Public Subsidies to Political Parties
and Their Effect on Democratic Competition

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October 29, 2008

Note to CPW Participants:

This is a brand new, very rough paper. It is just a research design, since I haven't looked at the empirical evidence yet. Also, I know that it needs a more thorough lit review, a more specific discussion of my theory, and more citations. I am mostly interested in getting feedback on research design and measurement ideas.

I would also love to have some feedback on how to frame my question and how to proceed from here. I'm interested in a bigger question than what I'm proposing to look at in this paper. The big question is:

> *Do subsidies to political parties make democracy more or less representative of a wide variety of interests? Specifically, do subsidies create more opportunities for voters to cast votes for parties closer to their own ideal point?*

The research design I'm proposing in this paper starts to answer this question, but I think I need to go several steps further to get at what's really interesting about subsidies to political parties and the way they change democratic functioning. Any thoughts you might have about next steps and the *big picture* would be appreciated.

Also, I have this weird field experiment idea that I tacked on to the end of the paper. Is it something to keep thinking about, or should I scrap it and move on?

Motivation:

Political parties are commonly described as a critical component of any democratic system. Parties perform a number of important functions that make democratic government feasible and relatively efficient (e.g. supporting serious candidates for office, conveying inexpensive information to voters, creating stable legislative majorities) (Aldrich 1995). Van Biezen (2004) argues that parties have come to be viewed as a desirable and necessary aspect of democracy. She suggests that political parties can be considered a public good, since all citizens who value democracy benefit from their existence. Parties need resources to function effectively, so if parties are a public good, it might make sense for democratic governments to use money from public budgets to help "supply" voters with parties.

Following this logic, and in response to a reduction in the availability of party funds from traditional sources, many states have begun to provide public subsidies to

political parties. In an earlier era, parties received much of their funding from private donations and membership dues. However, campaigns have become more sophisticated and expensive. At the same time, a collective action problem has developed that makes party supporters less likely to pay membership dues or make small or moderately-sized donations to parties. A single, relatively small payment is unlikely to affect political outcomes, and individuals enjoy the same benefit whether or not they pay. So, most people prefer to free ride, keeping their money to themselves and relying on other people to make donations to fund the continued functioning of the parties.

Subsidies to political parties, or state subvention, can be thought of as a "party tax." Individuals in democratic polities benefit from the existence of well-funded political parties, but they face a collective action problem that in many cases prevents them from making payments to help support the parties. The government can help citizens overcome this collective action problem by allocating a portion of tax revenues to each of the parties in the party system. Under this system, everyone pays for parties and no one has to worry that they are subsidizing free riders.

A party tax ensures that citizens are paying their fair share for political parties. However, making certain that each of the parties receive *its* fair share of the funding is a more complicated matter. There are a number of ways of determining which parties qualify to receive funding and how that funding will be distributed across parties. No clear consensus exists on how these funds should be allocated, and states vary significantly in how they allocate resources to parties.

In the same way that we care about the effects of variation in electoral and policy-making institutions, we should also be concerned about how different party finance regimes might alter democratic outcomes. Proponents of subsidies believe that public subsidies makes democracy more representative by leveling the electoral playing field— giving all parties a chance to compete more effectively. Opponents believe public campaign funding makes democracy less representative by entrenching the status quo— giving funds to established parties, and thereby putting more marginal parties at a competitive disadvantage. Some empirical studies show that subsidies actually have no discernable effect on democratic competition. Ultimately, if public campaign funding has any effect, the effect should depend in large part on the total amount of resources

distributed to the parties, and on how those resources are allocated. If it has no effect, that will be a very interesting finding, and we should ask whether there is any justification for continued funding.

For this paper, I will be interested in how subsidies affect small parties. This will be my focus for several reasons. First, large, well-established parties are likely to be relatively successful whether or not they receive public funds, since they have a high probability of winning office and are therefore able to attract large donations by promising donors influence over policy or access to state resources. Small parties, on the other hand, are less likely to win office, and so cannot promise the spoils of office to supporters in return for big donations. Additionally, by definition, small parties have fewer supporters, and therefore fewer potential donors. So, public funds should make a big difference for small parties. If we expect subsidies to have an effect on political parties, that effect should be most evident when we look at small parties.

Second, when party systems contain only a few large parties, voters are limited in their ability to choose a party that is close to them on the political spectrum. The existence of smaller parties with varying policy platforms expands the menu of political options available to voters and thereby increases democratic representativeness (Powell 2000). Determining how public subsidies affect small parties is therefore a good way of gauging how public subsidies affect democratic outcomes more generally.

Hypothesis:

Public funding should be most helpful to small parties when:
- Public funding is available and substantial,
- The threshold is for receiving funding is low,
- The money is allocated in a way that gives small parties a share of the funding that is equal to or greater than their vote-share in the most recent election.

If these three conditions are met, small parties should be able to do a better job of advertising their policy platform to voters, and voters should therefore be more familiar with the parties and more capable of locating these parties on the political spectrum.

Subsidies and Electoral Competitiveness

Previous studies have asked how state funding for political parties changes the nature of electoral competition. They suggest that subsidies should change the way parties contest elections, and thereby make some parties more or less competitive than they would otherwise be. In such studies, electoral competitiveness is typically operationalized in ways that depend on changes in voting behavior. Examples include vote-share totals, electoral volatility, and entry of new parties in the legislature (Scarrow 2006, Birnir 2005). Each of these variables is related to the ability of parties to convince voters to vote for them in elections.

It is worthwhile, however, to distinguish between the *outcome* of elections and the competitive behavior of parties *during* elections. It may be possible for a party to have adequate funding and to effectively advertise its position to voters, but for voters to decide they are not interested in buying what the party is selling. We might call such a party *procedurally* competitive (voters know what the party stands for) but *finally* noncompetitive (voters choose not to vote for the party). Studies that look only at *final* competitiveness ignore the possibility that subsidies might change the way voters perceive and evaluate parties, but that these changes may not translate clearly or simply into changes in voting behavior and electoral outcomes.

Proponents of party subsidies argue that subsidizing parties improves the quality of democracy by making it easier for parties of all varieties to communicate their messages to voters. Voters can then make better choices about which party is closest to them on the political spectrum, using information about *all* of the parties contesting an election. Importantly, there is no reason to expect that subsidies should necessarily make small parties more popular or more capable of drawing votes away from larger parties. State subsidies may improve the electoral fortunes of small parties that have attractive campaign platforms. However, when parties take unpopular positions, no amount of campaign spending should be expected to improve their vote share.

Furthermore, even when small parties have popular appeal, state funding may not improve their electoral success because of the incidence of strategic voting. In first-past-the-post electoral systems or proportional representation systems with high legislative thresholds or small district magnitudes, votes for smaller parties are unlikely to translate

into legislative seats. Voters may decide that there is no sense in voting for a party that has little chance of winning, and vote instead for a second- or third-choice party. When voters have to worry about "wasting" their votes, state subsidies might succeed in helping small parties to gain informal support without actually improving the parties' electoral prospects.

State subsidies of political parties should make small parties more *procedurally* competitive, or more capable of conveying information about themselves to voters. But an increase in spending should not affect the raw appeal of the policy positions that a given party is advocating. Likewise, it should not have a direct effect on voters' strategic calculations. While a party's electoral success, or *final* competitiveness, may sometimes improve with increased spending, this effect should only be achieved through the mechanism of increased *procedural* competitiveness. In other words, increased campaign spending should make voters more aware of what parties stand for. Increased information about a party can lead to a more positive evaluation of a party, but it can also lead to a more negative evaluation. Campaign spending should not reorder voter preferences to make a particular party platforms seem more or less appealing. It should show voters where they stand on the political spectrum in relation to the parties contesting the election, without actually causing them to change their positions.

The literature on political campaigns supports the view that campaigns have little effect on voter policy preferences. Campaigns give voters information about candidates' positions; as the level of campaign exposure for a given voter rises, knowledge about the candidates also rises. Campaigns can also make particular issues seem more salient than others. But for the great majority of voters, campaigns do not induce preference changes on political issues. Most evidence shows that partisan sentiments are very stable, and campaigns are more likely to strengthen and reinforce these sentiments than to push them in a new direction. Campaigns very rarely succeed in persuading voters that their positions are misguided and in encouraging them to adopt new views on particular issues (Iyengar and Smith 2000).

If it is generally true that voters' policy preferences remain stable, and that election campaigns serve primarily to clarify electoral options, then it makes little sense to measure the effect of public party subvention in terms of changes in electoral

outcomes. Campaign spending will often improve procedural competitiveness, but it will only sometimes improve final competitiveness. Extra money allows all parties to advertise more effectively and increase their procedural competitiveness, but elections are a zero sum game and if one party gains final competitiveness, another party must necessarily lose it. The primary effect of party subsidies is likely to be an improvement in procedural competition. Any change in voting behavior should be realized only as a result of this primary effect. So, any attempt to study the effect of party subsidies on competition should start by exploring the degree to which subsidies help parties to succeed in conveying information about themselves to voters.

Previous studies, by examining the effect of state subvention on electoral success, ignored procedural competitiveness and looked at final competitiveness only. If state subsidies do anything, they should increase voter familiarity with parties. In this paper, therefore, procedural competitiveness will serve as the dependent variable. We should care about both types of competitiveness, but we should figure out what we know about the thing that mediates electoral outcomes before we look at the electoral outcomes themselves. This is especially true because there are lots of confounding variables that might distort our conclusions about electoral outcomes, but that we can ignore when we think about the campaign process and its effect on voter familiarity with parties. Procedural competitiveness is the degree to which parties succeed in making their positions known to voters, and I propose to measure it using CSES survey data that evaluates voter familiarity with the party positions on the Left-Right scale.

[I'm not sure how I want to select my cases here—any suggestions would be welcome].

Measuring Subsidies to Parties

Subsidies are usually distributed to parties on the basis of vote share in the previous election. Some states provide parties with a share of total funding that is directly proportional to their vote share in the most recent election. Others provide funding only to parties with seats in the legislature, or only to those parties that manage to surpass a particular vote-share threshold. These allocation schemes favor large parties.

Some states take an approach that favors small parties, distributing fund to them in excess of the amount of their vote share.

Many existing cross-national studies on party subsidies measure subsidies to political parties using a simple dichotomous variable. Countries are coded 1 if they provide subsidies and 0 if they do not. Clearly, this is a very rough measure that neglects important variation in the availability and allocation of funds. Birnir (2005) uses the minimum threshold for receiving funding as a more nuanced measure of subsidy allocation. She also includes a dichotomous variable for whether the total amount of funding provided is substantial or negligible. Similarly, Scarrow (2005) measures both the miniumum threshold for receiving funding and the "relative payout threshold," which can be "lower" or "the same" as the threshold for receiving seats in the legislature. Scarrow argues that the total amount of funding a country provides is important, but she fails to include such a measure in her empirical model.

I propose improving on previous efforts in two ways. First, the magnitude of total payments in a country should matter, and is possible to say more about this amount than that it is big or little. One approach might be to look at public funds as a percentage of all money spent in a campaign. This could be problematic, however, because campaign spending reports are often plagued by inaccuracies, and spending is measured differently in different countries. Instead, I intend to look at total public spending for political parties in legislative election years as a percentage of GDP. This approach will help to standardize the unit of measurement across countries in a way that accounts for the value of the currency and the size of the country. [Is there a better way to do this?].

Second, I propose a new way of measuring the way subsidies are allocated to the parties. For a given allocation scheme, I determine the share of total funding that a party would receive, at each level of vote share, if it were running against only one other party. For each vote share, from 1% to 100%, I divide the party's share of funding by its vote share to find a value I refer to as the party's "subvention dividend." If a party receives a share of the total funding that is proportional to its vote share, its "subvention dividend" takes a value of 1. If it receives more, the subvention dividend is greater than 1, and if it receives less, the subvention dividend is less than 1. To measure the degree to which the allocation scheme favors smaller or larger parties, I graph the subvention dividend for all

vote share levels and take the average slope of the line. I then multiply the value of the slope by 1000 to make sure most values have a non-zero value to the left of the decimal point. I call this the "dividend rate" of the subvention scheme. Generally, positive dividend rates favor large parties and negative dividend rates favor smaller parties. Figures 1-7 show some idealized allocation schemes and the subvention dividend for parties receiving various vote share percentages. The dotted line shows the average slope of the curve, and the number near the dotted line at the far right side of each graph is the dividend rate for the allocation scheme as a whole.
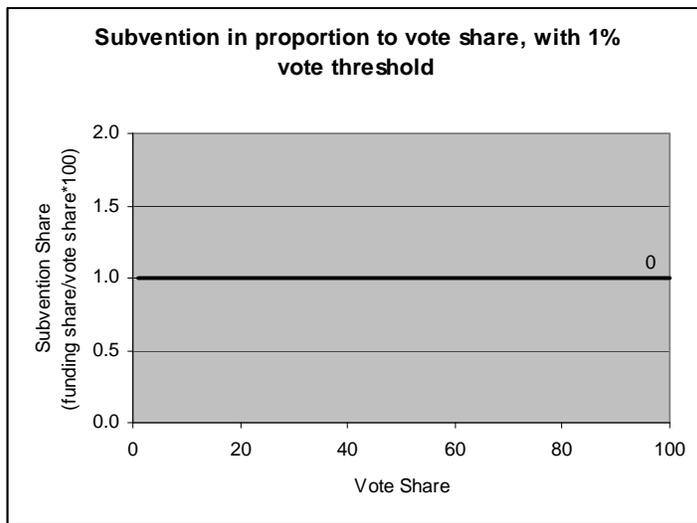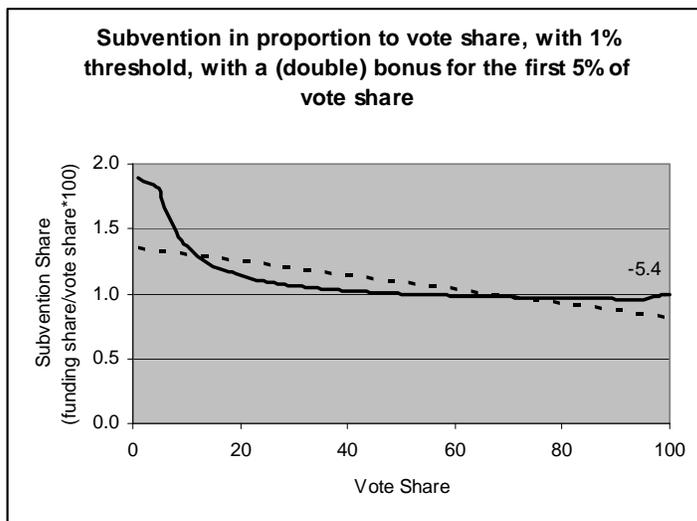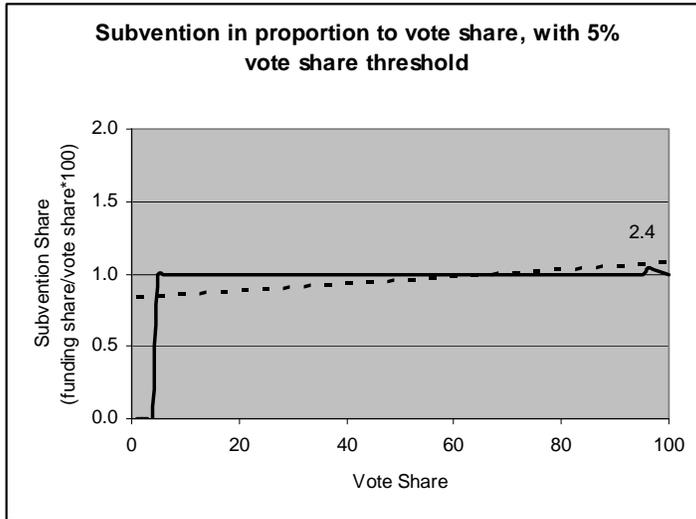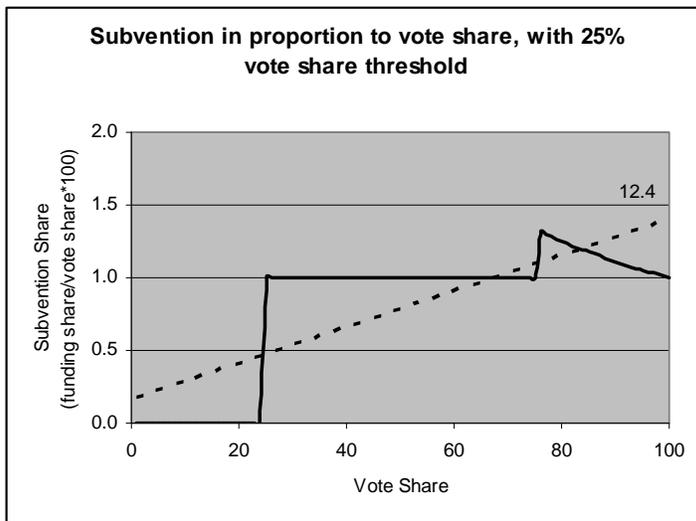
Figure 1

Figure 2

Figure 3

Subvention in proportion to vote share, with 5% vote share threshold

Figure 4

Subvention in proportion to vote share, with 25% vote share threshold

Figure 5

**Flat payment to parties contesting election, with
1% vote share threshold**
(maximum share = 50)

Figure 6

**Flat payment to parties contesting election, with
5% vote share threshold**
(maximum share = 10)

Figure 7

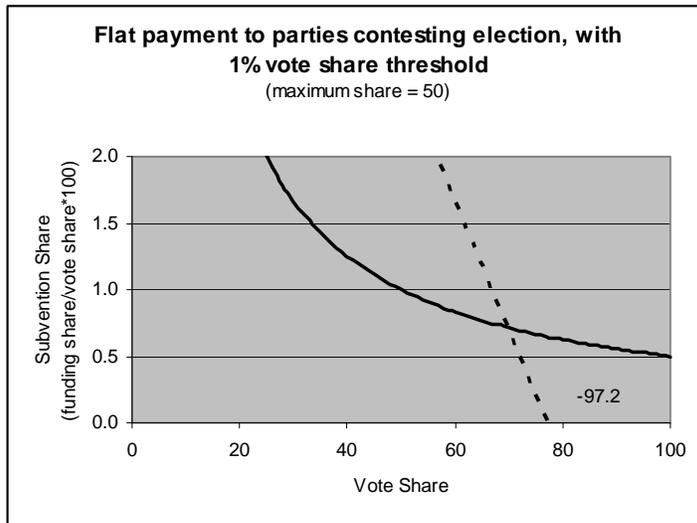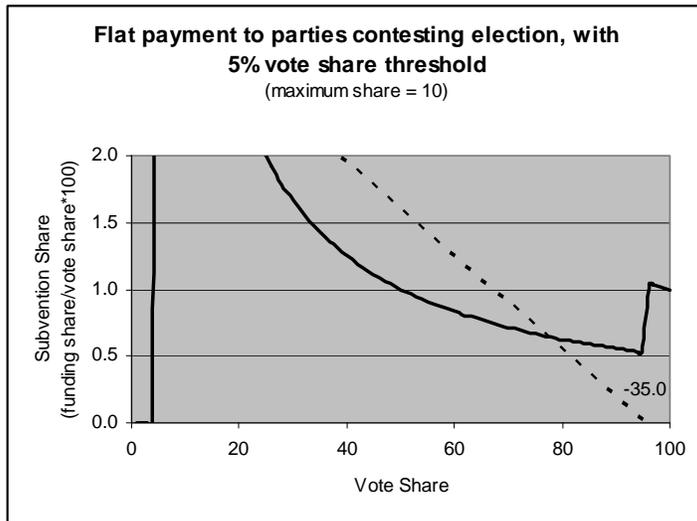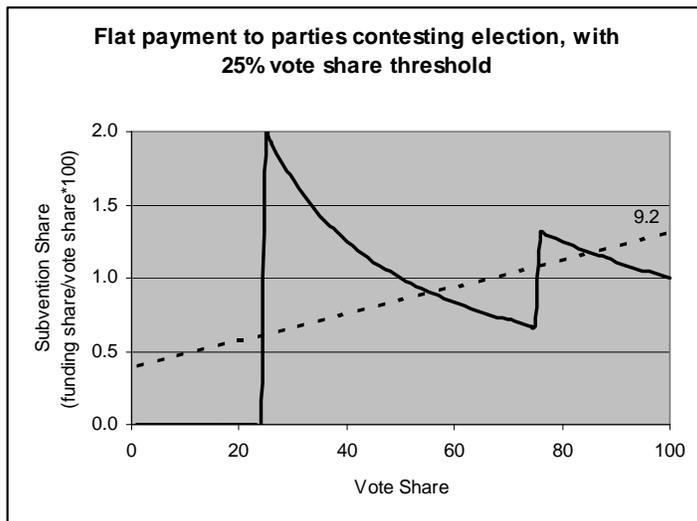**Flat payment to parties contesting election, with
25% vote share threshold**

[All of these graphs should say "subvention dividend" instead of "subvention share" for the label on the y-axis. Also, I'm not sure that looking at the average slope is the best way to characterize these distributions—any suggestions?]

Looking at these graphs, it is easy to see that systems with high thresholds for receiving funding tend to have large positive dividend rates. Systems that give bonuses to smaller parties have large negative dividend rates. The "dividend rate" variable should characterize allocation schemes in a more informative, nuanced way than previous measurement attempts have done. Calculating the dividend rate as described above is possible for most allocation schemes. In some cases, it will not be possible to determine a dividend rate in such an abstract, theoretical way. For instance, if a funding scheme calls for matching private donations with public funds, it will be impossible to determine the subvention dividend for any party on the basis of vote share alone. In these cases, it will be necessary to gather empirical data about existing parties in the country, their historical vote shares, and the amount of public funding they have historically received under a given allocation scheme. These points can be plotted and the average slope measured to produce an approximation of the dividend rate that the allocation scheme can be expected to produce.

Model:

I'm not sure what control variables are most appropriate, probably the usual suspects related to political information (education, age, etc.). The model will take the following form:

% of voters able to place party within reasonable range of its actual position on the L-R scale

= dividend rate + total funding as % of GDP + dividend rate*total funding + control variables

+ error

[more discussion of model and estimation techniques needed here]

Conclusion:

I think this paper has the potential to make two new contributions to the literature on public subsidies to political parties: (1) it provides a more precise way of measuring subvention, and (2) it will examine of how subvention affects procedural outcomes rather than final outcomes. Using the new measurement techniques and the new model, I hope to be able draw new, more convincing conclusions about how public funding of political parties alters democratic competition.

Field Experiment Idea:

Another way to address the question of how party subsidies alter democratic competition might be to do a field experiment. I could select a group of voters as potential subjects and ask if they would be willing to fill out a survey about their views on political parties before an upcoming election (there would be some monetary incentive).

Those people who agreed to participate would be randomly selected into one of four groups. The control group would simply be left alone, then surveyed before the election. The remaining subjects would be divided among three groups. Each of these groups would be sent additional campaign materials (in the mail) from all of the parties contesting the elections (There would be no overt connection between the campaign mail and the political survey--maybe the study could donate to the parties with the stipulation that they use the money in a particular way). One group would receive two pieces of extra propaganda from all of the parties. A second group would receive one piece of extra propaganda from the large parties, and three from the smaller parties. A third group would receive one from the smaller parties and three from the larger parties.

All people who agreed to be surveyed would be surveyed about three things, just prior to the election:

- What is the political platform of the major political parties? (left-right scale)
- To what extent to you agree with the policy preferences of the political parties? (scale from very much to not at all)
- Which party do you intend to vote for in the election?

- (It might also be nice to have an open-ended question about how the subjects decided to vote for a particular party, AND it might be nice to follow up after the election and ask which party they actually voted for.)

The survey responses from each of these groups could be compared to discover how extra funding for political parties (and different ways of allocating that money) affects how much voters know about the parties, how much voters like the parties, and vote choice.

The field experiment would necessarily be somewhat limited in scope because of money and feasibility issues. Mailing the campaign materials makes sense because it is cheap and it is easy to target specific people through the mail. But people probably pay more attention to ads on television and on the internet than to paper ads sent through the mail. And, parties might prefer to spend extra money on something other than mailers, if given the choice. So the generalizability of the experiment is questionable. And, there might not be much of an effect from the treatment if people are ignoring their junk mail.