# Democracy, Business, and Political Party Funding

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**POLITICAL parties serve as bridges between societies and political systems, between electorates and governments. They not only connect voters to politics but they simplify electoral choices and thus make the exercise of democratic rights more meaningful to citizens. By competing for electoral support, political parties raise political awareness and participation.**

But it is widely recognised that high levels of corruption are corrosive of democracy. When political parties are largely funded by corrupt interests as happened in Italy in the 1990s, the result can be political collapse and widespread disillusionment with the democratic process.

Imposing very strict regulations on party finance, excluding corporate and large scale donations and enforcing such regulations rigorously may well reduce the flow of funds from corrupt sources. The problem is that it may result in parties having insufficient income to perform their political functions. Any measures which have the unintended consequence of threatening the viability of political parties will endanger democracy itself.

But condoning illicit flows of money to political parties produces other, equally undesirable, consequences. Political parties will reflect the interests of their financial backers rather than those of voters and the political influence of the business elite will be disproportionate to their numbers. The overall consequence is a reduction in democratic accountability.

The relationship between business and political parties requires careful analysis and discriminating judgements. There are competing principles and aims involved and the necessary political judgements should respect the need to balance competing aims in the light of local circumstances.

One danger is that any business involvement with, or funding of, political parties may be seen as illegitimate. Where no corruption is established, there may be concerns at the 'appearance of corruption' and efforts will be made to insulate political parties from business 'contamination'. But this would be a major error because, in a pluralist market democracy, the business sector has an important role and a range of legitimate policy interests which it should be free to pursue. Political parties need to know the views of the business community about a range of macro and micro economic policies as well as about the costs of social provision and government regulations. If business leaders are few in number, they nonetheless employ large numbers of citizens whose interests may be damaged if the views of employers are not advanced by one or more of the political parties. Such parties can reasonably expect to receive some form of financial support from the business community.

But business lobbying may also involve private agreements designed to further the particular interests of companies to the detriment of other companies and the public interest. Instead of promoting and enriching public debate, business lobbying can result in corruption in procurement, failures to implement policies rigorously and distortions in the drafting of laws and regulations.

Thus, in considering where the balance between business lobbying and party funding should lie, it is important to discriminate between their legitimate concerns and activities and their illegitimate and secret attempts to secure special treatment.

Different states have found different points of balance. Some focus on the issue of who is allowed to contribute, how much they are allowed to contribute and for what purpose. The United States is well known for its notorious and largely unsuccessful attempts to distinguish between 'soft' and 'hard' money. Hard money is that which goes to candidates for campaigns and soft money is supposedly used by political parties for a range of other purposes.

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Other states focus on restricting what parties and candidates are allowed to spend and for what purposes. The reasoning here is that, if you contain total expenditures, raising election finance becomes more manageable and the influence of large donors will be correspondingly reduced.

Another perspective is to admit that it is extremely difficult to monitor and control the multitude of financial transactions and judge which is allowable and which is not. Instead of preventing large donations and limiting party spending, it is suggested that we simply rely on transparency in the form of annual accounts so that voters can make their own judgements about contributors. But accounts can be falsified and duplicated and, where corrupt intent is involved, donors and recipients will be keen to conceal, disguise or otherwise obscure the relevant financial transactions.

Despairing of the corruption inherent in relying on 'private money in public elections', some look to the state to fund political parties and thus eliminate the need for business contributions. But state funding is an expensive alternative which many new democracies may be unable to afford. Even where state funding is at its most generous, as in Germany, there is still substantial private funding and a host of high level party finance scandals. There are also difficult issues in determining the basis of state funding and ensuring that it does not act as a barrier between political parties and their supporters. It is easy for party leaders to become detached from party supporters when they no longer have to rely, even in part, on membership contributions.

There is another important danger of state funding and that is the risk of freezing the party system as it is. State funding regimes are not well designed to accommodate or facilitate the emergence and growth of new parties. Established parties may become complacent and can, in effect, be incorporated by the state.

A healthy democracy requires vigorous party competition. But such competition has significant consequences including driving up considerably the costs of campaigning and intensifying each party's search for additional sources of income.

One painful reality is that political parties will always be short of money. The more money they receive, the more they spend. In Germany it goes on swelling the party bureaucracy and expanding its educational and research role and, in the American case, it goes on expensive television advertising and professional campaigning techniques.

Another painful reality is that there will always be party finance scandals. Monitoring and enforcement are complex and expensive and the incentives for business donors and party recipients will sometimes outweigh the risks and costs.

There is no universal model, no final solution, no one law or regulatory framework which will ensure that political parties have sufficient funding while simultaneously keeping corruption to a minimum. Local circumstances will shape the balance of measures which are appropriate in each case but the balance between business and political parties is dynamic rather than static.

The regulation of party finance must therefore be kept under periodic review and amended to reflect the evolving balance of this sensitive and vitally important relationship. The trust of the electorate and even the future of democracy are at stake.