

Political Economics

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- **Democratic regimes** and **representative institutions** are based on **free** and **fair** elections.
- **Political parties** play a key role in **representative government** by **nominating candidates** for office, running governments when they are the ruling party, or holding governments accountable when they are not.

Trust in the political system depends on the extent to which officeholders and political parties are responsive to the citizenry between elections.

The media, interest groups and nonprofit organizations all find ways of rallying the citizenry to hold **politicians** and **parties** accountable between elections.

Money is ubiquitous in politics.

Election campaigns, political parties, interest groups, nonprofit organizations and the media depend heavily on money, or more broadly speaking on **material resources**.

Thus,

✓ Organizing **collective action** depends on funding to reach out to **citizens**.



**Money Raised and
Spent by Parties**

■ Money Raised and Spent by Parties to Fund Political Competition.

Since the early times of **representative democracy** politicians have struggled to develop ways of **financing political competition** that enhance democratic process without putting at risk key **values** of **democracy**.

The **negative** effect of **money** on politics has been **denounced** by **reformers** and in the **literature**.

Money has been looked at as a necessary **evil**



**How does Money
Affects Political
Competition?**

The Three Ways in which Money Affects Political Competition

■ 1- Money is a channel of political participation

- ✓ Donating money is one form to participate in the political process.
- ✓ When members pay membership fees to political parties, activists make donations to **election campaigns** and **interest groups** fund lobbying activities they participate in the **political process**

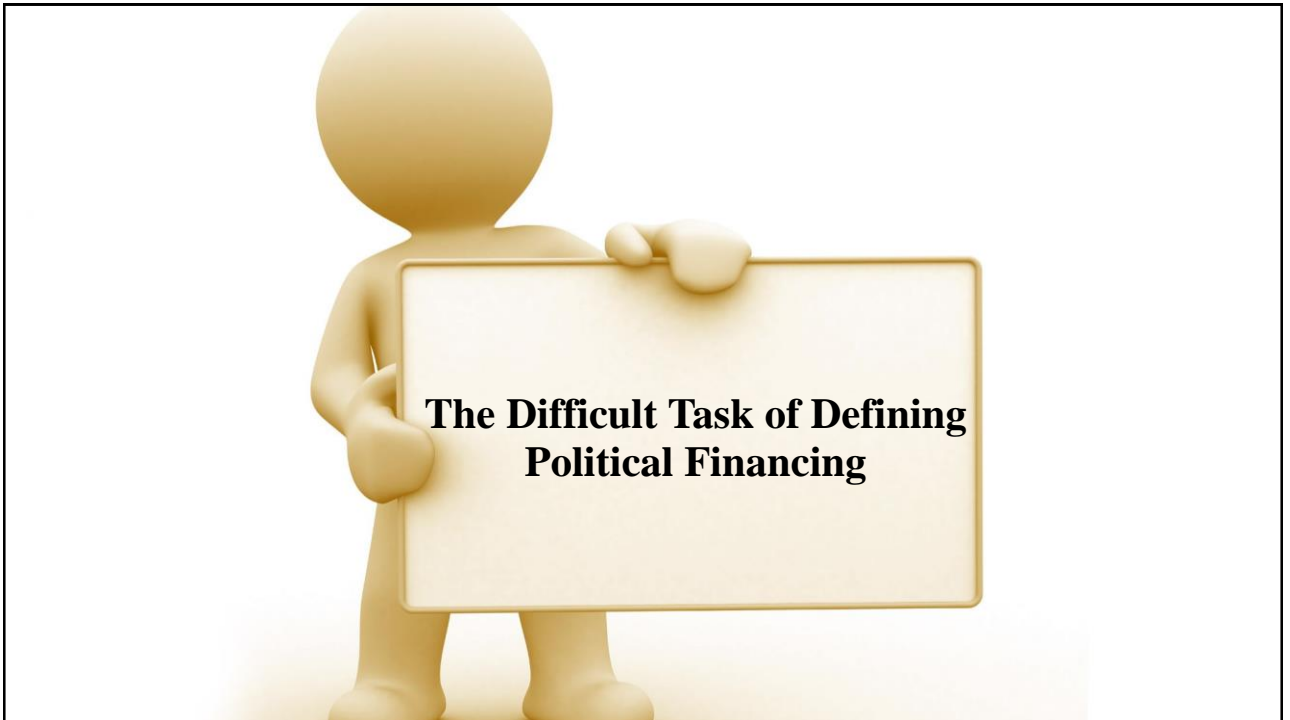
■ 2- Money both reflects and shapes political competition

- ✓ Money enables political parties to **recruit** and **train** new political leaders from different social backgrounds and make politics more **inclusive**.
- ✓ Money allows candidates with new ideas to **communicate** with **voters** and challenge traditional political elites and makes **politics** more **competitive**.

- ✓ Candidates that are **well funded** are likely to defeat opponents who have less money.
- ✓ Within certain limits, the regulation of money in politics can influence the process of political competition, fostering party organizations, setting incentives for new competitors or consolidating existing parties.
- ✓ When **donations** are viewed as an **external factor** influencing politics, **funding** tends to be viewed as a source of **unleveling** the playing field of elections (i.e. unfair elections).

■ 3- Money influences politics

- ✓ Parties and candidates are answerable to their donors.
- ✓ Citizens or organized interests will abstain from donating when disagreements with candidates or political parties arise. (Donors' expectations)
- ✓ Benefitting political donors will often include breaking laws by civil servants, thus undermining the integrity of public administration.



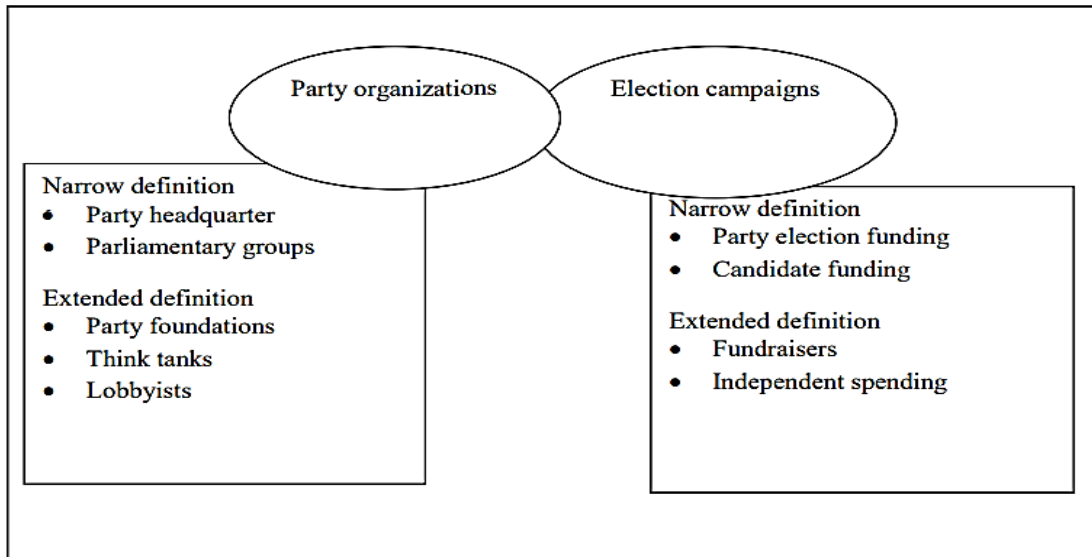
- Political financing includes **financial resources** raised and spent by parties in the process of **political competition**.
- Where strong party organizations exist, the demand for resources will come from the need to:

cover annual **expenses** for headquarters, for public **outreach**, **recruitment** of members, and for **selecting** and **grooming** candidates.

In other political systems **party organizations** are **weak**, but the **mobilization** of **voters** reaches its peak during **election campaigns**, with spending on communication with voters, including professional campaign management along modern standards of marketing.

Defining political financing depends on the development of the political system:
 In some political systems → Political financing is a synonym of **campaign funding**
 In other political systems → Political financing is a synonym of **party funding**

Figure 1. Defining political financing



Both in **party centered** and **campaign centered systems** the core definition of resources raised and spent for political competition become fuzzy when it comes to identifying **relevant players** involved.

1) Party Centered Political Systems

- Apart from political parties themselves other organizations have to be included.:
 - party foundations
 - political **think tanks**
 - Lobbyists

Such **sources of funding** have to be **included** for a **complete picture** on relevant resources for political competition.

2) Election (Candidates) Centered Political Systems

- A considerable amount of money is raised, spend and accounted for by individual candidates.
- **Organizations** raising and spending funds other than political parties may play an important role in **fundraising**.
- Independent Spending:
 - Political advertisement by citizens
 - Companies or organized interest groups during election campaigns
 - Personal wealth (e.g., **wealthy businesspeople**) is an important factor of political campaigns

It should be noted that; in practice, limiting resources to financial assets and transfers is not satisfying.

It is important to include: In kind donations and discounts

- **In kind donations** and **discounts** are substantially not so different from donating money.

It should be noted that; the **system of election administration** has also a huge impact on the **costs of election**.

- ✓ Where voters have to register for each election,
- ✓ Where parties have to print the ballot and
- ✓ Where voting is not compulsory.

The number of voting stations does equally impact the cost of voting, which candidates have to co-finance if they want to convince voters.

To sum up, it is hard to define clear boundaries. It depends on the local context which activities to include, which players to cover and which kind of resources to account for.



Thank you