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DEVELOPMENT OF POLITICAL PARTIES AND PARTY FUNDING: MODELS AND CHARACTERISTICS

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Abstract: *The first modern political parties were formed at the end of the 18th century and have, from those times up to now, undergone 4 developing phases; each of the phases is bound to ideal-type political party model: cadre parties, mass parties, catch-all parties and cartel parties. Each of these party models differentiates in various characteristics: party foundation, number of members, and way of leading the election campaigns, but also in ways of financing. This paper describes the above mentioned 4 phases of political parties' development and 4 phases of parties' finances development; it will be analysed in detail positive and negative sides of each of the models of party financing.*

Keywords: political parties, political parties financing, corruption.

JEL Classification: A1, A2

Introduction

Some authors refer to political parties financing as the “costs of democracy” (Burnell, 1998, p. 4; Nassmacher, 2003, p. 4). The costs of democracy usually involve functioning of the judiciary, local government and other public goods but regardless of the fact there is no single definition of democracy and unified position on its requirements, an indisputable fact is that political parties play a central role in political competition (Burnell, 1998, p. 4) and that they are “inevitable and indispensable instrument of democratic government” (Nassmacher, 2000, p. 233). As the developed democracies actually become party democracies, issues related to party funding has become a critical issue for any democratic society. Therefore the way in which political funding affect the relationship of the parties with its members, voters and the general public is essential for quality of democracy functioning (Burnell, 1998, pp. 7-8).

Jelčić briefly explains the relationship between political parties and the financial resources: “political parties, as voluntary organizations of free citizens in a democratic state, nominate candidates for their representatives in parliament, and they are trying to score good results in elections. In order to participate in the electoral battle, to accomplish tasks for which they were established, the political parties should have the finance to pay all expenses associated with their activities” (Jelčić, 1993, p. 118). Money has a “symbolic and practical value in political competition” (Casas-Zamora, 2005, p. 7), and as the money is important in politics, it can threaten democracy if its

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role is not adequately regulated. Collecting and spending political money has several possible consequences:

1) The electoral equality is often influenced by political money - if its distribution is uneven, uncertainty of elections will likely be compromised.

2) The inevitability and indispensability of money in politics gives donors possibility to acquire political influence, which may endanger the equality of citizens if economic powers become a major factor in the electoral competition, and only those who have the economic power will be able to gain political power.

3) Political contributions are opening a multitude of possibilities for finding dishonest or illegal “common interests” between donors and politicians, which finally can lead to privatization of decisions designed by policy makers (Casas-Zamora, 2005, p. 2).

Although first modern political parties were established in the 19th century, the party financing issue becomes a matter of scientific research and intensive debate since 1970s. The rise of interest in party financing has multiple causes, but the most important is the growing awareness of political corruption and its ability to threaten fundamental democratic institutions, so over time party financing has become a significant issue which are dealing numerous scientists, journalists and non-governmental organizations around the world to deal with (Casas-Zamora, 2005, p. 1).

Political parties are formed within the modern political system as organisation that institutionalize the fact that modern society, despite the guaranteed equality of rights for all citizens, exists as a collection of unequal individuals; with establishment of political parties state is transformed into a political system in which they perform important functions and parliamentary democracy is established as a pluralist democracy (Prpić, 2004, p. XI).

Political parties are institutions that could be hardly defined. They operate in private society, and also in the state as an institution, and consequently they are part of the state, but they are also part of the society that establishes private society as a sphere of civil society. From this derives their hybrid character. In democratic societies, political parties can be viewed as association whose objectives are legitimized referencing to the interests of certain sediments of the people. They are more or less tightly organized groups, and are trying to implement their goals through government, they are in a certain ideological and political relations with other associations and their political efficacy refers to the party system and the certain possibilities of sharing political will formation within the state (Lenk and Neumann, 1967, p. LXXIX).

The forms and methods of party financing are one of the central problems of structure, functioning and efficiency of modern democratic regimes. Political parties can be viewed in two

ways. The modern political parties are formed as (private) associations of citizens, who are trying to promote their interests in the state through political parties, and therefore these associated citizens should themselves finance party's activities or collect financial support from their supporters. If the party system is really functioning according to this classical liberal understanding, the poorer classes of citizens would be difficult to participate in politics, and on the other hand, the economic potentates will be able to "buy" a political party and to instrument state for the promotion of their own interests. However, if the political parties are seen as an essential subject of democratic regimes, which should assure that all citizens have equal opportunity to participate in shaping of the political will, we come to the conclusion that their actions should be financed from the state budget. Such a solution has various advantages but also disadvantages: political parties public financing reduces the potential dependence of political parties from the private potentates and reduces the possibility of corruption. However, on the other hand, this solution encourages the "nationalization" of political parties, thereby enabling distancing of parties from the public and also encourages oligarchic tendencies within political parties. Political parties represented in the parliament decide on its own financing, and this fact raises the question who should control them in doing so (Prpić, 2004, p. XIX).

1. Development of party funding

The first modern political parties were formed at the end of the 18th century and have, from those times up to now, undergone 4 developing phases (Katz and Mair, 1995); each of the phases is bound to ideal-type political party model: cadre parties, mass parties, catch all parties and cartel parties. Each of these party models differentiates in various characteristics: party foundation, number of members, ways of leading the election campaigns, but also in ways of financing. Cadre parties were mostly financed by candidates' personal assets and donations from aristocrats, business circles and patrons. Mass parties were mostly financed by membership fees, especially by the left-wing social-democratic parties and union's donations, while the centre parties and right-wing parties replenished their membership fees with business circles' donations. Catch all parties were, in minority, financed by membership fees and members' donations and largely by union's donations (left-wing party) or business circles (right-wing party). As these funds were proven to be inadequate for leading campaign via mass media and for paying professionals working in parties, political parties started to use public, budget sources. Cartel parties take full advantage in public sources, constantly enlarging them. Furthermore, they get donations from private sources, but public sources become one of the main, and in some countries, the only source of party financing. This paper describes the above

mentioned 4 phases of political parties' development and 4 phases of parties' finances development. It will be analysed in detail positive and negative sides of each of the models of party financing. All the models are ideal-type models and there are certain differences between countries and certain party families.

Table 1 – The models of party and main resources of party financing

POLITICAL PARTY MODEL	TIME OF FORMATION	MAIN FINANCING RESOURCES
Cadre party	Beginning of 19th century	Candidates personal assets
Mass party	1880	Membership fees and contributions
Catch all party	1945	Membership fees, contributions from various resources, public subventions
Cartel party	1970	Public subventions

Source: (Katz and Mair, 1995, p. 18)

1.1. Cadre party

The beginnings of parties financing date back to the 19th century, when first modern political parties arose. The very beginning of party life was characterized mainly by the limited size of the electorate (“religious axiom that many are called, but few have chosen”, “psychological thesis that something ideal seizes only a minority with selected spirit”: Michels, 1990, p. 7).

The first modern political parties formed in the late 18th and early 19th century were called cadre parties. As they were loosely associated organizations with a small number of members, as a result of the high thresholds that were in effect at the time of their formation, cadre parties did not have any regular membership fees, and their activity took place only during the electoral period. The core of these parties consisted of the famous and influential individuals whose name or impact served as a guarantee of the candidate and brought him votes. It should not be overlooked that these famous and influential individuals were financiers who contributed funds for the electoral battle (Goati, 2001, pp. 24-25).

Party funds rest above all on the candidate's personal properties, but also on large donations from landowners, industrial magnates and bankers, and the status and economic position have enabled local notables to engage in politics at a time when MPs' salaries were not paid from the state budget, and when it was possible to buy position in the parliament (Mulé, 1998, p. 50). However, personal wealth and occasional donations soon proved to be inadequate for the increased campaign costs, and therefore the party leaders were forced to complement donations received from aristocrats and

business circles with the incomes from patrons. Additionally, cadre parties could regroup public funds to solicitate voters and to distribute material incentives such as money, status and posts, in exchange for votes. During this period electoral cheats were very common; for example, in 1832, 850 from the 1,000 voters of the Stamford electoral district were bribed. In period of 25 years (from 1832 to 1857) the public was presented with 443 petitions which have tried to challenge the results of the parliamentary elections due to different electoral abuses (Johnston and Pattie, 2000, p. 124).

Having in mind party finance, the importance of cadre parties lies in the fact that they were the first form of party organization endowed with a funds collecting system, because the members of parliament were expected to cover their own campaigns costs and to secure material incentives to reward followers and voters.

1.2. Mass party

Mass parties arose in the second half of the 19th century and they included in membership large number of working class members, who gained voting rights after electoral reforms (Goati, 2001, p. 25). However, after the expansion of suffrage there was a need for new forms of organization, necessary to ensure the mobilization of the masses - the majority of the mass party members worked between twelve and fifteen hours per day and it was impossible for them to participate in any kind of unpaid activities. Soon it became obvious that the irregular funding, which was sufficient for cadre parties, was not suitable for mass organization funding, so mass parties began to establish branches, as permanent organizations whose purpose was fundraising (Mulé, 1998, p. 53).

For its financing mass parties have used completely different tactics than cadre parties: instead of collecting large sums from several donors, mass party was focused on membership dues, the small amounts that were paid by large number of members. In this way funds for election campaigns and the working class education were provided, as well for the party leadership salaries. As the doctrine and ideology encouraged political participation, a large number of workers have contributed to the betterment of “their” party with volunteer work, and volunteer work was particularly evident in the maintenance of local organizations and fundraising. This form of party funding originated from the left-wing parties, which in this way provided representation of the working class in parliament, and a paradigmatic example of a mass party was the German SPD*, whose number increased from 400.000 in 1905 at 1.050.000 in 1914 (Mulé, 1998, p. 55) .

* Sozialdemokratische Partei Deutschlands.

Except with membership dues, left-wing parties provided funding also from the unions. Just like the German SPD, British Labour Party was also financially supported by the unions; however, these two parties differed in the way of fundraising, since in Germany money from the union dues was directly remunerated to SPD, while Labour Party indirectly collected funds from unions, receiving a fee for each new union member. Since 1913 every person who entered into union membership, automatically also became a member of the Labour Party, unless he explicitly refused. This way of dependence on unions and union funds lasted in the UK until the early 20th century, when salaries and allowances were secured to members of parliament. From 1918 onwards the possibility of individual union membership was approved, so the union members were no longer automatically members of the Labour Party and in this way separation of the Labour Party from the union identity was facilitated (Mulé, 1998, p. 57).

After World War I party competition was intensified, since the sudden strengthening of left-wing parties represented a serious threat to middle-class parties and cadre parties, so there have been changes of the cadre parties' electoral tactics, inter alia through intensified investment in professional advertising techniques and political propaganda. The British Conservative Party in the 1920s began to turn to business circles, trying to find in them a new source of funding, since the collection of a small number of large donations from individual donors proved to be insufficient to cover the new party costs. An additional problem emerged in 1925, when the government declared illegal sale of titles, thus eliminating a significant source of income for middle-class parties, since from the late 19th century these parties were largely financed by selling honorary positions. After this, Conservative Party was forced to make a strong pressure on the membership in order to weaken the role of the rich, local donors as a source of funding and to financially strengthen the position of party branches. British liberals had failed in an attempt to build branches, and this organisational failure to build a solid incomes system was one the main factors of their marginalization in the post-war party competition (Mulé, 1998, p. 60).

In Germany, the growth of left-wing parties, especially of the SPD has raised concerns of business circles and encouraged creation of organizations through which various companies transferred funds to non-socialist parties. In 1905 industry associations have established a "Reich Association against social democracy"* that offered financial support to right-wing parties in 1907 elections, and the amount of support depended on the number of "pro-industrial" candidates on party lists (Mulé, 1998, p. 61).

* Reichsverband gegen die Sozialdemokratie.

1.3. Catch-all party

After World War II so-called catch-all parties emerged (Kirchheimer, 1966). This type of party is characterized by “fail of ideology, strengthening of leadership and weakening of membership, expansion of target groups, if possible, on entire nation, or on an increasing middle class, and party opening to a growing number of interest groups” (Beyme, 2002, p. 22).

Transformation of the mass into a catch-all party drastically reduced importance of ideology, but also reduced importance of individual party member role, so political parties quickly became less and less dependent on membership dues, and more dependent on other sources of funding, like various interest groups. It should be also taken into consideration there have been changes in the campaigning style in which communication between the leaders and supporters is more and more established through mass media, and “door to door” agitation or organization of local meetings lose its importance as the radio and television broadcasting proved much more effective, but also much more expensive (Mulé, 1998, p. 62). Development of communication technology has significantly affected the way of fundraising, because there has been a growing gap between the material resources necessary for political campaigning and the resources available to the parties, such as voluntary work and institutionalized support, and in these circumstances interest groups obtained a privileged position as a source of funds.

Therefore, the parties were forced to find ways for obtaining funds. Weak access of members to the party motivated the German CDU to approaching business cycles, which were covering the larger part of their electoral and administrative costs, and this relationship with the business associations was formalized in 1952, when they founded the sponsoring organizations* that have acted as a link between business donations and parties. CDU rewarded donors offering them privileged “channels” to access the party life, and thus at all levels, party leaders were elected from non-party groups, usually among industrialists and local notables, and in that way possibility to business community to influence economic and social direction of the party was given, in accordance with their objectives (Mulé, 1998, p. 63). Other “non – socialist” parties that also received money from the business circles were FDP†, conservative agrarian DP‡ and BHE/GDP§ (Schleth and Pinto - Duschinsky, 1970, p. 41). In Italy, after the Second World War, organizational growth of DC** was

* Fördergesellschaften.

† Freie Demokratische Partei.

‡ Deutsche Partei.

§ Bund der Heimatvertriebenen und Entrechteten/ Gesamtdeutsche Partei.

** Democrazia Cristiana.

associated with the support of the Catholic Church. Local party organizations were controlled by the associations connected with the church and through these associations Catholic Church transferred financial support to DC. In addition to the support of the church, DC received generous donations from the Confederation of Industrialists*, and this financial support was given to DC mostly through local supportive organizations and in this way increased the power of peripheral association with respect to the center (Mulé, 1998, p. 65).

A large turn in political parties funding was initiated in 1954 when Costa Rica, as the first country in the world, introduced political parties financing from public resources. Public party funding that was unknown in the first half of the 20th century, became common in the latter half (Ware, 1998, p. 242). The reason for the introduction of public party funding was development of catch-all parties. Parties were no longer conspiratorial communities, whose members were willing to make large sacrifices. Competition for the votes of center voters, who were no longer associated with the classes, significantly increased election campaign costs (Beyme, 2002, p. 117). Parties growing financial needs and their escape to public funding were not so much the cause, but a consequence of general etatization process which no longer allowed parties existence in the form of a purely social organization and in that way they were increasingly tied to the governmental sphere (Beyme, 1999, p. 113).

In Europe the first country that introduced public political parties funding was Germany in 1959. However, the whole process of the introduction of public party funding proceeded slowly and quite long lasting. SPD was the main opponent of public financial support to political parties. In 1957 SPD has filed a complaint to the Federal Constitutional Court (Landfried, 1994, p. 34) arguing that the system of tax relief on political donations is unconstitutional because it favoured parties with the wealthier supporters (Scarrow, 2004, p. 661). As in the early 1950s debates on public party funding began, the SPD continued with statements that direct public party funding was “problematic” and that is was acceptable only as political education support, but to a limited extent (Landfried, 1994, p. 32). Proposal to increase resources for party funding was in 1964 vividly described by one of the SPD's representative as a “quick step to cancer that has limited the Central American and South American countries” (Landfried, 1994, p. 34). SPD representative Schmitt – Vockenhausen in 1965 explained opposition to public funding as the fear that it will make parties more dependent, which in turn will increase the reluctance of citizens against parties (Landfried, 1994, p. 39). At that time, SPD had a large membership and it was mainly funded by membership dues; having that in mind, it was quite

* Confindustria.

logical that SPD opposed solutions that fit the ruling party, which did not have such large membership.

In other countries parties differently perceived party funding from public resources and their attitudes were largely dependent on the ideological tradition and access to financial resources; there was no unified position within each party family, but still there was some regularity. The left-wing parties generally evaluated public party funding as evidence that the party lost its social, critical function and erected in the hands of the state. Liberals argued for a separation of the state and society, saying that party should remain on the territory of society (Beyme, 2002, p. 117). Conservatives usually rejected public party funding, especially in the UK and Scandinavia, as they were successful in obtaining funds from private sources, and public support more financially strengthened their competition. British Conservatives have argued that public funding diminished party the freedom to criticize the government and led to further alienation of the party from the people (Johnston and Pattie, 2000, p. 149). European communist parties were against public parties funding because they feared that the left will fall into the current “civil state” and that will blurrily articulate their “class position” (Drysch, 2000, p. 156). In reality, they were just afraid of losing their superior position in relation to the other parties, because all of their financial needs were covered by large number of collected membership dues and levies on members of parliament salaries (Drysch, 2000, p. 172).

1.4. Cartel party

Initial opposition to public party funding over time lost intensity and persuasiveness. Political parties funding from public resources became possible only after the parties have become legally and constitutionally accepted. Awarding this kind of benefits to the parties, with respect to other organizations and interest groups, has certainly facilitated the transfer of new functions of the political system to political parties (Beyme, 2002, p. 117). Besides the indisputable advantages of this mode of party financing, it should be also taken into account that public party funding, with secure funding from public sources, can weaken the interest of the parties to maintain stronger connections with citizens through their mobilization and building a relationship with society. With introduction and gradual increase of public party funding, donating parties as a way of expressing political views significantly lost its power, which can finally lead to the creation of a small number of wealthy parties separated from citizens and society, which will, instead working on the ground with members and potential “small” donors, prefer to turn to mutual cooperation in order to preserve the financial status quo (Johnston, 2005, p. 16). So in the 1970s system of cartel parties emerged (Katz and Mair, 1995),

where the parties ensure their own survival, to a larger or smaller extent, secretly cooperating on various issues and thereby colonizing segments of the state.

Cartel parties “become agents of the state and exploit state funds (of party state) to ensure their collective survival” (Katz and Mair, 1995, p. 5) on the basis of mutual agreement between the parties, in which large opposition parties are also included, but new or small parties are excluded, which are with legal constraints disabled to fight in political arena. In Germany, political parties for the first time received support from the budget in 1959, in the amount of 5 million DM, and the resources were allocated to parties on the basis of inter-party agreement of the Bundestag budget committee, since at that time there was no legal regulation that would treat this issue (Drysch, 1998, p. 125). The inter-party agreement would not have meant anything if there had not been consensus on the issue of party funding between main parties (Landfried, 1994, p. 34). It should be noted that in this inter-party agreement did not include non-parliamentary parties and it can be concluded that this was the parliament party consensus at the expense of non-parliamentary parties. Already in 1962, this time on the initiative of the “financially strapped” (Scarrow, 2004, p. 661) FDP, the budget item „parties expenses pursuant to Article 21 of the Basic Law“ was put in the budget plan (Drysch, 1998, p. 124), which brought parties additional 15 million DM per year. Therefore, public parties funding, which was itself at that time a revolutionary event, was introduced entirely on the basis of inter-party agreement, and additionally, again only on the basis of inter-party agreements, state aid to the parties was increased from 5 million DM in 1959 to more than 64 million DM in 1964 (Drysch, 1998, pp. 124-125). Non-parliamentary parties showed its disapproval with public support to parties designed in this way, and in 1964 lawsuit to the Federal Constitutional Court was filled by two smaller parties DP/BHE and Bayernpartei, who opposed the support because non-parliamentary parties had been excluded (Scarrow, 2004, p. 661).

It is also typical for cartel parties that they refuse to compete in issues that can initiate changes in the institutional framework and thereby harm the party in power, but also the parties in opposition. Although the cartel members compete in elections and dispute about different issues, however, they are willing to cooperate on issues of common interest (Scarrow, 1997, p. 455). Such was the case with public party financing, which has become one of the foundations for cartel parties building. From 1959 in Germany parties receive direct financial support from public funds, a lavish one and without many commitments since the aid had been introduced on inter-party agreement, and not on law, and this agreement contained mainly the rights (on funding from public sources), and not any obligations. Consequently, parties become extremely important, strong and rich (at least in relation to parties in other countries) and thus become somehow untouchable. Long-standing opposition of

Social Democrats ended in 1967 by participating in the development of inter-party draft of political parties' law which, among other, regulated political parties financing. It was still not easy, since the SPD remained sceptic to general financial support without pointing out specific purpose of support and generally, as usual, insisted on support for political education. In the meantime financial needs of SPD have increased, SPD and CDU have started to work on other policy issues, and they simply adopted this law from common interest (Scarrows, 2004, p. 661). The beginning of the 1970s brought financial difficulties to all German parties, which have arisen as a result of high inflation and expensive election campaigns. As all major parties had similar financial problems, rival parties quite easily agreed to increase public support for the campaigns and in 1974 support for the campaigns to all parliamentary parties was increased. New elections for the European Parliament proved to be a good excuse for further increase, so in 1978 support for these elections was also introduced. Two years later the upper limit for tax deductions for political parties' donations was raised.

It is interesting and indicative that in all these cases, representatives of various parties worked together on legislative changes details. This is typical cartel behaviour since all parliamentary parties, which are usually tough opponents in parliament, away from the public and without too much controversy, through joint cooperation quietly adopted measures to increase their revenues from the budget (Scarrows, 2004, p. 662). Major parties also included new parties into cooperation, such as the Greens, regarding party finances, and got their support. There is another important effect of this cooperation - the fact that in these cooperative activities large and small parties were involved, "isolated agreements about party finances from the scandal effects and from public discontent, which stemmed from it" (Scarrows, 2004, p. 666).

Conclusions

Political parties funding is a problem, by all means, of the parliamentary system. First political parties were formed in the parliament as a representative fraction of specific groups; these parliaments, of course, were not constituted by democratic means, i.e. by general and direct elections, but they occurred as the bodies in which nobility representatives were gathered. During this period, parties were buying votes of the voters (one narrow layer of the population who had the voting right) to ensure as many of like-minded in parliament. At the end of the 19th century after the democratization of the electoral system for the first time in history the party was formed that did not originate in the parliament but outside of it; in labour parties there are citizens, non parliament members, who are joined together to send their people to parliament. In the area of party financing

there have been significant changes: members of parliament, i.e. candidates for members of parliament, do not anymore bribe the voters, but a variety of non-partisan and non-parliamentary bodies bribe lawmakers to lobby for their interests, and the situation remained as such until today. Therefore, we can conclude that the changes that occurred in party finances are direct consequence of changes in parliamentary systems and of creation of modern parliamentary systems.

All systems of party financing originate from private sources financing, and until the middle of the 20th century, political parties were largely funded from private, non-state, i.e. non-budgetary sources. However, political developments in the second half of the 20th century turned this common base into completely different financing systems, so today this system is, for example, in Germany quite different from the system in the UK. Most countries followed the example of Germany which, in 1959 was the first in Europe to introduce public party financing; then, albeit in relatively small and quite unclear form, but the public parties financing in the period of more than fifty years has significantly evolved, both in forms of financial aid and the amount of funds. Advanced public funding enabled development of cartel parties, which were transformed from the intermediaries between the state and society into part of the state and its agents. Cartel parties took over the state and “oligopolised political space” (Ravlić, 2010, p. 65) presenting themselves to voters as the only serious electoral choice, and at the same time cartels parties mutually shared public resources, budgets and positions, and legally prevented the emergence of new political forces which might threaten them (Katz and Mair, 1995).

Therefore it is not surprising that today public perceives political parties in a rather negative way and numerous public opinion surveys conducted in very different countries showed generally very low level of trust in political parties. Average citizens do not see parties as promoters of democracy; they are bothered with parties’ connections with powerful economic lobbies, and their confidence is also shaken with numerous money abuses for political purposes. Corruption scandals that have erupted several times, even in well-ordered countries like Germany, have shown that the danger of plutocracy is “quite immediate and practical” (Kregar, 2003, p. 13). It should also be noted that by obtaining funds from the state and from big donors there is a risk of parties forgetting the financing party activities or „goal“ is one of the ways that the parties will forget that “the financing party activities or “goal” is one of the ways to secure and maintain the relationship between leaders and supporters” (Nassmacher, 2003, p. 7) and they will no longer feel the need to work on the ground collecting dues and “small” donations from party members and supporters. It certainly contributes to the decline of public confidence in party democracy, already shaken by numerous corruption scandals

and clientelist relations, which have been turned away citizens' interests for a stronger identification with political parties (Milardović, 2007, p. 18).

The importance of money for parties functioning was emphasized several times, and ultimately for functioning of democracy itself, however, the power of money should not be overestimated in order to influence political competition, since various researches proved there is no necessary connection between amount of funds spent in election campaigns and electoral success. Elections success depends on other things as well; charisma of candidates and parties their attitudes which voters will evaluate as credible, organizational skills, as well as party discipline (Burnell, 1998, p. 7).

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