Do Strict Electoral Campaign Finance Rules Limit Corruption?

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When candidates for democratic office run for election they are looking for funds to finance their campaigns. These funds allow them to get the word out about their positions, and their campaign advertisements inform voters about those positions.[1] Thus campaign advertisements can have the beneficial effect of helping voters to make more informed choices. However, candidates may promise policy favors to contributors in exchange for contributions. Some scholars argue that such quid-pro-quos give wealthy individuals and organizations an unfair advantage in the political process. Policies may be systematically tiled to donors at the expense of those who do not contribute to candidates' campaigns. Moreover, it has been suggested that voters will become disgusted with the political process when they believe that politicians are for sale, and thus may cease to participate in elections and lose trust in government.

Many democracies regulate from where candidates or parties can obtain campaign funds, the amounts of funds, and whether the source of funds has to be disclosed. Table 1 presents data from the CESifo Database for Institutional Comparisons in Europe, describing the institutional framework in which the campaign finance regulation occurs, the laws limiting contributions, and disclosure requirements. While Austria appears to have the fewest limits on the source and amounts of funds, and has very little disclosure requirements, the USA has the most regulated campaign finance system of all countries and the strictest disclosure requirements.[2]

The sources of political parties financing and financing rules for individual candidates are described in Table 2. This table, as Table 1, provides a snapshot of the rules, but cannot be complete as rules are very complex, and often rules differ, depending on whether a candidate runs for President, for the House or the Senate, and whether the candidate runs for local office. Some form of public financing occurs in all countries, although the "Public Funding" column in Table 2 reports no public funding in 1999 and 2000 for the United Kingdom and the United States.

Cross-country work on the effects of campaign finance regulations is virtually non-existent. Work that wanted to examine the consequences of reform, would ask how the regulations affect economic outcomes such as expenditure and tax policies; electoral outcomes, such as the closeness of election, the incumbency advantage, and the number of candidates running for office; voter behavior, such as their voting participation and trust into the political process; how regulations affects the trustworthiness of the campaign message, and whether regulations influence legislators' decisions.

Recent empirical work has addressed some of these questions for the United States. For data work, the Untied States is a wonderful laboratory to examine these questions, as there is a large variation in campaign finance laws across the fifty states and over time. For example, while some states disallow corporate contributions to candidates, other states allow unlimited contributions. Similar variation exists for contributions from individuals, unions, and Political Action Committees. Moreover, several states have made their campaign finance laws stricter in recent years, allowing the researcher to examining the effect of campaign finance law changes.

Recent evidence from the 50 states suggests that stricter limits lead to closer election margins (Stratmann und Aparicio-Castillo 2003). Their estimates imply that the introduction of contribution limits increases the closeness of an election by up to 7.7 percent. However, since incumbents tend to win with large margins of victory, these numbers indicate that the enactment or tightening of campaign finance laws does not lead to a large increase in incumbent turnover. This evidence seems to suggest that limits primarily curtail the fundraising ability of incumbents and put challengers in a slight competitive advantage. Also stricter limits lead to more candidates in elections (Stratmann und Aparicio-Castillo 2003). Here, the results sug-

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[1] There is some debate as to whether advertisements are truthful, but if they are not, the opposition candidate has the opportunity to inform voters about the "lies" disseminated for the opponent.

[2] Table 1 indicates that there are no limits on independent expenditures in the United States. However, in the US, there are limits on giving to candidates from individual and so-called Political Action Committees. Corporations and unions are not allowed to contribute directly to candidates.

Table 1

Financing Rules for Political Parties and their Campaigns

	Restrictions on fundraising and expenditure	Disclosure rules
Austria	No limits on individual or corporate donations. No limits on expenditure. Political donations by interest groups are subject to an income tax surcharge to be paid by the recipient party. Donations in excess of € 7,730 must be disclosed (total amounts and type of donor i.e. individual, interest group, corporation).	States do not require strict reporting and data provided by parties on the federal level thought to be incomprehensive for it covers only part of the parties' activities and financial dimensions.
France	No foreign donations. No donations from private or public-sector companies (since 1995). Individual donations may not exceed c. € 7,575 per year and donations of more than c. € 150 must be given by cheque, thereby disclosing the identity of the donor.	Legal status of parties is vague; data protected and not released to the public due to the constitutional freedom of action granted to parties. Available reports are incomplete: local activities expenses are not detailed and links between parties and foundations remain unclear. Poor level of supervision by regulating authorities.
Germany	No limits on individual or corporate donations. Ban on tax benefits for corporate donors imposed by the Supreme Court. Donations in excess of c. € 10,300 must be disclosed (names, addresses, and amounts). Ban of foreign donations except from EU citizens and EU corporations. No donations in excess of € 500 from anonymous individuals.	Reports and lists of donors are published in parliament material: *Bundestagsdrucksache*. Reports have a common format and are well detailed. The total revenue of assessments (political graft) remains unclear. For detailed info and statistics see: http://www.bundestag.de/datbk/finanz/index.html http://www2.spd.de/partei/finanzen/ausw_rechenschaftsbericht99.pdf
Japan	No political donations by private firms which receive public subsidies, by corporations in public ownership, by indebted enterprises, by foreign individuals and organizations, or by anonymous sources (est. 1976). Donations limited to € 181,820 (JPY 20 mill) by individuals and to € 68,180 – 909,100 (JPY 7.5 – 100 mill) by corporations/unions. Donations in excess of € 440 (JPY 50,000) must be disclosed (names of all donors: individuals, corporations, and organizations). Names must also be disclosed of individuals or corporations buying tickets for fundraising events in excess of € 1,770 (JPY 200,000) per event.	At the national level, financial reports are published by the Ministry of Public Management, Home Affairs, Posts and Telecommunication; on the local level, reports are published by the local election agencies. Unreliable data; local and national level agencies do not have the authority to verify or investigate the financial statements and transactions of parties. Restrictions have not been effectively monitored and enforced (i.e. 1976 ban on types of political donations).
United States	No limits on "independent" expenditure (expenditures not coordinated with a candidate). No donations to federal elections from foreign nationals, national banks, and other federally chartered corporations, labor organizations and federal government contractors. See tables: "Federal Contribution Limits 2000" and "Expenditure Limits for Publicly Funded Presidential Candidates" *(Foundations for Democracy, pp. 47-48).*	Relevant statistics stem from national election years since finance is dominated by campaign fundraising and spending (little routine spending by parties in inter-election years).

Note: This table is a condensed version of two large tables in the DICE Database: www.cesifo.de/DICE; search for "Financing of Political Parties".

Main Sources: Foundations for Democracy, Karl-Heinz, Nassmacher, ed., Nomos Verlagsgesellschaft: Baden-Baden, 2001.
Karl-Heinz Nassmacher, International IDEA Handbook on Funding Parties and Election Campaigns forthcoming 2003.

gest that the introduction of individual contribution limits for individuals leads to an increase in the number of candidates by up to five percent.

The issue as to whether campaign contributions are actually corrupting politicians has been subject of a lively academic debate. Contributors have

Table 2

Financing of Political Parties: Source and Amount of Funding

	Year of survey	Private funding		Corporate funding		Public funding		Total		GDP in bill €	Total in % of GDP
		Amount in mill €	% of total	Amount in mill €	% of total	Amount in mill €	% of total	Amount in mill €	% of total		
Austria	1998	43.6	21.0	17.3	8.0	147.4	71.0	208.3	100	204.8	0.102
France	1998	60.0 a)	40.0 a)	15.0 a)	10.0 a)	75.0	50.0 a)	150.0 a)	100	1,404.8	0.011
Germany	1999	241.0 a)	61.5	33.0 a)	8.5	1,230.0 a)	30.0 a)	392.3	100	2,025.5	0.019
Italy	1999	n.a.	n.a.	1,660 a)	n.a.	50.0 a)	n.a.	1,710.0 a)	100	1,165.7	0.147
Netherlands	1999	5.15 a)	31.3	few	few	4.35 a)	26.5	16.4 a)	100	401.1	0.004
Spain	1998	n.a.	<=10	n.a.	n.a.	56.3	up to 90	96.5 a)	100	608.8	0.016
Sweden	1999	62.0 a)	44.0	few	few	70.5 a)	50.0 a)	141.0 a)	100	246.6	0.057
Unite Kingdom	1997	97.0	95.0	5.23	5.0	none	none	102.2	100	1,547.9	0.007
Australia	1998	13.0 a)	39.0 a)	few	few	20.0	61.0 a)	33.5	100	445.8	0.008
Canada	2000	37.1	69.7	16.0	30.2	0.03	0.1	53.1	100	774.7	0.007
Japan	1999	low	low	725.0 a)	50.0 a)	495.0 a)	34.0	1,459.0	100	4,319.4	0.034
United States	1999–2000	741.0	60.0	495.1	40.0	none	none	1,236.1	100	10,708.9	0.012

Notes: Some data are unavailable. Some amounts given in national currencies have been converted into Euro. Data are not always comparable. The figures given relate only to the costs of the political parties, not to those of the whole political system.

a) Data are estimated due to lacking transparency.

Sources: Foundations for Democracy, Karl-Heinz, Nassmacher, ed., Nomos Verlagsgesellschaft: Baden-Baden, 2001;
Karl-Heinz Nassmacher, Chapter from the International IDEA Handbook on Funding Parties and Election Campaigns, forthcoming 2003;

probably the largest effect on legislator behavior, when it comes to legislation where politicians do not have already a public position, such as on abortion or the death penalty. Academic work that looks at legislation that is not at the center of the public eye, and legislation whose consequences are difficult to understand for the average voter, finds that contributions cause legislators to vote according to the preferences of their campaign contributors, even after controlling for the interests of legislators' voting constituencies (see, for example, Stratmann 2002).

Some recent theoretical work suggests that voters are more responsive to the campaign message when they believe that candidates do not promise many favors to contributors in exchange for campaign funds (Coate 2003). According to this theoretical work, voters are more likely to believe that candidates promise policy favors when contributions are unlimited as opposed to limited. Statistical evidence is supporting this hypothesis. Stratmann (2003), for example, finds for the USA, that when states limit contributions, an additional $10,000 in campaign advertisement significantly increases the candidates' vote shares run in states that limit campaign contribution, while a similar campaign advertisement is not very effective in increasing candidates' vote shares when no laws limit individual contributions to candidates. This evidence is consistent with the model that votes respond better to "clean" money, as opposed to "tainted" money.

While new data bases have to be developed in order to test these hypotheses across countries and over time, Tables 1 and 2 (presented here in an abridged version) allow for a limited analysis. Based on the full content of the tables[3], I constructed an index from 0 to 3 indicating the strictness of campaign finance laws, where a higher number indicates restrictions on giving to parties and to candidates. Table 3, column 2 shows the index I assigned to each country.

One of the major motivators for limiting contributions is the hope that limits will reduce actual cor-

[3] The full tables cover 14 OECD countries and contain more variables. See DICE database, www.cesifo.de/DICE.

Table 3

Strictness of Campaign Finance Rules and Indexes of Corruption

Country	index	tibribe 2002	ticorrupt 2002	wbcorrupt 2001
Japan	3	5.3	7.1	1.202561
Italy	2	4.1	5.2	0.633461
Spain	1	5.8	7.1	1.445595
Portugal	3	na	6.3	1.212141
France	2	5.5	6.3	1.145166
United States	3	5.3	7.7	1.449898
Austria	0	8.2	7.8	1.561577
Australia	1	8.5	8.6	1.751209
Germany	1	6.3	7.3	1.37717
United Kingdom	2	6.9	8.7	1.86457
Netherlands	1	7.8	9	2.092631
Canada	2	8.1	9	2.048426
Switzerland	0	8.4	8.5	1.911583
Sweden	0	8.4	9.3	2.213424

Note: Index: author's calculation on the basis of tables 1 to 3.
tibribe 2002: TI Bribe Payers Index (0 to 10=zero bribes).
ticorrupt 2002: TI Corruption Perception Index (0 to 10=clean).
wbcorrupt 2001: World Bank Corruption Control Index (-2.5 to 2.5=less corruption).

ruption and the perception of corruption in the political process. If candidates make promises to contributors in election year t and implement those promises in years *t+1* or *t+2*, one would expect a correlation between the index in year t and a measure of corruption in year *t+1* or *t+2*. The DICE survey and thus the constructed index is for the years 1998 to 2000. To examine the relation between the stringency of campaign finance laws and amount of corruption in a country, I collected a corruption index from the years 2001 and 2002. I collected three types of corruption indices, as shown in the last three columns of table 4 (for sources, see the notes to Table 4). Higher values indicate less corruption.

Table 4 shows the correlation coefficients between the index and the corruption measures. All coefficients are negative, indicating that states with stricter contribution limits have lower corruption indexes values. Since a lower corruption index value indicates more corruption, the result means that stricter campaign finance limits are correlated with more corruption. This is a somewhat surprising result, as typically limits are implemented in order to reduce corruption.[4]

Table 4

Correlation measures for Table 3

bpi2002	cpi2002	wbcc2001
-0.7014	-0.4694	-0.5133
(0.0075)	(0.0904)	(0.0605)

However, this correlation does not allow one to make a statement such as that contribution limits cause more corruption. An unobservable variable such as a country specific "corrupt culture" may lead to the adoption of contribution limits and the presence of corruptness. Thus, the correlation result may be due to the fact that countries that have an inherently more corrupt culture will introduce contribution limits in order to address the problem of already high levels of corruption. Clearly, this line of research requires more work.

I also examined whether the index was correlated with central government expenditures and with whether the country has a proportional representation or a plurality rule electoral system but found no statistically significant correlations. Future work may want to examine these relations using cross-country regression analysis, which allows one to control for variables that are omitted in these simple correlations. Future work may also want to examine a larger sample of countries and to take account of changes of campaign finance laws within countries, allowing the researcher to analyze the effect of changes in campaign finance regulations.

References

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[4] It may be worthwhile noting that the corruption indices are fairly stable over time, thus these results do not depend much on the fact that I chose corruption indices for 2001 and 2002 instead of, for example 1999.