

From the Public Interest to the Poisoned Subsidy?
Public funding of political parties in democratizing countries

A research project and initial findings

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1. Introduction¹

Mass democracy rests on the assumption that the citizenry chooses representatives to make public decisions on their behalf. Yet, in contemporary societies great amounts of resources are necessary for electoral activities to take place, posing a central problem for democratic accountability. As a recent survey warns, “a liberal democracy is one that decides public policy (including the distribution of ‘social goods’) in accordance with citizen choices, not the decisions of the powerful or the wealthy. But to achieve such a distribution of social goods according to democratic principles, civic and political rights must be insulated from the cash nexus, political power must not be for sale and bribery must be effectively sanctioned,” (Whitehead 2005: 13).

Polities around the world have come up with different means to allow for candidates and their parties to obtain and spend money on election campaigns, and reform of these institutions has quite often followed instances of corruption scandal. Thus, alternative political finance systems reflect historically-situated attempts to balance important goals often in tension with one another. Among these goals are of course the need to temper the influence of moneyed (legal and illegal) interests in representation and policy, but also freedom of speech and political organization, the right of the citizenry

¹ Some segments of the introduction to this paper expand on arguments made in Poiré, Alejandro. 2005. *The Problem of Money in Electoral Politics: a Latin American Perspective*. In *Working Papers on Latin America Series*. Cambridge, MA.

to be properly informed, the need for a level playing field amongst political alternatives, and the overall cost of the electoral process. It seems fair to assume that the interaction between these institutional arrangements and other features of a country's political system will affect the relationship between voters and elected officials, politicians and their parties, and ultimately determine possibilities for adequate representation and sound policymaking.

In particular, the issue of political finance has become an ever-present concern of analysts and politicians the world over (Nassmacher 2003). In developed and especially developing societies, efforts to strengthen democratic governance, social justice and the rule of law must take into account the role played by money in democratic representation. This is most critical for newly democratized countries, where institutions are likely to be more fragile and the power of moneyed interests most corrupting.²

However, even recent surveys of the field recognize that, given the dearth of systematic research on the subject (Fisher and Eisenstadt 2004), public debates

² There is an ongoing debate regarding the potential for political corruption stemming from private financing of campaigns in emerging democracies. Some have argued that the context of a newly democratizing country is hardly conducive to the credible commitments needed to effectively exchange campaign contributions for policy benefits: Treisman, Daniel. 1998. Dollars and Democratization: The Role and Power of Money in Russia's Transitional Elections. *Comparative Politics* 31 (1):1-21, while others emphasize the existence of basic conditions for these exchanges to exist: Samuels, David J. 2001a. Does Money Matter? Campaign Finance in Newly Democratic Countries: Theory and Evidence from Brazil. *Comparative Politics* 34:23-42. I here take the classical view in which, as scholars of statehood and corruption have indicated, it is within a context of low institutionalization where special interests might be most abusive of public goods: Huntington, Samuel P. 1968. *Political order in changing societies*. New Haven: Yale University Press.

over money and electoral politics too frequently lack a sound empirical and theoretical grounding (Griner and Zovatto 2004a), and therefore the cures proposed threaten to generate worse effects than the symptoms they allegedly alleviate (Posada-Carbó 2005: 6-7).

This paper addresses one aspect of this emerging research agenda, by focusing on Mexico's generous publicly-financed party system at the sub-national level. It attempts to answer the question of whether public funding to political parties is a phenomenon tied up to parties' consolidation as entities of public interest, to political democratization, to politicians' rent-seeking behavior, or mostly determined by the underlying social and economic determinants of political competition. It strives to serve as a first step of a larger project that looks at the role of public funding on electoral outcomes and political representation.³

The paper is organized as follows: section 2 briefly narrates the history of the current Mexican party finance system and introduces some of the less obvious enforcement dilemmas presented by public funding of political parties. This is followed with a review of the extant literature on the subject, with an emphasis on newer democracies. Section 4 introduces the data under study in greater detail as well as a set of hypotheses about the expected variation in the

³ I am currently gathering a database of income and expenditures of state-level political parties in Mexico since the acceleration of electoral democratization, *circa* 1990. A later stage of this project will allow me to use levels of public funding as an explanatory variable, using a cross-section time-series design, but there are currently too few cases for which reliable campaign-related information has been obtained. The present paper thus uses the cross section of public funding for 2003 as a dependent variable, for which nearly complete and reliable information is available (n = 32).

amounts of public funding available for state-level party chapters, as derived from the theoretical discussion. In section 5 I present a first group of hypothesis tests and discuss their theoretical and normative implications, and I conclude with a summary of theoretical arguments and a description of the future steps of the project.

The evidence presented in this paper stresses the dual character of public funding in Mexico's emerging state-level democracies, both as a platform of basic competition among political parties, and as a potential instrument of detachment from pressures from outside the established party system. The level of public funding seems unrelated to its alleged role as a shield against the negative influence of illicit private contributions, but strongly determined by the political opportunities for oligopolistic behavior. Under these conditions, a host of negative implications seem more likely to be the outcome of public funding of political parties once basic competitiveness has been achieved. These implications carry theoretical weight well beyond the context from which they are derived.

2. The poisoned subsidy?

The Mexican case is a useful example of the mostly unforeseen consequences of political finance reform. Few doubt the merits and remarkable character of this country's electoral democratization, turning itself in less than fifteen years from what Mario Vargas Llosa touted as *'la dictadura perfecta'* (the perfect

dictatorship) into the United Nations' trainer of choice for newer democracies' electoral authorities.⁴ In particular, its system of large publicly-provided cash disbursements for political parties was essential to its successful transition from electoral authoritarianism (Becerra, Salazar, and Woldenberg 1997). However, this foundational institution may have turned, less than a decade after the ruling party lost control of Congress in 1997, into an obstacle for the construction of a higher quality democracy. I here explain why, and develop the notion of the 'poisoned subsidy,' to illustrate a quite harmful implication of the inception of public funding for political parties.

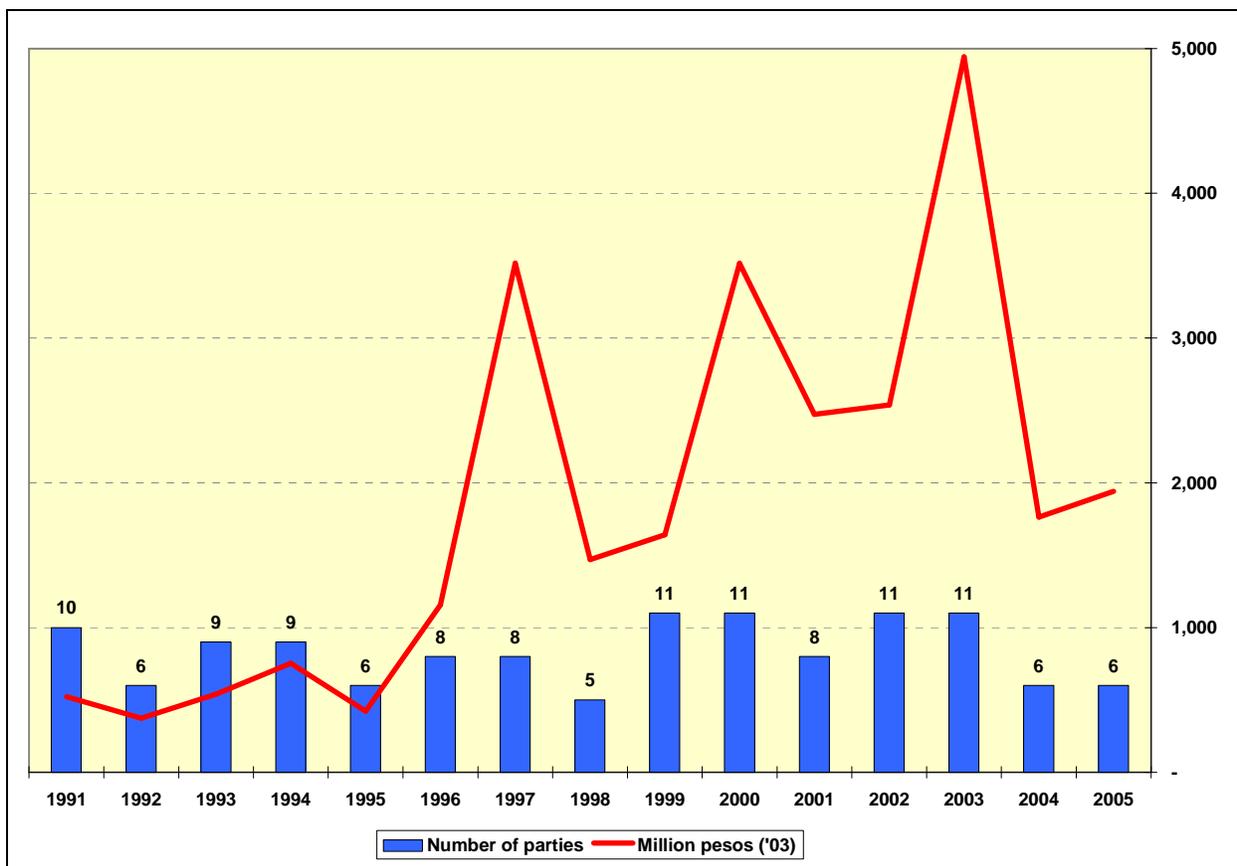
Electoral alternation, the great achievement of Mexico's new political regime, is not a sufficient condition for a democracy to be adequately representative (Linz and Stepan 1996; O'Donnell 1992). Echoing the concerns with the political inequality derived from the private financing of politics, O'Donnell argues that an indicator of the democratic quality of an electoral system is whether it "compensates for the disadvantages that some parties may suffer because they are not being supported by economically powerful groups" (O'Donnell 2004: 22-3).⁵

⁴ IFE has given electoral assistance to dozens of countries over the last few years. Perhaps most notorious was the role played by two former members of its governing council in the design of Iraq's electoral law under the auspices of the UN (Electoral Councilors Alonso Lujambio and Jacqueline Peschard), and the training received in Mexico City by the top directorate of this country's newly installed electoral authority for their foundational elections in 2004.

⁵ Writing more broadly than only on the topic of finance of political parties, Pitkin has argued that democracy and representation are inherently at odds, especially when representation has become "a new form of oligarchy, with ordinary people excluded from public life" Pitkin, Hannah Fenichel. 2004. Representation and Democracy: Uneasy Alliance. *Scandinavian Political*

Cash subsidies to political parties are one of the most common instruments aimed to further the equality goal O'Donnell rightly alludes to (Nassmacher 2003; van Biezen 2000), and there seems to be little doubt that these played a key role in Mexico's transition. After the electoral reform of 1996, substantial amounts of cash were available for the first time to all parties for the 1997 congressional election.

Figure1. Public funds destined to national parties, Mexico 1991 - 2005



Studies 27 (3): 335. She underscores the need to analyze how wealth and money may prevent representation from being democratic.

Source: Author's calculation from Federal Electoral Institute's (IFE) official data, available at (www.ife.org.mx). Money figures are millions of Mexican pesos in their real 2003 value. During 2003, the average exchange rate was of 10.8 Mx pesos per dollar (www.banxico.org.mx).

These larger funds are allocated according to a 30% equal-70% proportional formula,⁶ allowing for more balanced expenditures, and thus more balanced electoral results; as illustrated in table 1, and prompting the first ever non-PRI majority Congress since the party's foundation in 1929 (Becerra, Salazar, and Woldenberg 1997; Poiré under review).⁷

Table 1. Expenditures and electoral outcome in Mexico 1994-1997

Party	1994 Congressional Election		1997 Congressional Election	
	Share of total expenditures (%)	Vote total (%)	Share of total expenditures (%)	Vote total (%)
Partido Acción Nacional (PAN)	10.4	25.0	24.2	25.9
Partido Revolucionario Institucional (PRI)	78.3	48.6	35.1	38.0
Partido de la Revolución Democrática (PRD)	4.7	16.1	23.1	25.0
All other parties	6.6	7.0	17.6	8.3

⁶ More precisely, the formula divides 30% of the total funds equally among parties and 70% according to their previous congressional vote share. New parties (which obtain registration about one year prior to election day) do not benefit from this purse, but instead each gets an additional 2% of the total amount allotted to all 'old' political parties. A thorough explanation of the system can be found in Poiré, Alejandro. under review. *Follow the Money: Local Public Funding and Internal Party Transfers in 2003*. In *What Kind of Democracy has Mexico? The Evolution of Presidentialism and Federalism*, edited by M. S. Shugart and J. A. Weldon. La Jolla: Center for US Mexican Studies, University of California in San Diego, and Becerra, Ricardo, Pedro Salazar, and José Woldenberg. 1997. *La Reforma Electoral de 1996: una Descripción General*. México, DF: Fondo de Cultura Económica.

⁷ Thorough reviews of the 1994 and 1997 elections in Mexico can be found in Domínguez, Jorge I., and James A. McCann. 1996. *Democratizing Mexico: Public Opinion and Electoral Choices*. Baltimore: Johns Hopkins University Press, and Domínguez, Jorge I., and Alejandro Poiré, eds. 1999. *Toward Mexico's Democratization: Parties, Campaigns, Elections, and Public Opinion*. New York: Routledge.

<i>N</i>	3.07	<i>N</i>	3.63
Margin 1 st to 2 nd	23.6%	Margin 1 st to 2 nd	12.1%

Source: Author's calculation from Federal Electoral Institute's (IFE) official data; votes are nationwide totals for single-member district deputies' elections. *N* is the Laakso and Taagepera index for effective number of (national electoral) parties (Laakso and Taagepera 1979). Margin 1st to 2nd is the difference in vote share between the largest and second largest national parties.

Under similar financial conditions,⁸ in the 2000 presidential election Vicente Fox finished the PRI's 71 year hold on the Executive, thus completing the cycle of electoral alternation (Domínguez and Lawson 2004). However, this contest was ultimately tainted because of the finance scandals that marred the campaigns of both the winner and the second-place PRI (Córdova Vianello 2005). These cases ended up with massive fines being levied against the PRI (90 million USD), for not reporting illicit income obtained from a shady deal between *PEMEX*, Mexico's state-owned oil company and its union; and against the coalition backing Fox, formed by the PAN and PVEM, for exceeding campaign spending limits and funneling illicit (i.e. business, foreign, banned public) resources to the presidential campaign (45 million USD) (Díaz Domínguez 2005; Eisenstadt and Poiré 2005).

Three implications are to be drawn from the recent history of Mexican federal elections: first, it can be argued that one of the central assumptions of Mexico's current party finance system did not hold during the 2000 presidential contest: namely that public finance may effectively prevent contenders' incentives to obtain illicit funds (Becerra, Salazar, and Woldenberg 1997).

⁸ Parties obtained more than 3 billion Mx pesos in 2000, an equivalent of 324 million US Dlls., distributed by the same formula applied in 1997.

Secondly, the 2000 scandals (and others that followed) have obviously not contributed to shore up the disaffection from parties among the population, and public finance has seemed to be more of a culprit than a remedy for this problem.⁹ A 2005 poll found that 77% of Mexicans thought that electoral campaigns were both “too expensive” and “very little or not useful at all” in informing citizens, 11% points more than an already high 66% in 2002 (Parametría 2005). Also, political parties have consistently ranked among the institutions with the lowest public credibility in Mexico (Consulta-Mitofsky 2005).

Finally, it is unclear that the massive sanctions derived from these cases have been effective dissuaders for parties’ posterior irregularities. Long after imposing the historical 2000 campaign fines, and as part of its revision of the 2003 campaign finance reports, IFE again had to levy fines of more than 50 million USD for additional irregularities committed by *all* political parties, and several pending investigations could still increase this figure (Díaz Domínguez 2005).¹⁰ This weak dissuasive effect is undoubtedly related to peculiarities of the Mexican law, such as the fact that there are few individual-level incentives

⁹ Others have also argued about the public opinion costs of public finance systems: De la Calle, Humberto. 2004. *Financiamiento Político: Público, Privado, Mixto*. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional.

¹⁰ While about 40% of this total amount was levied against a single party that, after failing to obtain the 2% threshold needed to maintain formal registry, simply did not file finance reports (the infamous *Partido de la Sociedad Nacionalista*), the main parties were still responsible for the bulk of the remaining 30 million USD imposed.

to comply with electoral finance regulation at the federal level, since only political parties as legal entities are accountable to IFE.¹¹ Of greater theoretical concern is that the expectation of public funds for the next election cycle, and their relation to previous election vote shares—two fairly common features of most systems of public finance—is quite possibly *generating an incentive to violate* some of the key elements of the regulatory framework, such as campaign spending limits (Díaz Domínguez 2005; Eisenstadt and Poiré 2005).

Taken together, these implications alert to what I call the ‘poisoned subsidy’ paradox brought about by public funding, which can be generalized beyond the Mexican episode. Substantial subsidies are certain to raise the public’s awareness—or at least the media’s attention—over party finance. Should this be accompanied with the desirable regulatory limits and enforcement mechanisms, irregularities are bound to happen and scandals to be uncovered. Sanctions are likely to be imposed. Yet the conditions under which the process leading to these sanctions will be reliable, generally perceived as fair, and conducive to proper retribution, are quite hard to obtain (Lujambio); this is true *even for the most highly developed democracies*, where the rule of law is probably beyond question (Ackerman and Ayres 2002, ch. 4).

¹¹ Several additional elements contribute to this effect: from the candidate’s perspective, the auditing of campaign spending is only completed about one year after election day, once a full third of a lower house representative’s three-year term has expired. This combines with the absence of immediate reelection, and the fact that dismissal from the elective office gained is not among the sanctions contemplated by current federal law to increase the incentive to do whatever it takes, *financially*, to win the electoral contest. See 2005a. Código Federal de Instituciones y Procedimientos Electorales. México, DF, esp. articles 49-A and 269.

When the enforcement process will be such that public attention will be high, abuse observable and dissuasion limited or nil, public dissatisfaction and cynicism are quite certain outcomes. In this context, public funding constitutes a poisoned subsidy, which instead of helping consolidate democracy may be unavoidably eroding public trust in political parties for the misdeeds committed, in public authorities for their apparent ineffectiveness, and possibly even in the rule of law.¹²

The paradox of the poisoned subsidy need not be taken as a prescription to annul or even curtail levels of public funding, but rather as a theoretical proposition on some of the regulatory complications this measure is likely to bring about over time. In the following section I integrate this cautionary perspective with the prevailing theoretical literature on public finance of political parties, with special attention to new democracies.

3. Public funding of political parties: why?

Most accounts of public funding of political parties focus on its expected impact as an independent variable. However, empirical analyses of public finance are still very limited and seldom allow for systematic testing of the hypotheses derived from extant theory. Available data is so scant on the matter that, to the best of my knowledge, there is no single paper published in English

¹² Others have shown the negative impact of perceptions of corruption on political participation in the Mexican case McCann, James A., and Jorge I. Domínguez. 1998. Mexicans react to electoral fraud and political corruption: an assessment of public opinion and voting behavior. *Electoral Studies* 17 (4):483-503.

or Spanish that presents evidence on the impact of public funding on democratic politics using money figures as data.¹³ This paper departs from the existing literature not only in the fact that it does present systematic evidence on public funding of political parties, but also in the fact that it tests hypotheses where public funding is the dependent variable, and not an explanation for other phenomena. This strategy is not only consistent with the

¹³ Two published studies stand out in this matter, yet both use categorical variables, not actual funding levels: Kristín Birnir, Jóhanna. 2005. Public Venture Capital and Party Institutionalization. *Comparative Political Studies* 38 (8):915-938, Primo, David M., and Jeffrey Milyo. 2006. Campaign Finance Laws and Political Efficacy: Evidence From the States. *Election Law Journal* 5 (1):xxx-xxx. Beyond these cases, in a chapter on the federalization of party politics in Mexico, I present evidence using money figures of public funds obtained by national political parties and funneled to local party chapters: Poiré, Alejandro. under review. Follow the Money: Local Public Funding and Internal Party Transfers in 2003. In *What Kind of Democracy has Mexico? The Evolution of Presidentialism and Federalism*, edited by M. S. Shugart and J. A. Weldon. La Jolla: Center for US Mexican Studies, University of California in San Diego. Several other studies present data from a set of countries, but with limited analytical leverage: Casas, Kevin, and Daniel Zovatto. 2004. Financiamiento Político en Centroamérica, Panamá, República Dominicana y México. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional, De la Calle, Humberto. 2004. Financiamiento Político: Público, Privado, Mixto. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional, Ferreira Rubio, Delia. 2004. Financiamiento Político en el Cono Sur: Argentina, Brasil, Chile, Paraguay y Uruguay. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional, Njaim, Humberto. 2004. Financiamiento Político en los Países Andinos: Bolivia, Colombia, Ecuador, Perú y Venezuela. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional, Pierre, Jon, Lars Svasand, and Anders Widtfeldt. 2000. State Subsidies to Political Parties: Confronting Rhetoric with Reality. *West European Politics* 23 (3):1-24, Griner, Steven, and Daniel Zovatto. 2004b. De las Normas a las Buenas Prácticas: Una Lectura Regional Comparada del Financiamiento de los Partidos Políticos y las Campañas Electorales en América Latina. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional, Gunlicks, Arthur B. 1993. Introduction. In *Campaign and Party Finance in North America and Western Europe*, edited by A. B. Gunlicks: Westview Press, Nassmacher, Karl-Keinz. 2003. Introduction: Political Parties, Funding and Democracy. In *Funding of Political Parties and Election Campaigns: International IDEA*, van Biezen, Ingrid. 2000. Party Financing in New Democracies: Spain and Portugal. *Party Politics* 6 (3):329-342(14), Zovatto, Daniel. 2003. The Legal and Practical Characteristics of the Funding of Political Parties and Election Campaigns in Latin America. In *Funding of Political Parties and Election Campaigns: International IDEA*, and other essays in Austin, Reginald, and Maja Tjernström, eds. 2003. *Funding of Political Parties and Election Campaigns, International IDEA Handbook Series.*

data currently available,¹⁴ but also serves the purpose of understanding the causes for the existence and magnitude of public finance of parties, and contrast these with what theories would predict.

In doing so, the paper strives to improve theories of party and campaign finance in democracies, by testing some of their observable implications against data on levels of public funding for the first time. Secondly, it will permit a clearer evaluation of the actual effect of public finance of parties as an independent variable, both for future studies of the Mexican case and in a broader comparative setting.¹⁵

3.1 The case against public finance

Critics of public finance have linked it to the cartelization of political parties (Katz and Mair 1995), a situation in which party elites become too autonomous from societal groups, limiting the citizenry's ability to see their views properly represented.¹⁶ In this perspective, public finance builds upon parties' naturally oligarchic tendencies (Michels 1962) to diminish the competitive incentives that might align policies to voter preferences, since parties will depend less on

¹⁴ See footnote 3 above.

¹⁵ In other words, absent an empirical account of the political and socioeconomic determinants of different levels of public funding, future studies of their political impact, in Mexico and elsewhere, could suffer from theoretical and empirical misspecification.

¹⁶ While the concept of cartelization was created to describe a tendency on the transformation of former mass parties in advanced industrial democracies toward a pattern of oligopolistic competition, the argument about how the public funding that comes with cartelization lessens accountability is not dependent upon the historical path through which this process took place.

supporters' contributions for their activities, increase the barriers to entry of newer parties, and thus remain relatively detached from their grassroots base.¹⁷

On the theoretical side, (Kitschelt 2000) argues that the conditions upon which larger levels of public finance are likely to allow party leaders to obtain the alleged results of cartelization are simply not present in reality, and advances an alternative explanation of the diminishing satisfaction with parties in advanced democracies, focused on how better representation makes it harder for parties to make the policy choices necessary to improve economic conditions in the long run. He stresses that public funding of political parties merely compensates for the patrimonialistic use of public resources they could count on in past decades (p. 164). His critique of the Katz and Mair concept goes as far as to stress that “state funding does not protect established parties from new party challenges and does not enable them to ignore relations of responsiveness and accountability with the electorate...” This condition hinges rather strongly on the fact that barriers to entry are formally limited: “If party cartels come into being, they are therefore ineffective against new entrants” (Kitschelt 2000: 174). Surely, high levels of public funding do not necessarily imply increasing thresholds of electoral survival for political parties. However, Kitschelt’s argument would seem to give little weight to the fact that, holding thresholds of representation constant, public funding to existing parties does

¹⁷ Pierre, Jon, Lars Svasand, and Anders Widtfeldt. 2000. State Subsidies to Political Parties: Confronting Rhetoric with Reality. *West European Politics* 23 (3):1-24, show limited evidence that membership decline did not necessarily follow after increasing levels of public finance were given to all party families in Western Europe up to the late 1980s.

increase the relative costs of electoral competition for those not receiving the subsidy, and in a similar way, raises the costs of exit for dissatisfied party activists.¹⁸

While Kitschelt's article can be seen as a positive perspective on public funding of political parties, some available evidence would seem to call his propositions into question. In particular, a recent analysis of the impact of public funding of parties in eastern European democracies shows an increasing degree of 'party system institutionalization', as indicated by a decrease in the levels of electoral volatility and in the number of new parties winning seats in elections after public funding is introduced (Kristín Birnir 2005).¹⁹

However, the concept of institutionalization, in its classic Huntingtonian sense (Huntington 1968), and as developed by Mainwaring in his seminal study of parties and party systems (Mainwaring and Scully 1995), implies some degree of legitimacy, and is ultimately based in the notion of stability of preferences, not necessarily of vote totals. What Kristín-Birnir's essay shows is more stability of the parties winning votes in the party system, yet these do not necessarily follow increasing public esteem for established parties, or stability of partisan preferences. From this critical perspective, the evidence presented by Kristín-

¹⁸ I elaborate on this and other dynamics of internal party life in Poiré, Alejandro. 2002. *Bounded Ambitions. Party Nominations, Discipline and Defection: Mexico's PRI in Comparative Perspective*. Ph.D., Department of Government, Harvard University, Cambridge, MA.

¹⁹ The article makes several methodological and empirical assumptions that would seem hard to sustain, but this is not the place to undertake such a critique. The discussion in this paper assumes the evidence is robust.

Birnir actually illustrates parties' ability to curtail competition and thus responsiveness, thanks to non-inconsequential levels of public funding.

A second critical perspective on the effects of public funding of political parties worries that public finance might generate their bureaucratization (Van Biezen 2004), turning them into institutions closely linked to state income and regulations. In this situation, rent-seeking incentives distort the representation and electoral roles parties should have, and these end up becoming offices for the employment of political activists, instead of forceful transmitters of societal demands (Sartori 1976).²⁰

There are two components of the 'poisoned subsidy' argument worth restating. One is the fact that subsidies to political parties are simply not popular in public opinion (De la Calle 2004; Nassmacher 2003). In a nationwide poll of Mexican voters, taken at the beginning of the 2006 electoral process, 80% of voters said parties' spending in campaigns is "excessive," while nearly 7 in 10 voters correctly identified the public source of such moneys (Ordóñez 2005). Even worse, the overall cost of these subsidies might alienate voters' trust in democratic institutions, and in parties in particular.²¹

²⁰ The normative character of this critique probably goes beyond the realm of democratic representation. Should parties become agencies of employment (or cooptation) for the state apparatus, some may argue serves the purpose of political stability and economic inclusion. The deficit in what Sartori calls 'expression' Sartori, Giovanni. 1976. *Parties and Party Systems: a Framework for Analysis*. New York: Cambridge University Press, due to parties' rent-seeking behavior, would remain.

²¹ According to Poiré, Alejandro. under review. Follow the Money: Local Public Funding and Internal Party Transfers in 2003. In *What Kind of Democracy has Mexico? The Evolution of*

Finally, to the extent that public money increases the need for tight oversight, some norms that are highly difficult to enforce—such as campaign spending limits in an environment of high monitoring costs and limited investigative capabilities—may ultimately diminish the quality of the rule of law (Lujambio).

These claims underscore the political weight that arguments in favor of public subsidies of political parties must carry. From a critical perspective, these subsidies exist precisely because they serve politicians' ambitions (Aldrich 1995) and rent-seeking incentives (Buchanan and Tullock 1969). Yet, from a different perspective, consistent with Kitschelt's aforementioned depiction of current party systems in Western Europe, and with the mainstream policy literature on party and campaign finance, public subsidies to political parties serve an important function in the development of democratic politics (Austin and Tjernström 2003; Griner and Zovatto 2004a; Kitschelt 2000; Kristín Birnir 2005).²² To these arguments we turn below.

3.2 The case for public finance

Presidentialism and Federalism, edited by M. S. Shugart and J. A. Weldon. La Jolla: Center for US Mexican Studies, University of California in San Diego, the total amount of public money devoted to Mexican political parties in 2003 amounted to nearly 70% of the total budget approved that year for the country's attorney general's office.

²² As is the case in legal documents from other countries, (Van Biezen, Ingrid. 2004. Political Parties as Public Utilities. *Party Politics* 10:701-722), Mexico's Constitution asserts the status of political parties as 'entities of public interest', and from it, the predominant role of public funding for their ordinary, campaign and research and development activities is derived. See 2005b. Constitución Política de los Estados Unidos Mexicanos., article 41. I.

The debate about cartelization of political parties is, after all, a debate about the role of public funding for developed party systems. Surely Kitschelt is convincing in doubting the empirical and analytical merits of the Katz and Mair path-dependency argument, yet he does not explicitly recognize the historical specificity of both interpretations (Katz and Mair 1995; Kitschelt 2000). What the more recent comparative literature on the role of money in electoral politics seems to indicate, however, is that there may be conditions peculiar to new democracies that make similar phenomena have substantially different effects or explanations (Samuels 2001a; Treisman 1998). Most important for our purposes is that public funding of parties in newer democracies is unlikely to follow the same historical path or the same specific political rationale that it follows in developed democracies. Public finance, or at least some type of in-kind subsidies, is often seen as a precondition for the effectiveness of challengers in dominant-party systems (Sartori 1976), as illustrated by the Mexican case at the federal level, and also as a means of political survival for most electoral options in the onset of post-communist democracy (Kristín Birnir 2005; Nassmacher 2003; van Biezen 2000).²³ Once some degree of democratic fairness has been established, however, others would insist on these subsidies' inability to strengthen electoral competitiveness (Levitt 1994; Milyo 2002).

²³ In other cases as the South African, contributions from abroad played an equally important role: Nassmacher, Karl-Keinz. 2003. Introduction: Political Parties, Funding and Democracy. In *Funding of Political Parties and Election Campaigns*: International IDEA. Likewise, the Chilean plebiscite of 1988 is a good case in point, in which it was equal access to television which had the pivotal role for the "NO" campaign.

Other arguments in favor of cash subsidies to political parties also derive from less critical perspectives of the ability (or even the motives) of politicians to extract rents within the context of democratic competition.²⁴ In established democracies, these funds supplement declining membership income, and help parties drive out the vote more effectively, thanks to their well-funded permanent organizations, which are ultimately likely to maintain or increase their ranks. Public funding is also assumed to further the overall levelness of the electoral playing field, especially if the allocation rule is less than proportional to vote or seat shares. A related proposition is that it is particularly important for the development of newer parties, which can not rely immediately on a broad base of members from which to draw. Also, public finance is often oriented towards supplementing parties' research, education and minority-inclusion efforts.

²⁴ This section builds upon summary arguments by Ackerman, Bruce, and Ian Ayres. 2002. *Voting With Dollars: A New Paradigm for Campaign Finance*. New Haven, CT: Yale University Press, Ballington, Julie. 2003. Gender Equality in Political Party Funding. In *Funding of Political Parties and Election Campaigns*: International IDEA, De la Calle, Humberto. 2004. Financiamiento Político: Público, Privado, Mixto. In *De las Normas a las Buenas Prácticas: el Desafío del Financiamiento Político en América Latina*, edited by S. Griner and D. Zovatto. Costa Rica: OEA - IDEA Internacional, Fisher, Justin, and Todd A. Eisenstadt. 2004. Introduction: Comparative Party Finance: What is to be Done? *Party Politics* 10:619-626, Gunlicks, Arthur B. 1993. Introduction. In *Campaign and Party Finance in North America and Western Europe*, edited by A. B. Gunlicks: Westview Press, Nassmacher, Karl-Keinz. 2003. Introduction: Political Parties, Funding and Democracy. In *Funding of Political Parties and Election Campaigns*: International IDEA, Pierre, Jon, Lars Svasand, and Anders Widtfeldt. 2000. State Subsidies to Political Parties: Confronting Rhetoric with Reality. *West European Politics* 23 (3):1-24, Whitehead, Lawrence. 2005. Money and Party Politics in Modern Market Democracies. In *The Financing of Politics: Latin American and European Perspectives*, edited by E. Posada-Carbó and C. Malamud: University of London. Kitschelt, Herbert P. in 2000. Citizens, politicians, and party-cartelization: Political representation and state failure in post-industrial democracies. *European Journal of Political Research* 37 (2):149-79, best expresses the view according to which democratic institutions, as well as social and economic constraints, reduce politicians' degrees of freedom for abuse.

Perhaps most importantly, public finance is argued to curtail the influence of private interests on policy-making, both by diminishing the need of these parties to solicit contributions from private donors,²⁵ and by granting some autonomy to policy-makers from lobbying efforts by interest groups.

While it may be very hard to effectively earmark party subsidies for specific non-electoral goals of political parties, these may still be supported through carefully designed initiatives (Ballington 2003). Evidence from the Mexican case, however, indicates that given the opportunity, the electoral incentive is likely to dominate even 'non-electoral' party spending (Poiré under review).

Perhaps the question that has most dominated the study of campaign finance in the United States is the least researched one in comparative terms, namely the effect of private money on policy outcomes (Snyder 1991).²⁶ The key

²⁵ Typically, where regulation exists, it rules out a series of otherwise legal sources of income from financing political parties and campaigns, such as the church, government agencies, foreign organizations, etc. Nassmacher, Karl-Keinz. 2003. Introduction: Political Parties, Funding and Democracy. In *Funding of Political Parties and Election Campaigns*: International IDEA..

²⁶ A related question, also thoroughly researched in the US, is what the effect of spending is on electoral competition. There are a few more comparative articles on this topic, including the following: Cox, Gary W., and Michael F. Thies. 1998. The Cost of Intraparty Competition. The Single, Nontransferable Vote and Money Politics in Japan. *Comparative Political Studies* 31 (3):267-291, Cox, Gary W., and Michael F. Thies. 2000. How much does Money Matter? Buying Votes in Japan, 1967-1990. *Comparative Political Studies* 33 (1):37-57, Samuels, David J. 2001a. Does Money Matter? Campaign Finance in Newly Democratic Countries: Theory and Evidence from Brazil. *Comparative Politics* 34:23-42, Samuels, David J. 2001b. Incumbents and Challengers on a Level Playing Field: Assessing the Impact of Campaign Finance in Brazil. *The Journal of Politics* 63 (2):569-584, Samuels, David J. 2001c. When Does Every Penny Count?: Intra-party Competition and Campaign Finance in Brazil. *Party Politics* 7 (1):89-102, Benoit, Kenneth, and Michael Marsh. 2003. For a Few Euros More. Campaign Spending Effects in the Irish Local Elections of 1999. *Party Politics* 9 (5):561-582, Pattie, Charles J., Ronald J. Johnston, and Edward A. Fieldhouse. 1995. Winning the Local Vote: the Effectiveness of Constituency Campaign Spending in Great Britain: 1983-1992. *American Political Science Review* 89 (4):969-

assumption in favor of subsidies holds that the availability of this money will diminish the likelihood that representatives will betray their constituents' preferences because of a bribe from a lobby or campaign contributor (Ackerman and Ayres 2002). As mentioned earlier, this proposition does not fit the basic facts of the Mexican presidential election of 2000 all too well, at least in terms of candidates' willingness to take 'bad' money.²⁷ More recently, after a failed initiative to pass a tax increase on cigarette consumption, legislators of all parties were accused by a PAN member of receiving gifts and taking trips under the sponsorship of international tobacco firms (2005c). This evidence, alongside the positive effect on electoral equality shown in table 1, stresses the need for further research. The rest of this paper tests a set of hypotheses on public funding as a dependent variable. The specific question to be addressed is whether we can identify levels of funding consistent with the theories depicted above.

4. What explains public finance?

Mexican states vary significantly in the levels of public funding they give to local political parties. Parties obtaining registry at the national level are automatically granted access to all state-level electoral systems, and although

983, Palda, Filip, and Kristian Palda. 1998. The Impact of Campaign Expenditures on Political Competition in the French Legislative Elections of 1993. *Public Choice* 94:157-174, Treisman, Daniel. 1998. Dollars and Democratization: The Role and Power of Money in Russia's Transitional Elections. *Comparative Politics* 31 (1):1-21. In this paper I focus on the role of public money in political parties, rather than the role of spending on electoral competition.

²⁷ Díaz Domínguez, Alejandro. 2005. Un estudio de caso sobre el uso del dinero en la política: Un primer acercamiento a la fiscalización de los partidos políticos en el ámbito federal mexicano: IFE - Centro para el Desarrollo Democrático, investigates in great detail all irregularities identified by IFE between 1997 and 2004.

several states feature local political parties, these mostly play very limited roles.²⁸ Therefore, most funds devoted by state budgets to local political parties go to state chapters of national parties, themselves supported at the national level as well.²⁹ In 2003, state-level chapters of the top three political parties (PAN, PRI and PRD) obtained an average sum of 13.4 Mx pesos per registered voter (1.2 USD), with a maximum of 69.7 Mx pesos per voter (in Morelos) and a minimum of 2.3 in Guerrero.³⁰ These funds were disbursed for parties' non-electoral purposes, as well as for campaign activities in the 12 states where a local election was held, and also some campaign-related funds for the state of Puebla, which held an election in the early months of 2004.³¹

²⁸ No local party candidate has ever won a major political office at the state level in Mexico.

²⁹ In a related paper, I have shown how Mexico's parties spent and distributed moneys obtained from the country's two-tiered public funding system, in which they obtain money at the federal level and the local level. I there found patterns of disbursements that show that national parties use their available money to maximize their electoral prospects Jacobson, Gary C. 1986. Party Organization and Distribution of Campaign Resources: Republicans and Democrats in 1982. *Political Science Quarterly* 100 (4):603-625, and further their internal political coalition Poiré, Alejandro. under review. Follow the Money: Local Public Funding and Internal Party Transfers in 2003. In *What Kind of Democracy has Mexico? The Evolution of Presidentialism and Federalism*, edited by M. S. Shugart and J. A. Weldon. La Jolla: Center for US Mexican Studies, University of California in San Diego. Also see Ansolabehere, Stephen, and James M. Snyder. 2000. Soft Money, Hard Money, Strong Parties. *Columbia Law Review* 100 (3):598-619..

³⁰ The data includes disbursements for the PAN, PRI and PRD only in each of the 32 states, so the total figures are somewhat underestimated, possibly up to 30%. As a very rough proxy of this underestimation, the average amount obtained by these parties from funds available between 1997 and 2005 at the federal level is 68.5% of total yearly disbursements. However, there is no reason to believe that the underestimate is biased in some identifiable way, since these parties dominate political representation in all states in similar proportions. In 2003, these parties held an average of 92.9% of the seats in the 32 local legislatures, with a standard deviation of only 4.7%; in no state did their share of the seats go below 84%; also, the correlation between this variable and the total amount of funds obtained is a negligible -0.06. Sources for this data are of three types: public information submitted to IFE by state electoral authorities, information provided through diverse means from these electoral authorities, and a set of estimates for 6 states based on the local electoral law and internal information provided by the Secretary of Finances of the PRI. I am completing the information on all political parties for all 32 states.

³¹ It is not currently possible to disentangle campaign from ordinary funds in all states. Thus, the analysis is performed on total funding figures, and models control for the presence of a state election.

As little impressive as this could seem, the amount is remarkable. It sums up to more than 2 in every 1000 pesos of states' public spending in 2003,³² and a total of 126.6 million USD (1,367.9 million Mx pesos), an amount much larger by any comparable standard to the 149.3 million USD in public funding obtained by the presidential campaigns of George W. Bush and John Kerry in the United States in 2004.³³

Beyond their magnitude, these data are a perfect means of testing hypotheses about public funding of political parties. Granted, the arguments summarized above concentrate on the effect of public funding on democratic competition, but they respond to coherent theoretical perspectives from which observable implications about party subsidies as a dependent variable can be derived.

In particular, three groups of somewhat conflicting explanations lie at the background of the existing literature, and I have advanced a fourth one. First, the literature presents variations of a rent-seeking theory, as in the (Katz and Mair 1995; Milyo 2002) interpretation. While it is not explicitly specified, it is reasonable to assume that in this view, public funding is most likely to respond to parties' opportunities for abuse and oligopolistic behavior. Weaker institutional and oversight frameworks at the state level, a less dense and

³² All social and economic data in this paper, except noted, is available at Mexico's Instituto Nacional de Geografía, Estadística e Informática (INEGI), www.inegi.gob.mx.

³³ As reported by <http://www.opensecrets.org/presidential/index.asp>, last accessed on February 5, 2006.

demanding civil society, and the size of the available budget are likely to be related to the amount of funds politicians destine for themselves.

Secondly, the policy literature and other authors see public funding as a matter of 'public interest' in which it serves mostly benevolent purposes, including to supplement other (diminishing) legal sources of funds, to limit unwanted ones, to buttress partisan competitiveness, and even to limit party system instability and opportunistic behavior by extreme, non-representative options (Ackerman and Ayres 2002; Kristín Birnir 2005; Pierre, Svasand, and Widtfeldt 2000). From this perspective, we would expect to see higher levels of public funding in states where, for example, the risks associated to undue financing of political parties were highest. States with high drug-trafficking or organized crime penetration should exhibit relatively higher levels of party funding, in order to minimize the need for external party funding. Likewise, funding should be larger in states where the overall economy were smaller, and thus the potential supply of legal private donations smaller. In addition, states where income inequality were greater should also see larger levels of funding, to limit the overrepresentation of the rich in the political realm. From the political side, funds might be larger where the party system has experienced lowest electoral competitiveness and turnout, or higher levels of volatility.

Other accounts alert to the interaction of politicians' ambition and the institutional, social and economic context as explanations for the phenomenon

of public funding of parties (Aldrich 1995; Kitschelt 2000), while remaining mostly agnostic to its alleged benefits.³⁴ In this view, which I label the ambition-opportunity theory, the underlying vote-production functions might be the most important determinants of levels of public funding; thus, the more rural a state, the more costly it will be to run a campaign and maintain a party, and thus the larger per capita funds will be expected.³⁵ A larger amount of state public spending could also be explaining larger disbursements to parties in this case, not necessarily through a rent-seeking or public-spirited logic, but rather as an indication of a greater availability of funds to be destined for a high-cost, career-determining task (Aldrich 1993).

Finally, I have stressed the dynamic role public funding is likely to play in emerging democracies. In my view, it may serve the public interest in an initial phase, yet can quickly turn into a poisoned subsidy once some degree of competitiveness has been achieved. This process I label the ‘balm to poison’ theory, and works as follows. Unfazed transfers of taxpayer money to politicians’ pockets are not likely to be rewarded at the polls. Initiatives to

³⁴ Kitschelt certainly discredits the notion of the cartel party model, and seems reluctant to believe that public funding can carry the negative effects ascribed to it by Katz and Mair. However, he remains far from espousing it as a desirable feature of democratic competition, comparing it with the type of abusive use of public resources once only available to incumbents. Katz, Richard S., and Peter Mair. 1995. Changing Models of Party Organization and Party Democracy: The Emergence of the Cartel Party. *Party Politics* 1:5-28, Kitschelt, Herbert P. 2000. Citizens, politicians, and party-cartelization: Political representation and state failure in post-industrial democracies. *European Journal of Political Research* 37 (2):149-79.

³⁵ The empirical literature on the costs of campaigns is even more limited than the literature on their public funding. For a compelling exception see Ansolabehere, Stephen, Alan Gerber, and James M. Snyder. 2001. Does TV Advertising Explain the Rise of Campaign Spending? A Study of Campaign Spending and Broadcasting Advertising Prices in US House Elections in the 1990s and 1970s..

increase public funding of political parties are unpopular, and typically costly for those espousing and approving them. They would seem to be pretty easy to derail by opponents and large electoral benefits to be reaped from these failed episodes; as Kitschelt argues, electoral oligopolies are unstable (Kitschelt 2000). It is therefore not surprising that party finance reforms tend to take place after instances of corruption (Clift and Fisher 2004; Zovatto 2003), or during political democratization (Becerra, Salazar, and Woldenberg 1997; Kristín Birnir 2005).

These are circumstances in which it is more feasible to make a ‘public interest’ argument on behalf of party subsidies, by stressing their ability to curtail corruption, or their necessity to attain a level playing field, or both. From the perspective of electoral competition, these instances allow for oligopolistic reforms, by decreasing the relative benefits of one party shirking during the negotiation. In particular, in the context of democratization, party subsidies may allow dominant parties to incorporate the opposition to the process—by granting them a substantial slice of the pie, while buttressing the incumbent’s own financial livelihood in an uncertain future.

Similarly, after corruption scandals, those politicians not fallen in disgrace can legitimately ask voters to pick up the tab needed to shield them from such nasty risks, and do so with a straight face. Those arguing against the ‘public interest’ balm of party subsidies will face an uphill struggle not to be identified

with the forces unduly benefiting from the *status quo*, just as opposition forces in democratization settings will face a classical transitional dilemma of acquiescence or bust (Huntington 1991).

According to this argument,³⁶ public funding is likely to be larger in states in which local corruption scandals have occurred, especially if derived from unwanted private contributions. Also, we expect larger levels of funding in states where the opposition is large enough so as to be able to extract democratizing reforms, but lack of competitiveness is also enough to justify the claim.

Two notes of caution are in order. First is that some of the hypotheses lend themselves to alternative theoretical interpretations if confirmed; that is in itself the nature of the literature at its current stage of development. Yet some negative results are likely to be instructive. As will be seen, it is hard to argue in favor of at least some part of the 'public interest' theory if funding is not correlated with the presence of organized crime in certain states. Also, I have no reliable data for some of the explanatory variables suggested, and further tests with a larger number of observations are in order. Still, the results

³⁶ The argument is made in general terms, but is perfectly applicable to the Mexican state-level data. While the basic elements of political democracy at the federal level are already in place, there is still significant sub-national variation in the level of democratization Lawson, Chappell. 2000. Mexico's unfinished transition: Democratization and authoritarian enclaves in Mexico. *Mexican Studies* 16 (2):267-287..

presented in the next section seem robust enough to alternative specifications. I now turn to present and discuss the evidence.

5. Evidence and discussion

The dependent variable in all models is the logarithm of the total amount of per voter local funding given to the PAN, PRI and PRD in 2003 at the state level in Mexico. A basic control denoting the existence of a local election is used in all models. I first present a reduced form model which includes seven explanatory variables, and subsequently show alternative specifications in order to test for additional hypotheses. This method also shows the relative robustness of the basic results of the model. Summary descriptive statistics for the variables in the reduced form model are presented in table A1 in the appendix.

The basic model tests for the effect of the state party system on levels of public funding through two variables. First, it incorporates the effective number of parties resulting from the 2000 federal congressional election, with the expectation that, according to the ‘balm to poison’ theory, greater party fragmentation is a necessary condition for oligopolistic behavior by all members of the opposition. From the perspective of the public interest democratization theory, it is unlikely that larger fragmentation would have a significant impact on high levels of funding, since these would be at least as necessary under non-competitive bipartisan competition, or even under one-

party dominance.³⁷ Accordingly, I incorporate the electoral competitiveness of the state, as measured by the margin of victory for the winning party in the 2000 congressional vote. A positive relation to levels of public funding, in and of itself, would be consistent both with the public interest theory, and the ‘balm to poison’ theory.

In addition to these two variables, and in tune with the public interest and the ambition-opportunity theories, I include turnout in 2000 as a potential indicator of the need of politicians to devote more money to places where participation is lower. State per capita GDP in 2003 (logged) is also included; and a measure of the average years of formal schooling of the state’s population in the year 2000, to test for the effect of economic and social determinants of party subsidies.

Finally, and with special attention to the ‘balm to poison’ theory, I include a measure of the relative autonomy of the local electoral authorities in the year of 2001 (Díaz Domínguez 2001). This variable, constructed by Díaz using eight characteristics of the strength and autonomy of the governing body of state electoral authorities is a very good gauge of the degree of institutional democratization in the state.³⁸ If less autonomous electoral bodies correlate

³⁷ The fact that this and other electoral variables are taken from the 2000 federal congressional minimizes the risk of misspecification due to endogeneity or simultaneity.

³⁸ These indicators are: number of non-partisan councilors in the governing board, length of appointment, who proposes them, what share of the legislature is needed to confirm them, who

with higher levels of funding in 2003, this could indicate that subsidies are being made available in those places where further democratization is needed. Alternatively, my theory predicts larger levels of funding in states where democratization is higher, since it is precisely during these instances when it is feasible to engage in rent extraction by *all* registered parties.

In table 2, I present the results from the reduced form model, and also control for the incumbent governor's political party, but these have no influence on the levels of subsidy. Table 3 expands on these models, as indicated above. In general, the models show to be relatively robust to alternative specifications, especially considering the small number of observations. As expected, local elections in 2003 do increase the levels of finance systematically.

The models generally support my theory, as higher levels of public funding are systematically present in states where competitiveness was lower in 2000 (positive and significant sign of 1st to 2nd margin), but electoral fragmentation was large (positive and significant sign of N), suggesting a greater likelihood of oligopolistic behavior.

names the council's president, and presence and power of representatives of the executive/legislative/political parties in the governing board.

Table 2. Models of public funding in Mexico's states I

	Coef.	s.e.	Sig.									
N in 2000 congressional election	0.986	0.452	**	1.169	0.638	*	0.976	0.470	**	0.925	0.534	*
1st to 2nd margin in 2000	3.273	1.063	***	3.025	0.973	***	3.073	1.022	***	3.241	1.122	***
State per capita GDP in 2003 (log)	-0.645	0.305	**	-0.624	0.326	*	-0.642	0.324	*	-0.649	0.317	*
Average years of schooling	0.494	0.178	**	0.493	0.188	**	0.493	0.185	**	0.494	0.181	**
Local election held in 2003	0.524	0.254	*	0.515	0.247	**	0.534	0.257	**	0.532	0.250	**
Index of electoral authority autonomy	0.152	0.043	***	0.156	0.042	***	0.151	0.043	***	0.150	0.044	***
Turnout in 2000	5.599	2.824	*	5.099	3.313		5.238	2.949	*	5.558	2.813	*
PAN incumbent				0.191	0.433							
PRI incumbent							-0.108	0.235				
PRD incumbent										0.058	0.338	
Constant term	-3.310	3.891		-3.782	4.164		-2.998	4.204		-3.056	4.080	
R-squared	0.622			0.626			0.625			0.622		

Dependent variable is per voter state total funding in 2003 (log).

All coefficients obtained using linear regression, standard errors corrected using White/Huber estimator for heteroskedasticity.

*** significant at $p < .01$

** significant at $p < .05$

* significant at $p < .10$

Table 3. Models of public funding in Mexico's states II

	Coef.	s.e.	Sig.	Coef.	s.e.	Sig.	Coef.	s.e.	Sig.
N in 2000 congressional election	0.700	0.484		0.974	0.477	*	1.283	0.453	***
1st to 2nd margin in 2000	3.550	1.070	***	3.268	1.097	***	3.487	0.961	***
State per capita GDP in 2003 (log)	-0.672	0.330	*	-0.656	0.330	*	-0.634	0.322	*
Average years of schooling	0.626	0.182	***	0.496	0.181	**			
Local election held in 2003	0.462	0.230	*	0.523	0.261	*	0.585	0.247	**
Index of electoral authority autonomy	0.138	0.038	***	0.151	0.046	***	0.177	0.037	***
Turnout in 2000	3.579	2.774		5.617	2.907	*	5.545	2.505	**
Drug cartel present	-0.611	0.284	**						
State per capita spending in 2003				0.036	0.521				
State's index of marginality in 2003							-0.482	0.159	***
Constant term	-1.640	4.286		-3.227	3.977		-1.108	3.948	
R-squared	0.664			0.622			0.656		

Dependent variable is per voter state total funding in 2003 (log).

All coefficients obtained using linear regression, standard errors corrected using White/Huber estimator for heteroskedasticity.

*** significant at $p < .01$

** significant at $p < .05$

* significant at $p < .10$

Parties get more money from state governments in poorer states. This effect is not mediated through the size of the state budget, which was accounted for in the second model of table 3 and found not to be significant or change the overall results. This could indicate that parties ‘benevolently’ compensate for the relative lack of legal funding in states with smaller economies, but also that these states present harder campaigning conditions, due to greater poverty and population living in rural disperse communities. Even more broadly, this could lend credence to the interpretation of party subsidies as instruments of cooptation through political employment.

However, this interpretation conflicts with the impact that formal education has on party subsidies, a significant and positive effect. The negative and significant effect of the index of marginality shown in the last model of table 3 (excluding schooling due to high collinearity), also runs counter to a cost-based interpretation of subsidies.³⁹ Why should parties get less money in states where marginality is greater, if their decisions were based on campaign costs? Why should their public funds be larger in better educated states if they were simply a reflection of campaigning needs? Rather, the fact that subsidies are negatively correlated to the size of the economy, *and* positively correlated to social indicators arguably associated to lower costs of campaigning might indicate that subsidies are in fact more influenced by the lack of supply of alternative sources of funds, than for the need to produce larger campaign

³⁹ Higher levels of marginality indicate harsher social, economic, and public infrastructure conditions.

budgets in these states. This suggests a less than publicly spirited padding up of party checkbooks in poorer, cheaper states. Also not consistent with the public interest and ambition-opportunity theories, parties generally got more money, although the results are less robust to alternative specifications, in states where there were higher levels of turnout in 2000.

Most bothersome among these results is the one presented in the second column of table 3. Introducing an admittedly rough dummy variable indicating the five states where most media accounts would coincide drug trafficking is prevalent⁴⁰ not only did not turn out to be positively related to the public interest goal of shielding parties from illicit funds. In 2003, parties in states where organized crime—in the form of drug trafficking—was strongest and thus were most vulnerable to unwanted money influence, received *less* public money than their peers in other states. This flat out rejects any interpretation of public subsidies for political parties as the result of a systematic attempt to shield them from undue money influences. While we might have reasonably expected to see little substantial effects aside from the common rhetoric on the topic, the existence of a negative and systematic effect completely rejects this possible interpretation.

A brief summary is in order before delving into the effects of the autonomy of local electoral institutions on party funding. Only one indicator gives partial

⁴⁰ These are the northern states of Baja California, Sonora, Sinaloa, Chihuahua and Tamaulipas, which are home to the infamous cartels of Tijuana, Juárez and the Gulf cartel.

support to the public interest theory of party subsidies, the 1st to 2nd margin of victory variable. Also, the social and economic variables seem more consistent with some variation of a rent-seeking theory of party subsidies, than with the ambition-opportunity explanation. The lack of impact of the size of the state budget on the level of public funding reminds us that the rent-seeking effect is less direct than might be suggested.

Other negative results not presented in the tables are worth reporting here. The number of civil society organizations per 100,000 inhabitants in each state, a variable that, if positively correlated to public funding would suggest a benevolent democratization effect, had no discernible impact on party subsidies. Neither did the presence of a freedom of information act at the state level, which could have affected oversight capacities and disincentivized parties' rent-seeking from state coffers.⁴¹

Other public interest/democratization variables specific to the Mexican case that did not turn out to have a significant effect on public funding of parties are the presence of a non-PRI governor prior to 2003, the proportionality of the local congress as measured by the share of PR to total number of seats, and the share of the PRI in the incumbent legislature. These negative results also highlight something that was only mentioned in passing above, which is that the effect of the electoral competitiveness variables seems to be party-neutral.

⁴¹ Source: Innovación México.

In other words, not only does the presence of incumbent governors from the three different parties not make a difference for party subsidies. More importantly, the low competitiveness and high fragmentation situation that is conducive to the highest levels of party subsidies (as indicated by margin and N) is not a party-specific phenomenon, but more likely a party-consensual arrangement, precisely as predicted by the ‘balm to poison’ theory advanced in this paper. The same has been argued of the combined results of the GDP, schooling and marginality variables.

Perhaps the most convincing evidence of how democratization may allow for the creation of an oligopolistic equilibrium based on high levels of public funding—which is what the whole ‘balm to poison’ metaphor really is trying to illustrate—lies in the robust, positive and significant impact that the increased ‘autonomy’ of local electoral authorities has on levels of party funding.

In and of itself, the result seems counter-intuitive: Why would the least partisan of electoral authorities be present in states where parties get the most money? Wouldn’t we expect to see more money precisely in those states where oversight over these funds were likely to be lower, as in the straightforward rent-seeking hypothesis? Alternatively, wouldn’t states with lower levels of institutional democratization be the ones receiving greater amounts of funds, in order to level the playing field, as in the benevolent democratization theory?

The fact that instances of institutional democratization are systematically traced by higher subsidies to parties, not only calls into question a perspective of autonomous electoral authorities as citizen watchdogs, but rather illustrates that even fairly autonomous non-partisan bodies can serve the collective *rent-seeking* interests of political parties (Estévez, Magar, and Rosas 2005). Even more, they may be a *necessary* condition for these oligopolistic practices to exist.

It is useful to keep in mind that while most states regulate levels of public funding directly in the law, there is always an important degree of decision-making left to the electoral authority to determine the specific amount of public funding. And while nobody would have expected more autonomous authorities to give less money to parties in their states than those more closely beholden to parties, the opposite being true starkly illustrates the initial steps of the 'balm to poison' theory: it is during instances of democratization when the proposition to increase public funding is most likely to be accepted by all.

Taken together, these findings alert to the strongly partisan character of Mexico's contemporary political process. Larger amounts of public funding to parties are not being devoted to states where the risks of dirty money are highest, or where turnout was smaller, or where civil society more (or less, for that matter) demanding, or to states where campaigns are costlier, or where the overall competitive structure is weakest. Neither are they going to states where

oversight is weaker and abuse is easier, or where one party governs and not the others. These moneys are not going to relatively richer states, or are being spent by relatively richer state governments, either.

Public subsidies to local parties in Mexico, those that are disbursed in addition to the federal level subsidies,⁴² are going to states where alternative sources of partisan income are weakest, campaign costs are probably lowest, the competitive electoral structure lends itself to collusive practices, and there are autonomous electoral bodies to vouch for the state's democraticness (O'Donnell 2004). And yet, the paradox of the poisoned subsidy might already be rolling in full strength at the local level, with its prediction for high and increasing levels of citizen disaffection.⁴³ I conclude this essay with two theoretical extensions of the argument and a description of future steps of the research project.

⁴² In 2003, total federal level public funding of parties in Mexico was a historic high of 446.6 million USD.

⁴³ In essence, the paradox of the poisoned subsidy illustrates one unstable aspect of the oligopolistic equilibrium, for reasons different from the ones Kitschelt alludes to: Kitschelt, Herbert P. 2000. Citizens, politicians, and party-cartelization: Political representation and state failure in post-industrial democracies. *European Journal of Political Research* 37 (2):149-79. It is not the somehow unavoidable opportunity for exit of disgruntled activists that makes collusion unstable. It is simply that public pressure for accountability over large amounts of money increases the strains between parties and enforcement authorities. In one potential scenario, the enforcement agency is completely captured and rendered mostly ineffectual, as some would characterize the United States' Federal Electoral Commission Ackerman, Bruce, and Ian Ayres. 2002. *Voting With Dollars: A New Paradigm for Campaign Finance*. New Haven, CT: Yale University Press., ch. 9. In a similar vein, yet in less developed contexts, such capture amounts to a full-blown democratic retrogression, as featured in the state of Veracruz in 2004 in Mexico, where after a hotly contested election in which the candidates of the PAN, PRI and PRD all denounced each other of major campaign finance irregularities, one of the first acts of the newly elected legislature was to overwhelmingly rid the electoral authority of all of its 'citizen' councilors, and place it ever more firmly under direct partisan control.

6. Conclusion

There is an important time-horizon component to the argument developed above. To the extent that oligopolistic competition is a probable arrangement at some point among political parties, its success depends on their expectations of maintaining the protectionist agreement in the short run. This is feasible under some instances of corruption scandals, and during certain episodes of democratization. Yet once the high-funding balm is in place, it carries with it a longer-term seed for its instability: the poisoned subsidy paradox, where rent-seeking might end up being so pervasive, dissatisfaction so widespread, and cynicism so intense that political parties might be severely weakened as instruments of authentic political representation.

This conceptualization of the problem differs from Kitschelt's critique of the Katz and Mair cartel model in that it does not solely look at representation as a means of aligning issue preferences of voters with policy behavior of legislators (Katz and Mair 1995; Kitschelt 2000; Powell 2004). On the one hand, it is concerned with how the issue of party finance might be both a means to artificially reduce levels of electoral competitiveness, by reducing vote shares volatility (Kristín Birnir 2005), and increase barriers of entry to new alternatives. More importantly, it emphasizes the specific dynamics that might lead to a vicious circle of high demand for campaign finance regulation which undermines and confronts parties and authorities and ultimately sets the stage for instances of authoritarian regression.

A separate, perhaps essential question deals with which are the alternative institutions conducive to a basic level of competitiveness among alternatives and unlikely to lead to high public funding, oligopolistic competition, and thus to the poisoned subsidy paradox. Not only is this a relevant policy issue, but further analyses might allow us to identify the conditions under which this alternative 'superior' democratic equilibrium might emerge.

Therefore, future stages of this project are to tackle the following tasks: first, a cross-section panel of Mexican states is to be completed, and the theory to be refined in order to better understand where and how higher levels of public funding are to emerge. Secondly, using the same database, public funding will be used as an explanatory variable of electoral variables, to directly test the aforementioned theories at the aggregate level. Thirdly, a set of public opinion studies are to be performed, to address some of the underlying assumptions about the impact of these topics on matters of political representation, accountability and voter cynicism at the individual level.

Appendix

Table A1. Summary statistics for variables in reduced form model

	Mean	Std. Dev.	Min	Max
Funding for parties per voter, 2003 (log)	2.59	0.89	0.86	4.24
N in 2000 congressional election	2.57	0.24	2.16	2.93
1st to 2nd margin in 2000	0.11	0.08	0.00	0.31
State per capita GDP in 2003 (log)	10.95	0.46	10.21	12.01
Average years of schooling	7.24	0.88	5.30	9.40
Local election held in 2003 (12 states held a local election)	0.38	0.49	0.00	1.00
Index of electoral authority autonomy	18.56	2.56	12.00	23.00
Turnout in 2000 congressional election	0.62	0.05	0.51	0.71

All variables have 32 observations.

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