The problem with party finance : theoretical perspectives on the funding of party politics

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Abstract:

This article presents some theoretical contours for the study of party finance and its consequences. Two broad issues are explored. First, the article develops an account of changes in patterns of party finance, and in particular the move away from the 'mass party' model of funding towards 'elite party' and 'cartel party' models. Party finance is conceptualized as a collective action problem, and four 'post-mass party' financial strategies are identified. Second, the article addresses normative issues, assessing how these four financial models perform in terms of 'liberal' and 'populist' theories of democracy. It is concluded that the mass party model remains closest to the 'democratic' ideal, whilst the state-financed ('cartel') model is a reasonable pragmatic response to the decline in party membership.

Introduction

A growing body of literature has identified a 'democratic disaffection' in advanced industrial nations, characterized by increasing mistrust of political institutions, a decline in traditional forms of political participation (most notably voting and party membership) and ever greater distance between political leaders and the citizens they purport to represent (Katz and Mair 1995, Webb 1995, Dalton and Wattenberg 2000, Pharr and Putnam 2000; for a contrary view Kitschelt 2000). Although these patterns are not necessarily presented as a threat to modern party democracy, this body of research provides plenty of evidence to suggest that parties in western democracies 'are not what they once were' (Schmitter 2001). Citizens in many western democracies are disengaged with the political process, and levels of confidence in political leaders, their parties and the democratic institutions are in decline (Newton and Norris 2000). In some countries politicians are widely perceived to be self-serving and corrupt (della Porta 2000). The increasing unpredictability of elections, the growth in electoral abstention and the strong growth of new (often extremist) parties in Western Europe (see Mair 2003) are consistent with these claims of widespread voter disillusionment in established democracies.

In this context, the way parties finance their activities has come under increasing scrutiny, often with embarrassing results. The last decade was marked by a wave of corruption scandals affecting major Western European political parties and their leaders, most notably in Italy, Spain, Belgium and France, but also in countries which had previously enjoyed comparatively 'clean' reputations, such as Germany and the United

Kingdom. The vast majority of these scandals revolved around the funding of party political activity (Heywood, Pujas and Rhodes 2002); even when politicians made illegal profits for themselves, this was most often simply a spin-off from illicit party fundraising. Scandals relating to party finance were instrumental in bringing about the transformation of the Italian party system in 1992-4 and overturning the longstanding Socialist government in Spain between 1993-6, as well as contributing to the crushing defeat suffered by the French Socialists in 1993. This suggests that the issue of funding is central to the problems facing party democracy.

Yet the available literature on political parties in Western Europe has barely scratched the surface of this question[1]. Studies of political or party finance have instead tended to develop separately from the mainstream parties literature, limiting their usefulness. Major comparative studies of how democratic politics is funded have been thin in the ground, and have tended to lack a consistent theoretical framework (see for example Heidenheimer 1970, Alexander 1989, Gunlicks 1993, Alexander and Shiratori 1994, Burnell and Ware 1998, Williams 2000, Nassmacher 2001; for exceptions Katz and Mair 1992 and 1994, Katz 1996). As a result, although party scholars can now draw on a wealth of qualitative data on party funding over the last two or three decades, most of it is to be found in discrete case studies which render comparison difficult. The available quantitative data is provided by official sources which are not always reliable, and at the very least tend to gloss over the kinds of dubious practices which recent scandals have revealed to be common in many democracies. In short, the field of party finance is undertheorized and most empirical research in this area is not systematically comparative.

There is therefore little in the way of generalizable explanations to account for variations in party funding practices across time and space.

The following pages present some theoretical contours for the study of party finance and its consequences[2]. Two broad issues are explored. First, the article develops an account of changes in patterns of party finance, and in particular the move away from the 'mass party' model of funding towards 'elite party' and 'cartel party' models. Party finance is conceptualized as a collective action problem, and the variety of party financial strategies and their implications are assessed from a 'political economy' perspective. Second, the article addresses normative issues. Although there is a widespread feeling that there is a 'problem' with the way parties are financed, there have been few attempts to illustrate exactly what the 'problem' is. Here I seek to address this theoretical gap by looking at party finance (albeit rather schematically) through the lens of democratic theory.

The article proceeds as follows: the next section analyzes the vulnerability and decline of the mass party model of funding in terms of the collective action dilemmas facing parties. The third section hypothesizes alternative party responses to these dilemmas. The fourth and fifth sections then examine the normative 'problem' of party finance, by briefly outlining the implications of 'populistic' and 'liberal' (Riker 1982) theories of democracy for the funding of party politics. The final section concludes.

Party Finance and the Logic of Collective Action

There is a substantial political economy and public choice literature which uses economic assumptions to interpret and predict the possibilities of collective action in a variety of arenas of social life, including electoral politics (see Persson and Tabellini 2000, Mueller 2003 for recent overviews[3]). The unit of analysis is the individual, and political behaviour is assumed to be rational, instrumental and self-interested: voters seek benefits for themselves, contributors hope for favourable treatment from elected politicians, politicians seek re-election or election to higher office. The limitations of the rigid application of economic logic to politics are of course well known (see for example Green and Shapiro 1994, Friedman 1996). Nevertheless, drawing on this literature to illuminate the problems of contemporary political finance has two significant advantages. First, although the assumption of self-interested utility maximizing may well be inappropriate in such low-cost activities as voting or taking part in demonstrations and other symbolic acts, it does seem a rather more plausible assumption when money changes hands, as it obviously does in questions of party funding. Second, the declining party membership and decreasing voter turnout of the recent period suggests that collective action in the electoral arena is becoming increasingly difficult, and that theories of participation which assume citizens' reluctance to contribute to collective goods may offer the most realistic account of contemporary electoral politics.

The first important implication of the political economy approach is that the mass party model of funding (Duverger 1954) is essentially unsustainable. The formation and maintenance of a mass party organization, and the political benefits it obtains, are collective goods, and beneficiaries cannot easily be prevented from 'consuming' them. In the kinds of large groups (the industrial working class, or the community of practising Catholics, for example) represented by mass parties, individual decisions to participate or not in party activity will make no difference to the amount of the collective good individuals receive. Party builders therefore face a collective action problem: rational self-interested group members will 'free ride', refusing to contribute to the party, and hoping that others will pick up the slack (Olson 1965, Hardin 1982). The financial contribution made by the average individual mass party member (in the shape of an annual membership fee and maybe a small donation to an election fund) will have no noticeable effect on the amount of collective goods the party is able to produce, and will not therefore visibly benefit the party member (or indeed anyone else). Such contributions are pointless in any utilitarian sense.

The well documented existence of a number of cases of genuine mass parties in West European electoral history (although fewer than is generally assumed; Scarrow 2000: 92-3) can only partially be explained by this theory. For Olson, collective action can emerge within small ('privileged') groups, which can then form larger organizations by distributing selective incentives to further participants: in early trade unions, for example, negative selective incentives such as 'closed shop' arrangements, supported by threats of physical violence, were crucial to overcoming the problem of free-riding (Olson 1965: Ch.3). But compulsory membership of a political party, on the model of the trade union closed shop, is practically impossible to enforce, and in the early phases of organization parties had little in the way of positive material incentives to offer. The only case in which selective incentives can account for mass party formation is where the mass party is itself an expression of the trade union movement, and where party membership comes with union membership (as was particularly the case in the British Labour Party; Mulé 1998: 53-9).

The formation of mass, fee-paying party memberships is therefore best understood in terms of non-material incentives (such as 'purposive' or 'solidary' incentives [Wilson 1973]; see also Seyd and Whiteley 1992, Fisher 1999a). A political economy perspective suggests that such incentives cannot be relied upon to maintain political organizations in the long run, as participants will abandon their involvement once they realize how little impact their contribution makes (Schlesinger 1984: 387). Indeed, the evidence strongly indicates that these kinds of incentives are no longer effective in generating participation in political parties. Party membership has declined consistently over the past two decades, reaching a low of only 5.5% of the electorate in the average West European country in 1999 (Mair and van Biezen 2001). There are further indications of citizens' alienation from political parties: turnout in elections is also in decline, with an average abstention rate of 22.4% in Western Europe in the 1990s (Mair 2003: 129), and the clear increase in electoral volatility across most West European countries in the 1980s and 1990s (*ibid.*) shows that citizens who do vote are less likely consistently to support the same party as in the past[4]. This does not necessarily imply that political participation *per se* is in terminal decline; political participation outside the traditional channels of party politics may even be increasing (Gunderlach 1995, Inglehart 1997). What it certainly does mean is that the mass party model of organization is no longer financially sustainable in Western Europe.

In the absence of long-run incentives for mass membership, the burden of party formation and maintenance rests on the party's officeholders and aspirant officeholders. As

Schlesinger observes, ‘attending meetings and running for office are costly, and will be done only by those with a personal stake (...). In a political party it is clear enough which people have the best defined personal stake: those with ambitions for office. Their payoffs, both substantial and personal, are worth the costs of organization’ (1984: 387-8). In this model, party members not motivated by the lure of office are too few to have any decisive impact on the party’s strategic choices. This has important consequences for party behaviour, with office-seeking, rather than policy-seeking (Mueller and Strom 1999), becoming the dominant rationale of party activity (Downs 1957, Kirchheimer 1966). Parties will therefore tend to adopt organizational strategies consistent with the goal of winning as many elective offices as possible, and will make financial choices accordingly. However, parties consisting largely of office-holders and candidates will have serious difficulties financing themselves. The following section examines possible responses to these difficulties.

Party Financial Strategies in a Free-Riding Society

In contemporary democracies, parties must seek votes from amongst the entire adult population. The mass party model was particularly successful in overcoming the logistical difficulties involved in connecting with such large numbers of people: mass parties had both a broad financial base and large numbers of activists ready to work for the party without material compensation. Membership decline therefore leaves parties with a dilemma. Although aspirant office-holders will invest their own time, energy and money in their party, the costs of marketing a party's candidates and proposed policies to a large electorate cannot be carried out by the candidates alone. We can identify four broad strategies of party organization capable of meeting these costs without relying too heavily on disinterested volunteers. These strategies are not mutually exclusive, and are likely to coexist in a variety of combinations within individual parties[5].

The Clientelistic Mass Party

Even in a context of pervasive free-riding, a mass membership party can be created by exploiting the resources of the state to distribute selective incentives. Citizens can be induced to become party workers in exchange for the prospect of favours from elected party representatives once political power has been obtained. These favours can take a variety of forms, including allocation of state jobs to party workers or their relatives, allocation of public contracts or other forms of paid work for the state in the case of business people who help the party, or the preferential allocation of welfare benefits such as public housing, disability allowances or any other kind of discretionary benefit. This strategy provides the party with much of the benefit of a mass party organization, in that labour-intensive campaign strategies and a capillary party presence in society become possible. Clientelistic relationships also extend beyond the party organization itself to the broader electorate, allowing parties to develop stable core constituencies (Weingrod 1968). The clientelistic strategy has been widely adopted, for example in the U.S. in the nineteenth and early twentieth centuries (Shefter 1994), in

Latin America (Geddes 1994) and in Mediterranean Europe, most notably Italy (Gellner and Waterbury 1977). Conditions favourable to this strategy include an under-developed state bureaucracy susceptible to party infiltration (Lyrintzis 1984, Shefter 1994) and levels of public spending well within the revenue-generating capacity of the state to permit expansion of redistributive policies and state employment. In Western European democracies neither of these conditions holds in the contemporary period, so clientelistic strategies alone are unlikely to succeed in sustaining mass organizations, although they may serve to complement other organizational strategies.

The Externally-Financed Elite Party

Technological change has brought attractive alternatives to the labour-intensive mass party model. By using capital-intensive campaign techniques, based on extensive use of audio-visual media, direct mailing and information technology, parties are increasingly able to reach mass electorates with relatively few, albeit often professionalized, party workers (Panebianco 1988, Bowler and Farrell 1992, Farrell and Webb 2000). These developments make a mass membership less necessary than in the past, and parties have generally been able to survive as elitist organizations, 'modern cadre parties' (Koole 1994) which maintain the basic structure of the mass party even as they become increasingly 'top-heavy'. However, these capital-intensive parties face spiralling costs (Farrell and Webb 2000: 114), which in the absence of a mass membership must be financed externally. This constitutes a collective problem of a slightly different order: who should pay to produce the collective good of party organization?

One solution to this problem is for holders of political office to exploit their ability to take decisions which have important economic implications for companies and individuals. Policy can therefore be ‘sold’: beneficiaries of the policy finance the party’s campaign, whilst the costs of the policy are passed on to a third party (usually the taxpayer). Sale of policies can take a variety of forms, both legal and illegal. United States politics is increasingly dominated by more or less overt exchanges between political donors and elected politicians, to such an extent that a recent analysis describes the U.S. system as a ‘checkbook democracy’, in which policies can effectively be ‘bought’ (West 2000). These dynamics have spawned a substantial (although largely theoretical) literature which integrates politicians’ relationships with lobbies and contributors into models of electoral politics (amongst many others, Rose-Ackerman 1978, Becker 1983, Snyder 1991, Lohmann 1998). Contributors can be relatively broad interest groups, companies, or even wealthy individuals. An example of the latter is Ross Perot’s famous contributions to the campaign warchests of a number of Congressional committee members as they voted a tax revision worth around $15 million to him personally (Hardin 1982: 78). This is an extreme example of public policy providing gains for narrow interests at the expense of the diffuse interests of the rest of the population.

In the American context such exchanges are to some extent transparent (generally falling within the letter, if not the spirit, of the law), and the relationships between contributions and policy outcomes can often be traced by the informed citizen (see for instance Ferguson 1995), although free-rider problems discourage all but a determined minority of citizens from gathering such information (Lohmann 1998). The comparatively more restrictive regulation in most of Western Europe, which often places very low ceilings on private contributions (Koole 2001, van Biezen and Nassmacher 2001), has led to less transparent forms of exchange.

It is well documented that in Italy and Spain party officials more or less systematically distorted decisions on public procurement and public works contracts in return for bribes, at least until judicial enquiries in the early 1990s brought such practices to the public attention (della Porta 1992, della Porta and Vannucci 1999, Heywood 1996). In the Italian case, the parties developed a rather sophisticated system of allocation of public contracts and distribution of the companies' bribes to the various parties who collaborated in the arrangements. Publicly owned industries have also been exploited as a financial resource, with parties using powers of appointment to place supporters in management positions which can be used to channel funds or other resources to the party organization (on public enterprise as a corruption opportunity, see Ades and di Tella 1997). In the United Kingdom, such opaque forms of fundraising appear to have been more sporadic, but there are suspicions that the exchange of honours for party donations (a practice adopted by Lloyd George in the early part of the last century) has survived into the contemporary period. The Conservative Party under Thatcher and Major accepted substantial contributions from foreign nationals with economic interests in the UK, whilst the Labour Party has also obtained funding which appears to have been aimed at influencing specific government decisions, the clearest example being the large donation received from a motor racing tycoon prior to exempting motor racing from a blanket ban on tobacco advertising (Heywood, Pujas and Rhodes 2002). Evidence of similar arrangements has emerged in Belgium, Germany, Greece and Ireland.

The main cost of this strategy is the potential loss of electoral support when such arrangements become public, since ‘bribery, corruption, and unethical behaviour historically have been one of the most effective campaign appeals employed by opposition parties’ (Schlesinger 1984: 393, see also Geddes 1994). This is particularly important because these forms of external financing all rest on the party’s control, or prospective control, of political office. Catastrophic electoral defeat could therefore close off the externally-funded cadre party from its main source of financial support. The presence of an aggressive opposition party able to finance its own activities legally, or the intervention of an independent judiciary, can both destabilize these patterns of party finance (see della Porta and Vannucci 1999). However, such patterns can be surprisingly robust, surviving on the strength of asymmetries of information about corrupt practices, and the absence of incentives for individual citizens to seek out such information (Lohmann 1998). If all the parties in a party system have politically vulnerable financial arrangements, then strong incentives for inter-party collusion emerge: a ‘tit-for-tat’ form of cooperation can easily arise in such circumstances, as any party choosing to attack its rivals over the issue of funding would quickly find its own arrangements under scrutiny (for an example, Katz 1997: 277).

The Self-financing Elite Party

Elite parties can also in exceptional circumstances internalize the kinds of exchanges outlined above to become self-financing. In this case the party, or a subgroup within it, has a strong private interest in a given set of political outcomes, and resources to invest in achieving those outcomes using the party as a vehicle. The clearest case of this dynamic is *Forza Italia*, the political party formed by Italian businessman Silvio Berlusconi in 1993-4, in the midst of the corruption scandals which ended the careers of his closest political allies. Berlusconi employed substantial financial and human resources of companies under his control in the formation of the party, and was able to exploit his control of televisual and printed media in favour of its candidates (Hopkin and Paolucci 1999). The party has grown in terms of membership and structure, but remains a top-heavy organization with an exceptional degree of concentration of power around the leadership group (see the party's organizational statutes, described in Poli 2001: Ch.6). Both in government and in opposition, *Forza Italia* has pushed for restrictions on the powers of prosecuting magistrates (Berlusconi has faced a number of corruption-related trials), and passed laws which had the effect of hindering investigations into its leader's own business practices, whilst at the same time consolidating the anomalous regulatory framework which underpins Berlusconi's dominance of private television broadcasting in Italy (Veltri and Travaglio 2001). In sum, Berlusconi's business empire has underwritten *Forza Italia*, whilst the party, whose parliamentary representatives include key members of Berlusconi's personal legal team, has defended the party leader's private and corporate interests (Hopkin 2003). This situation is rare if not unique in western democracies; however the self-financing party is a possible organizational strategy in the post-mass party context, and constitutes an unashamed institutionalization of the kind of public policy manipulation characteristic of the externally-financed elite party.

The Cartel Party

All western democracies have adopted systems of public financing of political parties, although these systems vary a great deal in their generosity and in the restrictions on party freedom which accompany the provision of state funds (see Nassmacher 2001). The cartel party (Katz and Mair 1995), rather than a party organizational strategy, is in fact a form of collective action between the parties themselves, in that it requires the major governing parties to agree to maintain state party funding for the opposition when in power, and to collude in keeping such a potentially unpopular set of arrangements out of the public political debate. To the extent that parties succeed in forming effective cartels to secure state funding, they can protect themselves from some of the organizational consequences of declining mass participation, maintaining extensive territorial structures and even enhancing their central bureaucracies (Farrell and Webb 2000:115-9). The implications of such arrangements have been extensively discussed (Katz and Mair 1992, 1994, 1995, Koole 1996, Katz 1996, Pierre *et al* 2000). Pessimists such as Katz and Mair sustain that cartel parties' detachment from their electorates is likely to be exacerbated, the competitiveness of the electoral process is undermined, and opposition is likely to emerge from aggressive anti-system parties. Although the empirical validity of the cartel thesis has been questioned (Pierre *et al* 2000, Kitschelt 2000, Scarrow, this issue, Clift and Fisher, this issue), there is little question that extensive state funding of parties has become a reality in most of Western Europe, and that this has tended to push political parties away from a mass party organizational model and create a degree of party dependence on the state. The cartel party thesis has important implications for party system change, identifying state funding (which is mostly allocated retrospectively on the basis of the votes won by each party) as a potential barrier to competition and change in the party system (although Pierre *et al* [2000] found no clear evidence for this effect up to 1990).

These four financial-organizational strategies, all of which can be identified in post-war Western European parties, constitute significant departures from the mass party model of public-spirited funding of politics by grassroots party activists. The putative replacement of the mass party model with less idealistic means of financing politics appear to vindicate the growing 'democratic disaffection' amongst western electorates. In fact, questions of party finance are often discussed implicitly in terms of democracy, but the public debate, and even to some extent the scholarly debate, on the issue tend to rest on a vague and undifferentiated understanding of the concept. However, the vast theoretical literature on democracy, and variety of conceptualizations contained within it, testify to the complexity of democratic theory (eg Held 1996). The next two sections assess the implications of different models of party finance from the perspective of two broad approaches to democratic theory: populism and liberalism[6]. This dichotomy, adopted amongst others by Dahl (1956) and Riker (1982), is only one of many possible typologies of democracy, and is of course a rather blunt instrument. Here 'populism' is taken broadly to mean a form of democracy which emphasizes popular involvement in the policy process, whereas 'liberalism' is a blanket term for visions of democracy which prioritize the people's freedom from tyranny and impose limitations on government's ability to impose collective choices[7].

Party Finance in Populistic Theories of Democracy

The question of political equality lies at the heart of how populistic democratic theories view party finance. One of the key principles of any democracy based on the notion of popular sovereignty – the notion that the choice of public officials and the nature of public policy should be determined, or at the very least strongly influenced, by the people – is that the preferences of each citizen should be weighted equally (Dahl 1956: 64). It is this equality that underpins a further key notion of populistic democracy: that the policies implemented by government should be those preferred by the greater number of citizens. The issue of party finance is of direct relevance here because a completely unregulated system of funding allows economic inequalities (which may well be accepted as legitimate) to be translated directly in political inequalities (which generally are not) (Sunstein 1997: Ch.9). This can take a variety of forms. At its least troubling, parties representing the wealthier sectors of a society will have a significant fund-raising advantage over their rivals, independently of the breadth of their popular support. This can lead to the interests of the wealthy being disproportionately represented in the elective institutions (although there is evidence to suggest that heavy campaign spending is not always successful in winning votes; eg Fisher 1999b). At worst, economic inequalities which concentrate wealth in the hands of small minorities raise the spectre of narrow, even individual (see the Perot case mentioned earlier), interests being able to 'buy' policies, by offering candidates much needed funds in return for political favours. This violates starkly the fundamental principle of equal weighting of citizen preferences (Pizzorno 1992: 3), and may well produce Pareto-inefficient results, since the gains of the minority will often be greater than the losses of the majority (Lohmann 1998). Although such contributions can be defended on the grounds that they allow intensity of preferences (Dahl 1956: Ch.2) to be expressed, in practice they are more likely to reflect inequalities of wealth.

The 'elite parties' described in the previous section fall foul of the principle of political equality most obviously. The externally financed elite party engages in market-type transactions, raising funds by 'selling' its political power to private interests. This results in economic inequality directly causing political inequality, since the less wealthy majority (whether an undifferentiated whole or a series of minorities) cannot translate its preferences into policy in this way. The self-financing elite party has a similar effect, privileging the policy preferences of the party's economic sponsor over everybody else. Few would argue that such distortions are consistent with the clear expression of the 'popular will'.

The principal safeguard against this overpowering influence of narrow interests is the electoral process: the non-wealthy majority can punish elite parties for their slavish obedience to contributors by voting for alternatives, ensuring that a much broader range of interests will have leverage over policy-making (Dahl 1956: 132). However, this safeguard can easily fail. First, the inequality of resources between candidates undermines the fairness of the electoral contest itself, because better-funded parties (those backed by monied interests) are better equipped to win the electorate over, whilst voters may even remain relatively unaware of other (less well-funded) options available to them (see Katz 1997: 263). Second, and perhaps more seriously, in a polity where no alternatives to the elite parties emerge voters will have no option but to vote for candidates whose ability to represent them has already been mortgaged to narrow wealthy interests (as many argue is now the case in the U.S.; eg Ferguson 1995, West 2000). Finally, information asymmetries (which themselves may stem from economic inequality, and which in any case narrow interests have more incentives to overcome) can prevent voters from finding out about the policy implications of parties' funding arrangements (Lohmann 1998).

Mass parties, and particularly those which mobilize by distributing collective, rather than selective, benefits, seem to overcome these problems. Rather than responding to the narrow interests of large contributors, mass parties must instead pay heed to a much greater number of citizens (their membership, a major source of funding), suggesting that they will come much closer than elite parties to representing the 'will of the people'. This is particularly true of collectivist notions of popular sovereignty. For instance, the mass party is an essential component of 'socialist popular sovereignty' (Katz 1997: 32-5), in which the popular will is synonymous with the will of the 'working class': the mass party's close connection with its grassroots, through its fee-paying activist base, ensures that its leaders (seen as mere 'delegates') understand the will of the people. Blatant deviation from this popular will may lead to membership decline and financial collapse. The mass party is also consistent with 'Tory popular sovereignty' (Katz 1997: 30-2), in which party leaders are trustees rather than delegates, charged with identifying the 'national interest'; in this case a mass fee-paying base, although not essential, offers a degree of reassurance that the party will indeed represent broad rather than narrow interests (again, overt defence of particularistic interests could incur serious financial difficulty). Interestingly, even the clientelistic mass party – which makes no particular claims to be internally democratic - is not obviously at odds, at least in a procedural sense, with this understanding of democracy, although it can be criticized on substantive grounds for the distributional and efficiency effects of its use of state resources.

Mass parties perform rather less well under an individualistic conception of popular sovereignty in which the popular will must derive from individual wills. Leaving aside the well-known problems of identifying an adequate decision rule for the aggregation of individual preferences, mass parties cannot even claim that their organizations necessarily reflect encompassing rather than narrow interests. After all, even in the supposed golden age of mass parties, only a very small minority of citizens were fee-paying party members, and there is no particular reason to believe that this minority would reflect the broader constituency mass parties purported to represent (Ware 1979: 80-1; indeed some have argued that the most active party members are likely to be unrepresentative extremists, eg May 1973, cf. Seyd and Whiteley 1992, Norris 1995). This can be justified on the grounds that 'political activity is to a significant extent a function of relative intensity' (Dahl 1956: 134), and that nothing prevents any individual citizen from winning themselves extra influence by paying a subscription to a political party. But the theory of the mass party envisages that the grassroots, fee-paying members control the party in the name of the wider interest of its *classe gardée*. The representativeness of the membership is key to such parties' claims to interpret the popular will (or a particular section of it): otherwise, grassroots financing simply becomes a further route through which narrow interests gain disproportionate influence over policy-making, violating the principle of equal weighting of citizen preferences. Equally, mass parties which fail to exercise some form of internal democracy – especially the clientelistic party, whose members are essentially 'bribed' to sustain the organization and do not expect to influence decisions beyond those that directly affect them – cannot claim to embody anything more than the interests of their ruling elites.

Mass party finance easily outperforms the alternatives from the perspective of participationist theories of democracy (Katz 1997: Ch.5). Those participationist theories which emphasize process over outcome value the opportunities mass parties provide for personal development through political involvement. Moreover, outcome-oriented participationist theories which gloss over the difficulties of preference aggregation value the role of mass parties in maximizing citizens' opportunities to communicate their preferences to political leaders, and in developing public-spiritedness (as for instance in Rousseau and Mill). However, the various manifestations of the free-rider problem mean that 'democracy cannot be justified by appeal to its grounding in substantial citizen participation' (Hardin 1997: 262). Hardin draws on an Olsonian understanding of political action to argue that at best, citizens contribute to politics out of personal career interests (the case of aspirant political leaders), and that at worst, too much participation draws out the inevitable conflicts between social interests, making democracy ungovernable (*ibid.*, 264). In short, individualist conceptions of society imply that the mass party, and its large numbers of voluntary contributors to the funding of politics, are no more qualified to interpret the popular will than elite parties.

On this view, mass parties' claim to be financed more 'democratically' than elite parties in fact rests on their failure to connect effectively with their grassroots. Michels' important insight (1962), and the subsequent experience of mass parties in power, suggests that in fact the fee-paying grassroots are 'suckered': they contribute financially to the maintenance of parties in exchange for a negligible individual influence over policy-making. In practice, party finance through membership fees allows party leaders to obtain funds without having to give up much autonomy, since in a mass party the political influence an individual party member enjoys is diluted down to nothing (although party leaders will have to pay lip service to the party's traditional values in order to avoid alienating too many members). This solves the problem of party finance, in that resources are provided almost without strings attached, allowing the competitive electoral process to do the job of pushing parties to interpret the popular will. For instance, internally unresponsive but well funded mass parties meet the requirements of Downsian democracy, in which two parties compete for power and (given certain conditions) have strong incentives to converge around the median voter, thus minimizing the distance between the winning party and the electoral majority (Downs 1957, see also Katz 1997: 39-40). However, the autonomy such arrangements grant party leaders is precisely the reason such parties are financially unsustainable: why should mass members pay to be (all but) ignored? The decline in fee-paying party members and the growing use of state party finance suggests that the logic of collective action has caught up with mass parties, as over time the unequal nature of the exchange has become increasingly clear.

The cartel party model of funding – increasingly the most widespread solution to the various problems of elite parties and declining mass parties – ostensibly respects political equality and therefore facilitates the undistorted expression of the popular will. Rather than leaving the funding of the different parties to chance, and permitting the electoral contest to be conditioned by economic inequality or the unequal ability to get organized, state party finance rests on clear rules which make financial flows to parties dependent on their success in interpreting popular demands. State party finance tends to fund parties in accordance with their degree of electoral support (measured in votes or seats), and thus mirrors the expression of voter preferences. To some degree state finance frees parties from dependence on large donations, or for that matter, the fee-paying mass members who may condition party responsiveness to the electorate (Katz 1997: 264). The main drawback of such arrangements, from the point of view of the principle of political equality, is that they allocate money retrospectively, favouring established parties and potentially hindering the expression of some popular demands (although in several countries the provision of minimum funding to all candidates meeting certain criteria overcomes this problem to an extent). State funding which tends to reinforce the inertia of the party system can have serious consequences for the competitiveness of the electoral process (Katz and Mair 1995, but see Pierre *et al* 2000 for disconfirming evidence). Competition for political power is at the heart of electoral democracy's claims to approximate popular sovereignty, even under the relatively undemanding criteria of polyarchy (Dahl 1956, 1971). A system of party finance which ossifies the competitive nature of party politics is therefore a fundamental difficulty for populistic theories of democracy (and indeed most others)[8].

A second set of concerns arising from the cartel party's financial arrangements relates to the effects of state funding on party organizations. The need for money has traditionally been one important incentive for parties to develop mass memberships, which purportedly connect parties more closely to the popular will. Absent this incentive, parties can happily abandon the tiresome business of developing roots in civil society, and settle into a tranquil, state-reliant existence (Katz and Mair 1995). Of course, we have already seen that mass fee-paying memberships do not necessarily bring parties any closer to the popular will, and that instead it is the competitive electoral process which forces parties to give voters 'what they want'. However, the way in which cartel parties collude to protect their positions (and state finance is one important manifestation of such collusion) undermines the competitiveness of elections, and can insulate the party system from the popular will, as well as potentially delegitimizing the democratic system itself

(Katz and Mair 1995, cf. Kitschelt 2000). Although state party finance is as much a consequence as a cause of the ‘cartelization’ of party democracy, state funding undoubtedly removes a key incentive for parties to become closer to, rather than more distant from, civil society (Koole 1989, cited in Katz 1997). It therefore risks closing off an important channel for the expression of popular demands and for citizen participation in the political process. However the evidence that the cartel model of public funding has undermined participation and party membership is not unequivocal (see Scarrow 2000, Pierre *et al* 2000).

Party Finance in Liberal Theories of Democracy

An important distinction between liberal and populistic understandings of democracy lies in their treatment of political equality. The concept of political equality is a source of great tension in liberal theories (Dahl 1956: Ch.1), which tend to be rather more tolerant of broad social and economic inequality than most populistic theories. For liberals, the difficulties involved in identifying the popular will make populistic democracy incoherent and potentially dangerous, so democratic constitutions should focus on protecting individual rights and restraining government from acquiring too much power over individual lives (Riker 1982). Shapiro provides a neat distinction worth reproducing here: ‘liberals, who typically regard individual freedom as the greatest good, characteristically focus on devices to protect the individual from the realm of collective action’ whilst populists (for Shapiro ‘democrats’), ‘try to structure collective action appropriately to embody the preferences of the governed' (1997: 217). For liberals, political equality therefore means equal rights and equal freedom, rather than equal representation. This has important implications for the position of parties and party finance in the liberal theory of democracy.

The liberal theory is deeply suspicious of the mass party. The classic mass party results from collective action by the dispossessed aimed at using government power to bring about a major social transformation. Certainly, the substantive aims of socialist mass parties – the redistribution of wealth from rich to poor –are at odds with liberalism's emphasis on negative rights, such as the protection of private property. But the mass party as a form of organization is also a problem for liberals. Of course, there can be no objection to the right of individual mass party members to pay party subscriptions and involve themselves in political activity. But, a society based on mass political participation is not consistent with the liberal ideal. Indeed, politics should essentially be left to political leaders; what Hardin calls 'the division of labor that is necessary for substantial creation and well-being' (1997: 265). Real mass participation in political decisions is impossible in practice, and therefore 'personal involvement in politics cannot be the sine qua non of life unless people are to have no life or unless politics is disastrously intrusive' (*ibid.*). This 'intrusiveness' comes from the mass party's claim to interpret, and worse, implement, the popular will (a meaningless and dangerous concept for liberals), which raises the spectre of the majority tyranny feared by Madison. The mass party's cohesive organization is a particular source of concern, as organization can entrench lasting majorities, which have greater potential to wield government power in damaging ways (see Katz 1997: 51). Madisonian liberal constitutionalism therefore implies a series of provisions which subvert popular sovereignty – such as federalism, the separation of powers and the important role of non-elective offices – in order to ensure that government does not tyrannize minorities.

Mass party organization is also broadly inconsistent with Schumpeterian democracy, in which competition between two teams of ambitious politicians is regarded as the best way of both preventing tyranny and providing responsive government (Schumpeter 1994). Schumpeter's approach is unashamedly elitist, and implies that party leaders should retain a much greater degree of autonomy than the theory (although perhaps not the practice) of the mass party envisaged. Elites do respond to popular demands in this theory, but this responsiveness does not require mass parties. Instead, it is the competitive nature of the electoral process, rather than the party leadership's connection with the masses, which provides responsiveness. Moreover, the electoral process is much more of a retrospective judgement on elite performance than a choice of representatives of particular social groups.

But not all liberal theories are intolerant of mass party organization. Polyarchy, for instance, assumes (and in effect advocates) the diffusion of political resources among a range of organized interests, and posits political competition between them as a way of maximizing 'the size, number and variety of minorities whose preferences must be taken into account by leaders in making policy choices' without running the risk of majority tyranny (Dahl 1956: 132). Dahl's theory recognizes the risks implicit in the disparities of social power and wealth between different minorities, and accepts that differential political participation may reflect differential intensity of preference and is therefore acceptable. Mass parties do not threaten majority tyranny because they will tend to be minorities themselves (‘majority rule is a myth’ [1956: 133]), and because other organized minorities will counterbalance them. However this is the closest the liberal approach comes to advocating mass involvement and control of the political process through direct participation in party organizations and financial contributions to the costs of party.

It follows that the liberal theory of democracy is rather less worried by the risks posed by disparities of wealth entering the political arena. To be uncharitable, this can be seen as a reflection of the inherent conservatism of the liberal position, more concerned with ensuring government does not threaten the socio-economic status quo than with a broader notion of tyranny (see Shapiro 1997). From this point of view, it is natural that mass parties, which allow the weak to exploit their numerical advantage, should be viewed with suspicion, whilst elite parties, which allow economic inequalities to be translated wholesale into unequal political influence, are deemed less troubling. However, there is a principled liberal defence of this inequality which requires response. This defence is perhaps most clearly expressed in the well-known *Buckley* ruling of the U.S. Supreme Court[9], in which expenditure limits in political campaigns were held to violate the free speech clause of the First Amendment (although, perhaps paradoxically, limits on contributions were deemed to be constitutional). For *Buckley*, expenditure limits implied ‘that government may restrict the speech of some elements of our society in order to enhance the relative voice of others’ (cited in Sunstein 1997: 229). Liberals are suspicious of state prohibitions on individual behaviour, and restricting individuals' freedom to spend money advocating a political cause or party could be taken to be 'tyrannical'. This objection cannot be dismissed out of hand: restrictions of private political expenditure could conceivably be used by a majority wishing to persecute a wealthy ethnic or religious minority. Moreover, even polyarchy, with its emphasis on relative intensity, could be construed as opposing restrictions on political expenditure: large amounts of money employed may reflect intensity of preference rather than disproportionate wealth, and the state should not undermine the free interaction and competition of organized minorities.

There are several possible objections to this position, even remaining within a broadly liberal approach. First it rests on a definition of freedom of speech which is contestable: freedom of expression does not have to mean the freedom to use great wealth in order to get everybody else to listen to one's views. The strong Madisonian position reflected in *Buckley* holds that freedom of speech is a 'natural' right, and not susceptible to being interpreted by the people's representatives. In fact, this definitional problem is a good example of the insuperable difficulties involved in taking 'natural' rights as the basis of a constitutional system (eg. Dahl 1956: Ch.1). Second, even Madisonian liberalism accepts the importance of political equality between citizens, yet the basic fairness of the electoral process – a requirement of liberal as well as populistic democracy – is clearly compromised by a system of elite parties. If monied interests can 'buy' the elective institutions, then a narrow minority can ensure the protection of their privileges, which may themselves be a source of (non-governmental) tyranny over others; a tyranny of the minority over the majority (Shapiro 1997: 220). *Buckley*'s acceptance of limits to contributions implicitly recognizes this. Third, liberal theories which rest on the virtues of competition to discipline politicians (in particular the Schumpeterian theory) can be undermined by gross financial disparities between political forces. If one of the contestants in a putative Schumpeterian two-party system has a decisive financial advantage over its rival, the electoral process will become less competitive and therefore less effective. For example, an incumbent party with a financial advantage can bombard the public with exaggerated accounts of its successes and overwhelm the opposition's attempt to make its own case. Similarly, an opposition with a financial advantage can create the inverse scenario. Either way, the ability of elections to reward good government and punish poor performance is compromised. The view embodied by *Buckley* seems to suggest that it would be 'tyrannical' to do anything about the current situation in Italy, where the incumbent prime minister owns the three biggest private TV channels, even though he undisputedly exploits his monopoly media power for electoral advantage. In short, even the liberal approach cannot provide an unambiguous justification of the elite party's financial strategies.

Perhaps surprisingly, in contrast, state funding – the cartel party model – is not unambiguously at odds with the liberal theory. Certainly liberals' suspicion of government intervention in social life would suggest extreme caution in this matter, as state funding could be 'a Trojan horse for state intervention and control' (Burnell 1998: 8). The main grounds for this suspicion are that state funding is invariably accompanied by rules and restrictions relating to party activity, particularly expenditure, but also in some cases a variety of other requirements relating to parties' internal organization. Liberals would be likely to view this as excessive state interference in civil society. Further, state funding implies an increasingly symbiotic relationship between the party and the state (Katz and Mair 1995); this suggests that parties, and the electoral process more generally, will be less able to fulfill their role – crucial in liberal theory - of restraining state power and protecting the people from the state's tendency to invade the private sphere. Finally, state funding is in essence a 'party tax' on the citizen, implying a degree of compulsion in political finance that liberals would be instinctively inclined to reject.

However some state funding can be defended from a liberal position. Cartel parties are in one sense more reassuring than mass parties: they may discourage popular participation in politics, creating a distance between political leaders and citizens that would be positively welcomed in the most elitist versions of liberal theory. The populistic critique of the cartel party is turned on its head: state funding frees parties from dependence on financial contributions (either from mass members or wealthy donors), leaving ambitious political leaders to engage in the kind of healthy elite competition for office which restrains government in both the Madisonian and Schumpeterian versions of liberal democracy. Of course, the essence of the Katz-Mair cartel party thesis is that politicians collude and suppress competition in order to safeguard their positions. However in their view, the process through which state funding is achieved seems to cause as much damage as the funding itself. State funding could instead be interpreted as a means of guaranteeing the effectiveness of the electoral contest, by establishing a level playing field and by ensuring that concentrations of wealth do not shelter some politicians from the 'chill wind' of competition. To regard the state's involvement in party finance as necessarily oppressive is an example of 'governmentalism': the liberal tendency to 'focus on the forms of tyranny performed by and through government as the only – certainly the principal – kind of tyranny that should worry political theorists' (Shapiro 1997: 217-8). If economic inequality is allowed to condition the electoral process, then the function of elections in the liberal theory would be fatally undermined. There is therefore a case for the state to intervene, much in the same way that many liberals accept government antitrust regulations as an indispensable means of protecting the market economy.

Nevertheless, most systems of state funding do seem to favour the status quo, in particular by their neglect of emerging political forces. State funding almost always gives a significant advantage to parties which have been successful in the past and are already present in the elective institutions. To this extent, state funding provides a level playing field, but only to those who have already played before. Challenger parties are at a disadvantage, and elections are therefore less able to adequately fulfill the function of 'getting the rascals out' (in practice, however, the consistent growth of new parties since the 1960s calls into question the impact of public funding on party system change [Pierre *et al* 2000]). Moreover, 'new' minorities may have difficulties entering the political process, making it much easier for the majority cartel to 'tyrannize' them. In the end, therefore, state funding is consistent with the liberal theory only if one takes a relatively benign view of the intervention of the state in social life. However, this kind of optimism is not a characteristic generally associated with liberal theories of democracy.

Conclusions

Outside the United States, party finance has for a long time remained at the margins of political science research into democratic politics. The formidable difficulties involved in gathering reliable information on such a sensitive area, and the technicial intricacies of political finance regulation, go a long way towards explaining why. However financial problems can have major ramifications for party organization and behaviour, and in some cases can be held directly responsible for the declining popularity and legitimacy of parties and their leaders. These are good reasons for confronting operational difficulties and bringing finance back to the heart of party organizational analysis.

This article has attempted to provide some theoretical parameters for such a research effort. It has argued that ‘political economy’ perspectives, notwithstanding their limitations, can provide a compelling account of the ways in which party financial strategies have changed in contemporary democracies. Such perspectives have informed much of the literature on the U.S. case, but have been neglected by students of party finance in Western Europe, perhaps as a result of Europeans’ attachment to the mass party ideal. With the decline and transformation of most if not all European mass parties, there is less and less justification for this neglect, and a political economy approach would seem a useful basis for comparative research on party financial strategies in Western Europe.

This study has also attempted to bring greater clarity to the normative debate on models of party finance. Much of the discussion of the merits of different approaches to party finance is based on simplistic or one-dimensional understandings of democracy. The second half of this article brings the complexity and contradictions of democratic theory into the debate on the funding of political parties. This analysis suggests that the much idealized mass party model is most consistent with popular sovereignty models of democracy, although not for the reasons generally adduced. Mass party finance has the advantage of diluting the individual influence of contributors to such an extent that in effect the party is funded by a *deus ex machina*. The opposite is true of elite parties funded by large contributions, which enter into sharp conflict with the principle of political equality, an essential component of most understandings of populistic democracy. Liberal theories of democracy, most concerned with restraining popular passions, are less sympathetic to the mass party, and correspondingly rather more tolerant of the elite party, whose wealthy contributors are exercizing political rights that most liberals would wish to protect. The cartel party model of funding – now dominant in Western Europe - seems to cut across the liberal/populist divide. Liberals criticize the state interference implicit in public funding of parties, but liberal elitists concerned with ensuring the effectiveness of political competition could conceivably, under certain circumstances, approve of state funding. Populists approve the relatively effective protection of political equality implicit in the state funding model, whilst condemning the elitist and anti-participationary implications of party reliance on the state.

In sum, the most broadly accepted democratic theories do not point unambiguously in the direction of any one model of party finance. This not surprising. On the one hand, it is axiomatic in democratic theory that politics should be taken out of the market and that individual citizens should have equal political influence (even *Buckley* advocated limits on political contributions to prevent policy being ‘bought’). On the other, the importance of money for electoral politics in mass society brings market mechanisms straight back into the political arena. The former implies ‘one person one vote’, the latter risks implying ‘one dollar one vote’. In the midst of such complexity, some degree of state finance can be defended on practical, ‘satisficing’ grounds. The much criticized ‘cartelization’ of party finance seems to perform rather better, on some understandings of democracy, than the most feasible alternative in present conditions: the externally (or perhaps even internally) financed elite party. But it is difficult to escape the conclusion that the least troubling way for parties to finance their activities would be some form of mass-based, voluntary subscription on the stylized model of the mass party. At the same time, the persistence of the free-rider dilemma, overcome sporadically at particular times and places in the history of electoral democracy, makes such a solution appear utopian in the current climate.

Notes

[1] This is not the case in the U.S., where there is a voluminous literature on party and candidate finance. However the important differences between European and American party politics (see for instance Katz and Kolodny 1994) make direct comparison difficult and potentially misleading.
[2] The implicit focus is on the kinds of formalized party organizations characteristic of Western Europe.
[3] Much of this literature goes no further than formal theorizing, whilst empirical applications of the theory have almost exclusively drawn on the U.S. experience. Studies of Western European party finance have rarely if ever adopted such an approach.
[4] This interpretation is bolstered by the extensive evidence of partisan dealignment in Western Europe over the past two or three decades; see Dalton, McAllister and Wattenberg 2000, Webb 2002, Mair 2003.
[5] In particular, there are elements of the 'cartel party' strategy in all Western European parties, given the pervasiveness of state funding in the European context.
[6] This analysis draws particularly on Katz 1997, one of the relatively few attempts to analyze electoral democracy from the perspective of a sophisticated account of democratic theory.
[7] To avoid confusion, it should be noted that these definitions conflict with some popular uses of these terms. Here 'liberal' does *not* mean 'progressive' or left-leaning, as in U.S. popular discourse, nor does it mean 'centrist' or 'moderate' as in the U.K. Similarly, populism here refers to the broad notion of popular influence over government, *not* the kind of romantic exaltation of 'ordinary people' and hostility to existing political elites of 'populist' movements such as the French *Poujadistes* or Italian *qualunquisti*.
[8] Although this criticism only applies to retrospective criteria of funding; other criteria could, in principle, be used to allocate state money to parties.
[9] Buckley v Valeo 424 US 1 (1976).

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