical fit of the alternative hypotheses about DSF's effects on: (a) the parties' dependence on private donors and the prevention of corruption; (b) political equality, electoral competition and the dynamics of the party system; and (c) the organisation and strength of parties. Basic statistical tools are employed to test possible links between DSF and party system fragmentation, electoral volatility, and membership and bureaucratisation levels in political parties. This survey yields neither a victory for the subsidies' advocates nor one for their critics, but a rather mixed picture where the effects of DSF are contingent on an extraordinary diversity of political and institutional factors, not least the subsidy's own design. In the face of contingency, the chapter calls for more textured, context-sensitive analyses of political finance.

The rest of the volume embarks on such an analysis. Chapter two provides the historical, political and institutional backdrop against which political finance practices must be seen in Costa Rica and Uruguay. The chapter provides the reader with a basic understanding of the evolution and features of the political regime, electoral rules, party system, and political finance and state funding regulations in both countries. It is, in other words, an attempt to *frame* the case studies that will be developed in subsequent chapters. Chapter two pulls together the rich political literature on both countries (particularly on Uruguay) as well as a range of archival sources on the emergence and evolution of political finance arrangements. The chapter relates the latter to each country's broader political milieu and ends by taking stock of the key similarities and differences between the politico-institutional contexts of both cases.

The following two chapters should be considered as a unit and, in many ways, the core of the book. They are an exploration of the role of state funding in shaping campaign finance practices and in moderating exchanges between politicians and private donors in Costa Rica (Chapter three) and Uruguay (Chapter four). Employing a wide array of primary sources, including official documents, newspapers, media monitoring records and more than 100 interviews with active and retired politicians, party officials, electoral authorities and leading businesspersons, these chapters reconstruct the cost of campaigns, the nature of election expenses, the relative financial weight of DSF, and the procedures and codes that govern the parties' fundraising activities in both countries.²³ More than merely offering a description of campaign finance practices, the chapters connect these practices and the role of state funding to the politico-institutional traits laid out in Chapter two. What emerges from this paired account is a picture in which electoral rules and the format of the party system affect decisively fundraising dynamics and the subsidy's own relevance. Moreover, this picture is one in which subtle social and institutional mechanisms prove as important a constraint on exchanges between politicians and private contributors as the availability of public funding. As in the case of Chapter one, these chapters do not provide unalloyed confirmation of the best hopes and worst fears that infuse debates on DSF, but rather a more subdued view of its power to shape political behaviour. These chapters do suggest,

nonetheless, that subsidies may be an important instrument for the protection of electoral equality, and that the acute pro-business bias of fundraising processes – even in Latin America’s most egalitarian societies – may well turn DSF into a democratic necessity in the region.

Chapter five returns to the issue of the effects of DSF on electoral competition and the dynamics of the party system, already raised in Chapter one. Through a long-term analysis of electoral volatility and party-system fragmentation in Costa Rica and Uruguay, the chapter reinforces what the review made in Chapter one already suggests: very little evidence exists of the ability of DSF to block changes in the party system. If anything, the chapter argues that certain subsidy designs – such as the Uruguayan one – may actually *foster* party-system transformation and the subversion of the status quo rather than protecting it. Ultimately, the configuration of party systems and their evolution respond to deeper historical and institutional phenomena, which political finance rules can hardly counteract. A brief conclusion follows Chapter five, summarising the main lessons drawn from the case studies and suggesting new hypotheses and directions for future comparative work on political finance.

This book seeks to enrich the empirical content of an important discussion for the quality of democracy in Latin America and beyond. But, above all, it is an attempt to place political finance debates in a better informed and more objective perspective. While positive and even necessary, the current media infatuation with political finance issues has propagated a powerful mythology of the topic, populated by greedy contributors, corrupt politicians, bought-and-sold policies, and all-knowing reformers. Populated, that is, by the disfigured shadows that Frank Sorauf’s epigraph rightly decries. Luckily for this work, and for political science in general, political finance realities are far more interesting and complex than their cardboard version suggests. The truth is that political money rarely determines political outcomes, and that regulation instruments seldom achieve more than a fleeting and moderate success in curbing its influence. Even the author would be happy to admit that, fortunately, the subject of this volume is less urgent than often appears.

NOTES

- 1 Sorauf (1994), pp. 1359, 1367.
- 2 Pollock (1932), p. 328.
- 3 Transparency International (2000).
- 4 OAS, Inter-American Democratic Charter (Article 5), 11/9/2001.
- 5 International Parliamentary Union [IPU], Resolution adopted without a vote by the 94th Inter-Parliamentary Conference (paragraph 5.c), 13/10/1995; International Organisation of the Francophonie [OIF], Declaration of Bamako (paragraph 5.b.11), 3/11/2000; COE, Parliamentary Assembly, Recommendation 1516, 22/5/2001; EU, Treaty of Nice (Declaration 11), 26/2/2001; Commission of the European Communities, Proposal for a

14 | paying for democracy

- Council Regulation on the Statute and Financing of European Political Parties, 13/2/2001.
- 6 Senator R. Feingold in *The Washington Post*, 19/3/2002.
 - 7 Schattschneider (1975 [1960]), p. 119.
 - 8 For a comprehensive bibliography of political finance works and a good survey of the comparative efforts see Nassmacher (2001a) and (2001b).
 - 9 Duverger (1988 [1951]), p. 9.
 - 10 Del Castillo and Zovatto (1998) is, by far, the most comprehensive collection of studies on Latin American political finance.
 - 11 On the case of Colombia: Posada-Carbó (n.d.). On the case of Panama: *The Economist*, 25/5/1996 and 29/6/1996. Illegal fundraising practices also played a role in the downfall of former Brazilian President Fernando Collor de Melo in 1992.
 - 12 On the difference between direct, indirect and specific state funding see Chapter one, pp. 28–9. For the rest of this volume, the expressions ‘state funding’, ‘state financing’, ‘state subsidy’, ‘public funding’, ‘public financing’, ‘public subsidy’ and ‘public subvention’ will be used interchangeably and be taken to mean Direct State Funding, unless otherwise stated.
 - 13 Committee on Standards in Public Life (1998), p. 92.
 - 14 Although most political finance works deal with DSF in one way or another, the only volumes published in English or Spanish specifically devoted to its study are, to the best of my knowledge: Leonard (1975), Committee on Financial Aid to Political Parties (1976), Centro de Estudios para la Justicia Social con Libertad (CEJUL) (1989), Wiberg (1991a), Alexander et al. (1992) and Corrado (1993).
 - 15 Thelen and Steinmo (1992), p. 9.
 - 16 Thelen and Steinmo (1992), pp. 12–13.
 - 17 King et al. (1994), pp. 211–12.
 - 18 See Almond and Genco (1977); MacIntyre (1978); Skocpol and Somers (1980); Thelen and Steinmo (1992); Whitehead (1996) and (2002).
 - 19 Mair (1996), pp.328–31.
 - 20 Costa Rica and Uruguay have routinely topped the rankings of support of and satisfaction with democracy in Latin America. See, for instance, *Latinobarómetro* (2002). See also *International IDEA* (1997), Figure 12, and Mainwaring and Scully (1995), Table 1.6.
 - 21 The mean level of subsidisation over the past fifty years is very similar in both countries: US\$7.7 per voter and election cycle in Costa Rica, US\$6.9 per voter in Uruguay (US\$ of 1995).
 - 22 A few facts should clarify the point. Between March 1994 and July 1997, i.e. between the 1994 election and the onset of the next presidential campaign, *total* expenditures at the headquarters of Costa Rica’s National Liberation Party (PLN) – the most institutionalised in the country – amounted to US\$20,500 per month on average (PLN [1994–8]). In January 1996, two years before the 1998 election, its main contender, the Social Christian Unity Party (PUSC), had only seven full-time employees on its payroll. The figure climbed to 633 in January 1998, only to plummet, once again, to seven in January 2000, halfway through the electoral cycle (CCSS [various years]). Top directing posts in both parties – such as President of the Political Directorate, Secretary General and Treasurer – carry no salary, despite being, in some cases, full-time occupations. The situation is not essentially different in Uruguay. Monthly expenses at the headquarters of the long ruling Colorado Party (PC)

have been estimated at US\$10,000. One of its largest internal sectors, Lista 15, does not have affiliates or offices outside the campaign season. Even the central office of the left-wing Broad Front (FA) – far and away the most expensive political operation in the country between campaigns – has a routine turnover of less than US\$1 million per year. This pales when compared with the almost US\$10 million spent by the party in the course of the 1999–2000 election cycle. In both countries, parties are, for all intents and purposes, electoral machines.

- 23 Indeed, the book's case studies – particularly their reconstruction of campaign finance practices – rely heavily, although far from exclusively, on information provided by the following interviews: A) In Costa Rica: Altmann [28/9/1999]; Alvarez [7/12/1999]; Araya [4/12/1999]; Araya-Fernández [27/1/2000]; Arias [30/8/1999]; Berhorst [21/10/1999]; Burgués, [11/11/1999]; Calderón-Fournier [16/9/1999]; Carazo [29/9/1999]; Cerdas [20/9/1999]; Chacón [7/9/1999]; Chacón-González [21/12/1999]; Chávez [22/10/1999]; Chinchilla [9/9/1999]; Constenla [20/9/1999]; Coto [6/9/1999]; De la Cruz [13/9/1999]; Dent [22/12/1999]; Fachler [22/9/1999]; Feoli [20/9/1999]; Figueres [3/11/1999]; Fishman [1/12/1999]; Flórez-Estrada [28/1/2000]; Fonseca [24/11/1999]; González [17/9/1999]; Guardia [20/10/1999]; Guevara [24/9/1999]; Gutiérrez-Sáenz [1/11/1999]; Laclé [7/9/1999]; León-Páez [1/12/1999]; Méndez [15/11/1999]; Montero [21/12/1999]; Muñoz [21/10/1999]; Pacheco [20/1/2000]; Pacheco-Salazar [23/11/1999]; Palma [15/10/1999]; Ruiz [10/12/1999]; Schyfter [9/12/1999]; Sobrado [8/9/1999]; Spaett [22/10/1999]; Tovar [1/11/1999]; Trejos [25/10/1999]; Urcuyo [23/11/1999]; Vargas [28/10/1999]; Vargas-Aguilar [6/12/1999]; Vargas-Artavia [4/10/1999]; Vargas-Benavides [23/9/1999]; Villalobos [25/11/1999]; Villegas [17/9/1999]; Weisleder [23/9/1999]; Yankelewitz [20/10/1999]. B) In Uruguay: Abdala [25/4/2000]; Achard [17/5/2000]; Advertising executive [10/5/2000]; Aguirre [9/6/2000]; Ahumada [16/6/2000]; Alonzo [9/5/2000]; Andreoli [13/6/2000]; Arbilla [3/7/2000]; Astori [1/6/2000]; Baráibar [17/4/2000]; Barandiarán [25/4/2000]; Barbé [20/3/2000]; Batlle [2/6/2000]; Bayardi [4/5/2000]; Benecke [4/7/2000]; Businessperson No. 1 [15/5/2000]; Businessperson No. 2 [2/6/2000]; Businessperson No. 3 [24/5/2000]; Businessperson No. 4 [5/7/2000]; Carlevaro [14–16/6/2000]; Castro [18/5/2000]; Cataldi [5/6/2000]; Da Silva [29/6/2000]; De Cuadro [13/6/2000]; FA media advisor [27/4/2000]; Flores-Silva [14/4/2000]; Gandini [12/4/2000]; Giuria [25/4/2000]; Heber [26/5/2000]; Lacalle [4/7/2000]; Lamorte [31/5/2000]; Lassús [14/6/2000]; Lorenzo [3/4/2000]; Macedo [9/6/2000]; Martin [6/6/2000]; F.Michelini [11/5/2000]; R.Michelini [10/5/2000]; Mieres [20/3/2000]; Millán [26/5/2000]; Nunes [10/4/2000]; Penino [20/6/2000]; Radiccioni [23/5/2000]; Ramírez [28/6/2000]; Rodríguez-Camusso [28/4/2000]; Rosas [21/6/2000]; Sanguinetti [12/4/2000]; Urruty [23/2/2000]; Vaillant [28/4/2000]; Valdez [10/4/2000]; Visillac [23/5/2000]; Xavier [1/6/2000]. For reasons of space, as well as to facilitate the reading, I have decided, with few exceptions (particularly cases of direct quotation), not to attribute points made in the text to particular interviews. Other sources have been largely kept in the endnotes. Attribution details may be found in Casas-Zamora (2002) or obtained from the author at kevin_casas@yahoo.com.