



ESSAYS ON POLITICAL PARTIES

Money and Politics:

Legislative, Institutional and Cultural Factors of Political Competition



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Levan Tsutskiridze¹

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Introduction:

The influence of money in politics represents one of the most debated issues in democracy assistance communities and between politicians. While essential for political competition, the growth of the role of political funding in electoral processes is creating, in the eyes of many observers, serious challenges to democratic process. This paper focuses on Eastern Europe and the EU's Eastern neighborhood, but some of the ideas and problems discussed here may be applicable elsewhere. It addresses some of the regulatory, institutional and cultural aspects of political financing and discusses potential reforms and necessary paradigm shifts that will be helpful in reinvigorating and strengthening democratic institutions.²

Money as a political challenge

To better convey the extent of the complex issue of the relationship between money and politics it is best to start with a quick list of some of the challenges that are often discussed when considering the influence of political funding on democratic development and political parties. This list cannot be made exhaustive at this stage but nevertheless, it will help to outline some of the most common concerns that are raised in relation to the subject at hand.

¹ *Levan Tsutskiridze is the executive director of the Eastern European Centre for Multiparty Democracy (EECMD). EECMD currently works in five countries of Eastern Europe and Central Asia and focuses on political development and democratic consolidation. Levan Tsutskiridze's professional interests include political institutions and political transformation, democratic development assistance and political party building, foreign and security affairs.*

² This article is partly based on the author's remarks at one of the panels of the joint "Money and Politics" conference organized by the State Auditor's Office of Georgia, Council of Europe, International IDEA, IFES, OSCE/ODIHR and the Eastern European Centre for Multiparty Democracy (EECMD) held in Tbilisi on 26-26 July. The opinions expressed here are solely of the author and do not represent the position of the Eastern European Centre for Multiparty Democracy or of any of the co-organizers of the conference.

Considerable asymmetries in political financing stifle political competition. When one political group is in possession of vastly superior financial resources, it is provided with far greater ability to reach out, organize and mobilize its voters compared to the others who do not have matching financial capabilities.

Extreme concentration of party finances in single persons or small groups of individuals effectively terminates internal party democracy. “Political goodwill” or nominal statutory provisions are often insufficient for the intra-party democracy to function properly. Real and functional internal democracy in political organizations also requires multiple and decentralized financial flows that are neither fully generated nor completely controlled by single decision-making authorities, personalities or structures. The situation where several or in more extreme cases, single individuals control partisan finances, and by definition key decisions (such as for example, candidate selection), is not compatible with a functional democratic process.

New players, women, youth, minorities and independents are marginalized. Highly concentrated financial power in political life creates additional barriers to small political players or minorities leaving many groups marginalized and underrepresented. In societies where economic resources are highly concentrated in men, women face far greater barriers in political participation. As highly concentrated financial power often leads to dominant party systems and politicized public institutions, it becomes increasingly difficult for the new entrants to carve out their electoral footholds.

Extreme concentration of political finance may precipitate extra-constitutional political changes. As a rule, highly concentrated political funding brings about other negative repercussions for a political process, limiting political competition and narrowing of the playing field for the opposition groups. Loyalist control of public media and the subversion of critical ones, attacks on watchdogs and NGOs, political control of the electoral bodies, law enforcement and the judiciary all create often well substantiated belief among citizens that political change can no longer be attained via the ballot box and other means must be employed.

Finally, the dominance of money in politics undermines liberal democracy. In a situation when small groups capture political parties, governments and the judiciary, liberal democratic system ceases to deliver on its most essential function: representation. This leads to the increasing disappointment not only vis-à-vis the existing elites but also towards the democratic system of governance altogether. Citizens realize that key decisions are made not in parliaments but in private villas of oligarchs. Therefore, the informal, behind the doors culture of deal making and transactional politics is internalized as part of

normal politics. This shadow governance turns democracy into a farce, which citizens do not delay recognizing. This is a particularly acute problem in relatively new or partly free nations that lack institutional resilience and democratic traditions to fall back to. This is one the reasons why the sustainability of democratization project in so many areas of Eastern Europe is becoming increasingly questionable.

This small list is made without any pretense of being fully representative. However, it is sufficient for the purposes of illustration and for moving towards the discussion of what can potentially be done to address this problem.

It should be mentioned at the outset that besides its highly undesirable effects, money also represents the essential vehicle for political expression and free speech and is indispensable for the functioning of democracy. The precise problem lies in managing and balancing its political leverage in order to one the one hand, guarantee political freedoms and on the other, to guard against the capture of public interests by financial and partisan ones - a task that is both daunting and essential.

With this we can proceed to discussing some of the measures that can be undertaken to move closer to a healthier relation between money and politics. I will divide such measures into three broad categories: systemic or legislative, institutional and cultural. This is because when we speak about the challenge of overwhelming dominance of money in politics we need not discuss it in isolation from broader aspects of political culture and behavior and perceptions of political actors that often affect the interrelation between politics and political funding.

Election Economics

What is the role of state in countering the malign influence of money? What are the steps that it can undertake in terms of both legislating and governing to provide for the free and fair political contests? There are at least two areas where progress is necessary in this regard. First, the states can act to reduce the demand for money, especially during election periods. Second, the states can adopt a new set of meaningful and enforceable regulations to create transparent and fair electoral and funding environments for all players.

The demand for “political money” stems for ever increasing costs of elections in many countries. For example, the Georgian political parties officially spent around 9,2 million Euros (27 million GEL) during the

local elections of 2017.³ For comparison, this sum would cover the full tuition fees of 150 Georgian students at Harvard. In other words, Georgia could have educated the equivalent of the full number of its MPs in one of the world's leading universities with this budget. If one accepts well substantiated reports that real electoral expenditures of political parties substantially exceed the officially reported figures it becomes clear that rising costs of elections are untenable, especially for a country like Georgia, which has roughly 60% population that consider themselves unemployed⁴ and where, according to government data, close to 20% of population lives below the official poverty line.⁵ Besides, as some interesting studies illustrate (which I will quote below), high expenditures do not necessarily lead to electoral victories.

The biggest chunk of electoral costs incurred by political parties in countries like Ukraine, Moldova or Georgia are spent on advertising costs. What it essentially means is that instead of speaking with different constituencies, nurturing better candidates, educating and socializing voters, training female and young candidates and pursuing other important political party functions, the largest mass of financial muscle of political parties is expanded on deeply polarizing political campaigns. While not the subject of this paper, it is worth noting that such campaigns usually instrumentalize fear and the hatred of the opponents, as well as identity politics as a tool to mobilize voters. These media strategies further divide and polarize societies that are already fragmented by internal strife. In a cynical twist, political parties spend most of their efforts and funds (including substantial public funds) on dividing, fragmenting and antagonizing the public instead of working to knit together the democratic fabric of societies they are supposed to serve.

An important reform effort therefore, would aim at the reduction of electoral costs of political parties and hence, the demand for political money. Some of the most essential outcomes of such reform would be the imposition of a lower campaign spending limits as currently exist; creating new models of the distribution of television airtime between electoral contestants and imposing clear objectives towards which the political financing, especially public financing of political parties should be spent. The view that internal party affairs should be left to them alone and in effect remain isolated from public scrutiny no longer stands the test of current times.

³ State Audit Office of Georgia. "Report of the monitoring of local elections in 2017" (available in Georgian at: <https://monitoring.sao.ge/files/2017-clis-archevnebi/%E1%83%90%E1%83%A0%E1%83%A9%E1%83%94%E1%83%95%E1%83%9C%E1%83%94%E1%83%91%E1%83%98%E1%83%A1%20III%20%E1%83%90%E1%83%9C%E1%83%92%E1%83%90%E1%83%A0%E1%83%98%E1%83%A8%E1%83%98.pdf>)

⁴ NDI. March, 2018. "Results of March 2018 Public Opinion Polls in Georgia." Pp. 90. <https://www.ndi.org/publications/results-march-2018-public-opinion-polls-georgia>

⁵ National Statistics Office of Georgia. "Main Statistics: Living Conditions" http://geostat.ge/index.php?action=page&p_id=188&lang=eng

There are other sets of regulatory or oversight policies that can be enacted or strengthened to help create more resilient electoral and political environments:

- **The creation of effective and enforceable sanctions regimes:** In many cases sanctions cannot be realistically implemented (or are in fact deliberately designed so) or they are too mild to serve as effective deterrents. They are often purposefully designed to marginalize the opposition or to check the “to do list” with international donors. A comprehensive sanctions audits could help to chart the path to better oversight regimes.
- **The effective and unbiased sanctioning:** Regulators (electoral commissions or audit offices) often tend to sanction only small and politically irrelevant political parties leaving the offences of major players unaddressed.
- **Providing sufficient resources to anti-corruption and auditing bodies.** Governments often try to disempower anti-corruption and oversight structures so that they can exist technically but cannot effectively pursue their missions. Ukraine’s ant-corruption body for example, which was created as a result of significant pressure from international agencies had only 12 employees in its staff and was not in possession of even basic computer equipment to allow them to do perform their functions.⁶ Eventually, it was the international organizations that have procured the necessary office equipment as it became clear that the government was intentionally dragging its feet to provide much needed resources.
- **Timely and user-friendly provision of financial disclosure information.** Journalists, NGOs and observers, as well as any interested actor, must be able to access and study the financial information of political parties and candidates. Governments often provide this information with significant delays. When they are provided, the available information is virtually indiscernible and unorganized. The objectives here are twofold: to technically satisfy the transparency demands of CSOs and donor governments and at the same time to make the information practically unusable.
- **Lowering the barriers to entry in politics.** Some countries impose deliberately high barriers to entry in politics: NGOs cannot donate to their preferred candidates, fundraising regulations are

⁶ Sydorчук, Oleksii. 2017. “Fighting Goliath: The Reform of Party Finance in Ukraine” Netherlands Institute for Multiparty Democracy & Democratic Initiatives Foundation.

complicated and oftentimes deliberately unclear, independent candidates cannot contest parliamentary elections. In some instances, there are understandable historical and security considerations behind such limitations. However, at the same time they preclude local or women candidates, independent politicians and other groups from political action. The tradeoffs therefore deserve a better examination.

Innovating for trust: institutions

It is not a useful policy to assume that state regulation is a remedy to all the ills of the troubled framework of political finance. The task is made more difficult by increased fluidity capital flows, high rates of internet penetration and the new and multiple technological solutions for anonymous financial transactions (including the use of virtual currencies). The debate about money and politics should also focus on self-regulation by political parties. This part of political life is closely knit with the culture of intra-party democracy, representing often unwritten rules and norms of political behavior. These are, at least from the current perspective and given the existing technological capacities, the tasks for self-regulation and for public valuation of what is and what is not acceptable in political actions and behavior.

It is therefore important to encourage and where possible, facilitate and reward the emerge of transparent and responsible self-regulatory initiatives with regards to financial transparency. This shall not be seen utopian - the scenario when political parties what less not more money, if we consider that common aversion of voters to political parties and politicians (i.e. established elites) often stems from their linkages with individuals and oligarchs of all sorts whose path to wealth and power is often quite questionable.

A pattern of **voluntarily self-imposed contribution ceilings**, that some European political parties have been adopting, could represent one area of progress. Political party families and specialized international NGOs could help engender this via twinning and assistance incentives. Such voluntary measures also serve pragmatic electoral ends: by applying them political parties are more effectively positioning themselves as the representatives of common interests rather than political instruments of big companies or Oligarchic “political projects” as political parties are often referred to in Ukraine.

The voluntary imposition of higher transparency standards as compared to those nationally legislated may also form a part of the answer to transparency and accountability needs. Political parties that publish even minor expenditures online (see for example Podemos) set a good example by allowing interested

voters and journalists to examine their payments. These initiatives help political parties on their quest to regaining trust via better transparency.

Improving fundraising knowledge. Better knowledge of how to generate donations from different sources will help in making parties more independent from big donors. It is often mistakenly argued that it is impossible to generate small donations and whatever amounts are possible to rise will never match the power of big donors. This may be true if one looks at financial figures solely. What is very often missed from this view is that small campaign donations are very much interlinked with strong grassroots campaigns and networks, that such campaigns are enriching the electoral awareness of both voters and candidates and that they strengthen trust. These very aspects are far more important in elections than sheer amounts of cash flowing from large companies. In the end, it is the citizens who vote, not the companies.

Providing greater financial autonomies to party branches and organizations is another approach to diffuse concentration of funds in political parties. Pre-set budget percentages, a priori allocated to youth, women or regional branches not only help spread the financial power more evenly in the organization, but also support the organizational development of political parties and help create and identify new leaders.

Strengthening intra-party meritocracy. The absence of meritocracy within political parties is yet another major challenge. Political parties find it difficult to engage and prepare new candidates because they often tend to be looking for them everywhere else but their own organizations. The path to political career often lies not in successful partisan work but in successful business or non-profit careers. This organizational mode of largely relying on political party rank and file for a routine work and engaging political candidates from other walks of professional life undermines the credibility of political parties and hampers the creation of necessary organizational culture that rewards successful work. Lack of internal transparency in candidate selection and promotion creates further issues: those of political inaptitude and inexperience (not all successful NGO leaders can be equally successful politicians) but also provides additional influence to the already influential financial groups in political parties: when rules are not clear, they are made by those who can pay more.

“Money buys heaven”

Finally, on values and political culture that shape many of the existing assumptions related to the relation between politics and money.

Bribing of voters in politics is an open secret in many countries. These illicit activities seem to be at least equally an important cultural factor as well as a pragmatic political tool. Interesting question therefore, is to what extent do cash handouts really influence voters' behavior? There are interesting studies that show that bribes may be less effective an instrument than often sought. As citizens become more aware of the impossibility of government tracking of their individual choices in the voting booth (albeit in some seriously flawed elections voters may be asked to present the evidence of their votes) it may be quite plausible that voters simply accept gifts from politicians but still vote according to their preferences. A few interesting studies carried out in India demonstrate just that. In one of such studies, the candidate who spent most on illegal voter handouts finished only fourth in the race.⁷ It could be argued that the influence of bribes in politics is often overrated and it forms a part of a political culture with a more limited electoral pay-off than is often assumed.

Polarization and zero-sum political competition strengthen the influence of money in politics. Countries where politics are zero-sum are more inclined to experience this than where consensus and compromise are part of business as usual. When political set-back is an equivalent to political, economic and in some extreme cases even physical annihilation, then political parties will use whatever means are available to forestall such an eventuality. When survival is not at stake, and elections are devoid of such existential dramas, the role and influence of money is more likely to diminish. From this perspective, reducing extreme polarization, which is a prevalent nature of politics in the countries of Eastern European Neighborhood is a priority. To this end, political education is equally as important as the reforms of political finance and electoral systems, the latter to be carried out with an eye of making legislatures more representative of the actual vote results.

The relation between money and politics is often a “prisoner’s dilemma.” In the situation of distrust and lack of communication, all actors move towards the maximum attainable results and in the process undertake equally big risks. In the elections, this situation manifests itself in an assumption that one does have to spend on bribes because the others will surely do the same and if they fail to do so, they will be

⁷ Simon, Chauchard. March/April 2018. *Asian Survey*, (pp. 341-364). Vol. 58 No. 2.

outpaced in the electoral race (Chauchard, 2018). This belief spirals electoral costs further, forcing contestants to seek and rely on funders (or candidates) willing to extend significant amounts of official or illicit cash for political purposes. This shall not be an inescapable scenario however. All competitors could all end up with a mutually beneficial equilibrium. Where there is more confidence between key contestants, they are all able to avoid excessive expenditures that serve no common good and to focus more on policies. The solutions to this dilemma shall be aimed at efforts to improve trust and confidence between political parties. Governments, NGOs and international organizations could all help by offering inter-party dialogue formats and fostering the culture of trust.

That money does not call all the shots in elections was also demonstrated in the interesting study, which Steven Lewitt⁸ of MIT carried out in the 90ies. In his study, he looked at repeat challengers in US Congressional elections. This was done with a purpose to eliminate electoral “shocks” that are associated with the introduction of a highly effective candidate for example, or other factors such as economic shocks, shifting of electoral boundaries or other development that have important electoral repercussions. By fixing the variables such as candidate quality and other external factors, Lewitt could then focus on the effects of campaign spending. In his analysis of 633 elections, the surprising result that emerges is that every additional 100,000 USD resulted in the additional 0.33 of vote only. His analysis demonstrates that extensive campaign expenditures basically represent a socially wasteful activity: diverging valuable resources to no meaningful ends and keeping politicians and their teams away from their core business of policy-making.

An illustrative recent example also comes from the US where in a surprising upset in the congressional primary of the Democratic party, Alexandria Ocasio-Cortez running her first ever campaign, ousted Joe Crowley, ten times congressional Democrat (also a potential party leader or the Speaker of the House). For comparison, Crowley spent 3,350,000 million USD in campaign funds compared to 300,000 USD which Ocasio-Cortez was able to mobilize.⁹ Here, one has a clear example that the quality of candidates, campaign organization and other important factors of electioneering can often deliver far more than what the money can accomplish on its own.

⁸ Steve D. Lewitt. August 1994. *The Journal of Political Economy*, Volume 102, Issue 2.

⁹ BBC. 27 June 2018. Alexandria Ocasio-Cortez: Millennial beats veteran Democrat. <https://www.bbc.com/news/world-us-canada-44625617>

To look elsewhere in the region, Mr. Alexander Elisashvili, who took part in 2017 local elections of Georgia as the independent candidate to become the mayor of the capital, Tbilisi ended the race on a second position: ahead of other well-established political parties and much better funded campaigns.

This is something which is often missed from the view as unsuccessful politicians use the “money theory” to conveniently explain away the political misfortunes and failures of their own making. “Money” is a convenient theory to fall back to and avoid asking uncomfortable questions on political leadership, partisan organization, campaign planning or personal performance on major debates.

None of what I have argued in this section is aimed to underestimate the pervasive influence that increasing sway of money over politics is producing. The problems are real and they must be countered by some of the measures which I have discussed previously. It is equally important nevertheless, to accept that this influence is often more limited than is frequently believed. The dominance of money may indeed turn out to be a self-fulfilling prophecy: If everyone believes the old Georgian proverb that “money buys heaven,” then it really does and by doing so it may well turn politics into hell.

This is the reason why we shall address this complex issue of the relationship between money and politics with a more diverse set of tools and a broader perspective that goes beyond state regulation and government oversight. Besides creating and enforcing better and more meaningful regulatory frameworks, it is also important not to underestimate often subtle but powerful factors on the level of institutions and political culture. If we approach the problems of money in politics with this, more nuanced approach, requiring better schooling in local cultures and institutions, then we may as well chart a better way forward to restoring trust in politics again.